AIDC
Alternative Information & Development Centre
Strengthening Alliances for a Wage-led, Low-Carbon, Sustainable and Equitable Development Path for Southern Africa

SUBMISSION TO PARLIAMENT
ON THE LOCAL FISCAL FRAMEWORK

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Attention: Department of Cooperative Governance and Traditional Affairs,
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Introduction

1. The Alternative Information & Development Centre (AIDC) is a grassroots-based non-governmental organisation located in Cape Town, South Africa. AIDC was established in 1996 to contribute to supporting social movements and trade unions to advance campaigns for a just transition to a wage-led, low-carbon development path.
2. The AIDC thanks the Department of Cooperative Governance and Traditional Affairs for the opportunity to make a comment on the Reviewed White Paper on Local Government.
3. The reviewed White Paper fails to break decisively with the ideological framework that has produced the current crisis. There are 65 policy proposals spanning institutional factors and the structure, governance, finance and service delivery of municipalities. The underlying issue within local government is inadequate funding to fulfil the various mandates, but the proposed solutions for financing such as origin-based VAT revenue sharing, building on the Metro Trading Services Reform initiative, expanding public-private partnerships, and an intensified own-revenue mandate represent, at best, marginal adjustments to a flawed model. At worst, they deepen the financialisation and commodification of essential services, further eroding the constitutional rights of low-income households.
4. The AIDC calls on Parliament and CoGTA to confront the underlying structural causes of municipal financial distress by fundamentally rethinking the division of revenue between spheres of government, abandoning the full cost recovery and user-pay model, and investing in a state-led, rights-based approach to service delivery that prioritises universal access, domestic resource mobilisation, and progressive fiscal redistribution.

The problems at the local government level cannot be resolved without fixing the inadequate funding to municipalities

5. The review of the White Paper provides two root causes for the financial challenges of local municipalities: poor administration and rising input costs. While these are important constraints for sound financial management, the viability of municipalities to collect 90% of their own revenue is left unchallenged in the White Paper review. Increasing funding to local governments is deemed "unrealistic" in the context of funding constraints despite municipalities bearing constitutional responsibility for a vast range of service delivery obligations affecting the daily lives of all South Africans. More emphasis is therefore provided on governance, stronger administration and clamping down on households to pay for services that are unaffordable. Local governments are expected to raise revenue through service charges and property taxes, but increasing tariff charges have substantially decreased the viability of this approach.

   5.1. The ability of municipalities to raise revenue differs greatly given differences in poverty levels between urban and rural areas and big metros compared to former Bantustans.
   5.2. The review of the White Paper acknowledges that the proportion of funding from own revenue was based on trends within existing major cities at the time. The

review further mentions that own revenues represent about 80% of operating revenues nationally but range between approximately 91% in the metros and 34% in rural local municipalities. By not resolving the lack of funding, the inequalities within and between municipalities will deepen.

5.3. The White Paper acknowledges that where municipalities were previously able to direct 52.4% of tariff revenue to running service networks and cross-subsidisation, this has now fallen to 28%, with almost three-quarters of tariff revenue absorbed by Eskom and water boards.

6. The White Paper review acknowledges that equitable share grants per capita have retained their real value since 2011 but concedes that they have not matched cost increases faced by municipalities, and that per capita infrastructure grants have fallen by 25% in real terms since 2011. This is an extraordinary concession buried in a fiscal analysis that nevertheless fails to recommend a meaningful increase in the local government's share of nationally collected revenue. The quality of data is also an issue when determining the equitable share.

7. Years of evidence have shown that this financing model for local government is unsustainable, inequitable and is the primary cause of the financial challenges faced by municipalities, manifesting in the lack of service provision.

