



30<sup>th</sup> January 2008

To: The Director-General  
Attention: Mr. Mizilikazi Manyike  
Department of Provincial and Local Government  
Private Bag X 804  
PRETORIA  
0001

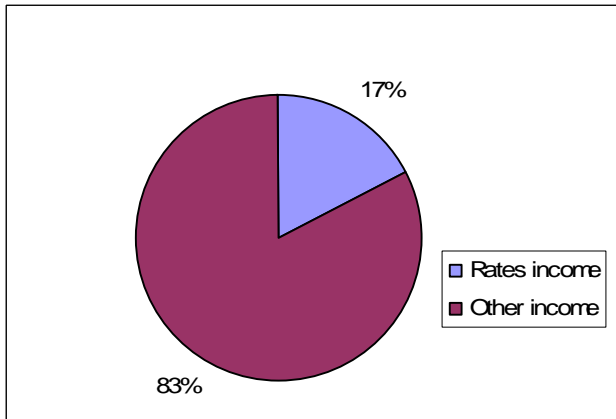
Dear Madam,

**Submission on Government Gazettes No. 30583 and 30584**

**Municipal IQ** is a data and intelligence service on South African local government. In the public interest, we would like to raise some concerns with the proposed recommendations of Government Gazettes No. 30583 and 30584, as released on the 19<sup>th</sup> December 2007.

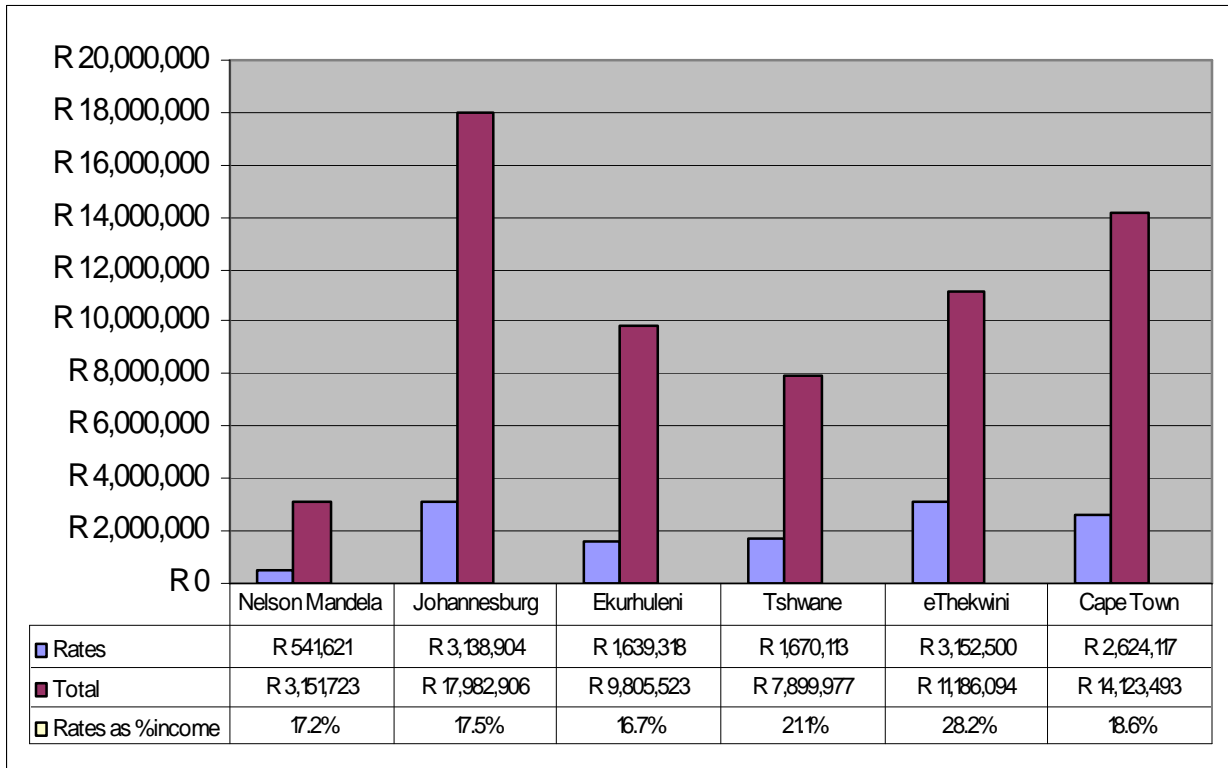
1. We understand the proposals as effectively wanting to restrict the level at which rates can be levied against different categories of ratepayers, including government departments and state owned entities, within the boundaries of consumer price inflation excluding mortgage payments (CPIX). Together, the proposals represent a very rigid set of boundaries for local government to raise its much-needed revenue and they could therefore be viewed as going against the spirit in which local government as a sphere of government was Constitutionally entrusted with financial autonomy through its significant revenue raising powers.
2. While the importance of stabilising inflationary pressures on the national economy is a national government responsibility, so too is ensuring that the functioning of local government is not undermined. Local government's financial stability is arguably as important a consideration as inflation for macroeconomic stability. Graph 1 below demonstrates the aggregate significance of rates revenue for local government's operating revenue. Graph 2 demonstrates the even greater significance of rates income for South Africa's largest cities.

**Graph1. 2006/07 Rates income as a portion of budgeted operating revenue**



[Source: National Treasury]

**Graph2. 2006/07 Rates income as a portion of budgeted operating revenue (R'000)**



[Source: National Treasury]

- Given that property rates are a crucial revenue source for South Africa's economic hubs, and that these centres' productivity levels are already under pressure from the national energy crisis and its implied costs, rates structures and increases should not be prescribed in an overly rigid fashion. The overly prioritised focus on inflation in containing the impact of Eskom's tariff increases over the last decade serves as a

warning of the potential myopia that this might result in for long-term infrastructural plans; a parallel that clearly applies to local government's capital programmes.

Given the significance of property rates and the stability that compliant provincial and national spheres bring to local government and in the interests of co-operative governance, we would therefore urge dplg to:

1. Re-consider the proposals contained in the two gazettes and the implications for the revenue raising ability of local government; and
2. Consider extending the deadline for comment, especially given that these gazettes were only published in late December last year.

Yours faithfully

Kevin Allan and Karen Heese  
Municipal IQ