7.1. One reason for the unsustainability of the current local government fiscal framework is the socio-economic situation in South Africa, which is characterised by mass unemployment and deep inequalities. The implication is that the majority of people in the country are unable to afford to pay for services. The inability to pay is the main reason for the increasing level of debt owed to municipalities (74% owed by households), as opposed to a lack of willingness to pay. As Ledger and Rampedi point out, “if the cost of services such as electricity or water become unaffordable to poor households, this will have the effect of reducing the social wage and deepening poverty by reducing household income available for other basic necessities”.[1]

8. Contrary to the White Paper review, there is fiscal space to expand the local government share, provided the political will exists to confront the National Budget’s austerity framework. The White Paper fails to engage seriously with unfunded mandates. Local government bears constitutional obligations in respect of water, sanitation, electricity, housing support, roads and stormwater, solid waste, and local economic development, functions that are under-costed and under-resourced.

The full cost recovery and user-pay model is not fit for purpose

[1] https://pari.org.za/wp-content/uploads/2020/08/20200826_EndOfTheRoad_LedgerRampedi_Report-1.pdf

9. The full cost recovery model compels municipalities to charge user fees (tariffs) for services that ensure that all costs needed to render a service are recovered.
10. The user-pays and full cost recovery model embedded in the local government fiscal framework is the proximate cause of the affordability crisis experienced by poor and working-class households. There is a structural incompatibility between a market-based service delivery model and a constitutional mandate to progressively realise socioeconomic rights for all.
11. Due to inadequate financing from the national government, based on the assumption that the local government can generate 90% of its own revenue, municipalities have become disincentivised from providing free basic services. Although the National Treasury allocates approximately R70 billion that is supposed to go to free basic services for 11,2 million households, only a small fraction of households end up receiving the subsidies. The bulk of the R70 billion is then used by municipalities to cover other costs since the amount allocated for free basic services is not ring-fenced.
12. Total consumer debt owed to municipalities exceeded R400 billion as of 2024/25, with 74% owed by households. The AIDC notes that this debt does not primarily reflect a culture of non-payment or administrative failure but rather reflects structural inability to pay in the context of mass unemployment and poverty.
13. The current indigent register covers 2.8 million households despite at least 8 million households that should be accessing free basic services who have a household monthly income of less than R6000 per month. The coverage gap exacerbates municipal debt due to clear errors of exclusion to the indigent registers. Without significantly expanding the scope and funding for free basic services, municipal financial distress will continue to balloon over time.
14. The allocated free basic electricity threshold of 50 kWh per household per month is wholly inadequate relative to the 350 kWh required to meet basic household energy needs. Similarly, the allocation of 6 kl of water per household per month covers approximately half of a household’s water requirements. While the White Paper review acknowledges the need to increase the amount of free basic services offered to households, there is no desire or attempt to make this vital need possible to fulfil through additional revenue raising mechanisms.
15. A lack of awareness also results in many errors of exclusion, as the onus is placed on households to register and renew their indigent status.

Origin-based share of VAT revenue for municipalities does not mean the fiscal envelope is becoming larger

16. The White Paper proposes the introduction of an origin-based share of VAT revenue as a substitute for the eroding origin-based fuel levy share. While framed as a means of rewarding municipalities that provide a good platform for economic growth, this proposal has profound distributional consequences that the White Paper fails to adequately interrogate.
17. An origin-based assignment of VAT revenue will disproportionately benefit municipalities with high levels of commercial and retail activity - precisely the metropolitan and

secondary city municipalities that already have the strongest own-revenue bases. The proposal will deepen the fiscal divide between wealthy and poor municipalities, contradicting the redistributive logic that should underpin the equitable share formula. Given South Africa's history of growth without redistribution, this assumption is empirically untenable.

18. The White Paper acknowledges this risk implicitly when it notes that a growing economy would allow equitable share grants to poorer regions to be increased "without necessarily increasing the local government's grant share in the vertical division of national revenue". This is a sleight of hand: it proposes to address the distribution of revenue by giving a smaller proportion of the equitable share to municipalities that are able to generate sufficient VAT revenue. Poorer municipalities will not get a larger component of the equitable share, but rather more affluent municipalities will get less equitable share. This does not truly act as an incentive for growth because if a municipality increases own-revenue from VAT, its allocation of the equitable share will decrease and the municipality will be left in a relatively similar position.
19. The administrative feasibility of origin-based VAT assignment is also questionable. The White Paper concedes that it 'would require the development of rules to statistically assign origin' - a technically complex and potentially contested process. In the interim, the proposal risks creating perverse incentives for municipalities to prioritise commercial and retail investment over social infrastructure, further commodifying local space.
20. The AIDC recommends that instead of pursuing origin-based VAT revenue sharing, the government should explore progressive domestic resource mobilisation.

The Metro Trading Services Programme risks enhancing inequalities between municipalities

21. Although Metro Trading Services is not mentioned in detail in the review, it forms an emerging component of financing for metros in South Africa.
22. The White Paper proposes to reform the financial viability of trading services by building on the Metro Trading Services Reform initiative. This involves the adoption of cost-reflective tariffs; the professionalisation of service management; and the eventual introduction of independent economic regulation.
23. While improved financial management of trading services has merit in isolation, the Metro Trading Services Programme framework is premised on the treatment of essential public services as commercial enterprises. Ring-fencing, as proposed, is designed not only to improve transparency and asset management (legitimate goals) but to make services legible to private capital markets, facilitate credit ratings, and create pathways for private investment through performance-based contracting and PPPs.
24. The financialisation of trading services and the increased role of the private sector through increased "external services" is a structural threat to universal service access. When water, electricity, and sanitation are managed as revenue-generating enterprises with independent regulatory oversight modelled on commercial utility regulation, disconnection for non-payment becomes not only permissible but operationally

necessary to protect the revenue base of the enterprise. This is constitutionally and ethically incompatible with the obligation to progressively realise the rights to water, sanitation, and electricity for all.

25. The White Paper's directive that "for services to be sustainable, the user-pays principle must apply across the value chain" and that "all categories of users must contribute to the cost of services" is a direct encroachment on the rights framework. It reduces constitutional rights-holders to utility customers, with access conditional on ability to pay rather than guaranteed as a function of citizenship.
26. The AIDC notes that there is no credible evidence that the metro trading services model can be replicated in the majority of South African municipalities that serve predominantly poor and marginalised communities. The White Paper's proposal to "scale and institutionalise" these reforms nationally is, at best, premature and, at worst, a mechanism for embedding commercial service delivery logic in contexts where it is structurally inappropriate.
27. There is a risk that only well-resourced municipalities will reap benefits from the metro trading services initiative, enhancing inequalities between municipalities.
28. The loans taken out for the metro trading services initiative also deserve scrutiny. World Bank models of user pay, cost-reflective tariffs and austerity measures will deepen poverty and further undermine access. The preference to opt for interest-bearing loans as opposed to enhancing the progressivity of the tax system reveals a preference for punishing the poor while cushioning the affluent. To put this statement into context, during the 2026 Budget, approximately R20 billion in tax relief (medical aid tax credits and inflation adjustments to tax brackets) was offered to individuals earning over R500,000 per year. The recent World Bank loan for Metro Trading Services is $925 million over several years, money that could have easily been raised without harming the fiscus or taxpayers. Dollar-denominated debt is also riskier in the context of rising interest rates and a weaker local currency.
29. South Africa must resist conditions attached to loans from the World Bank, International Monetary Fund, and associated development finance institutions that require cost recovery, privatisation, or fiscal austerity in the local government sector. Development finance should be deployed on terms consistent with public service delivery and national development priorities.

Public-Private Partnerships (PPPs) are not a stop-gap measure for the financial crises facing municipalities

30. The review suggests that municipalities must engage more collaboratively with the private sector and explore opportunities for public-private partnerships, but there is a risk that the type of growth that will come from further privatisation will not be inclusive, further undermining reductions in poverty, inequality and unemployment.
31. The AIDC rejects the premise that privatisation and outsourcing represent viable solutions to the municipal service delivery crisis. The evidence from both domestic and international experience is unambiguous: PPPs in public service delivery are associated with higher long-term costs, reduced accountability, and the systematic erosion of

workers' rights and employment conditions. The cost overruns, delays, and rent extraction associated with large-scale PPPs are extensively documented in comparative research.[2]

32. The claim that the private sector can compensate for the public sector's capital constraints is superficially compelling but analytically flawed. Private capital does not invest in municipal service delivery out of developmental commitment - it invests where returns are guaranteed. This requires tariff structures that ensure adequate returns, service agreements that protect revenue flows, and risk guarantees that transfer downside exposure to the public sector. The net effect is to increase the long-term cost of service delivery while hiding contingent liabilities off public balance sheets. For half the population, there is no tariff that can be affordable while ensuring that people are able to meet their nutritious needs.
33. Operation Vulindlela's expansion into local government under Phase II is particularly concerning. The evidence base, modelling assumptions, and distributional impact assessments underpinning Operation Vulindlela have not been made publicly available. Without transparency about the programme's assumptions and outcomes in respect of poverty, inequality, and unemployment, it is impossible to evaluate its claim to be a developmental reform initiative rather than a programme for the privatisation of the state. More concerning is that unemployment levels are now higher than they were before Operation Vulindlela began, despite the positive and misleading public narratives about how it has been able to turn the economy around.
34. The White Paper's assertion that greater private sector involvement would be facilitated by simplifying PPP regulatory frameworks is alarming in the South African context. The AIDC notes that the most large-scale corruption in South Africa has occurred precisely at the interface between state and private sector in procurement and contracting. A reduction in PPP regulatory requirements, in the absence of strengthened transparency and accountability mechanisms, is a recipe for increased corruption rather than improved service delivery.
35. Ultimately, PPPs will not make basic services more affordable for people. This will not address the underlying causes of the financial crises municipalities face under a full cost recovery model; rather, rights-holding citizens risk losing access to constitutionally protected basic services at a municipal level.
36. The AIDC calls for a fundamental reorientation away from privatisation and outsourcing toward a programme of building state capacity for direct service delivery.

Constitutional rights are at risk of further retrogression

1. The United Nations Committee on Economic, Social and Cultural Rights criticised the economic policy decisions of the South African government in 2018 stating that the country's austerity measures had cut budgets in health, education and other public services. The UN body made reference to the non-retrogression doctrine and recommended that both the executive and legislature take human rights into account

[2] https://www.eurodad.org/historyrepppeated

when deciding the budget.[3] The review of the White Paper on local government does not adequately consider how to reverse the erosion of constitutional rights in order to ensure the principle of non-retrogression is upheld.

2. The [2025 General Household Survey (GHS)] shows that between 2012 and 2025, the percentage of households accessing water both on and off-site **decreased** in the provinces listed below.

    - Eastern Cape from 79,2% in 2012 to 67,7% in 2025
    - Northern Cape from 96% in 2012 to 95,5% in 2025
    - KwaZulu-Natal from 87,8% in 2012 to 81,2% in 2025
    - North West from 91,2% in 2012 to 86,1% in 2025
    - Mpumalanga from 87,6% in 2012 to 86,3% in 2025
    - Limpopo from 80,1% in 2012 to 63,2% in 2025

3. Even when households do have access to water, interruptions are common due to problems with service delivery and infrastructure. The GHS shows that 56,8% of households in South Africa experienced water interruptions in 2025. Weekly water interruptions (12,7%) were most common in Mpumalanga (36,0%), Limpopo (25,9%) and KwaZulu-Natal (24,2%), and least common in the Western Cape (0,3%).[4]
4. There has also been a meaningful decrease in the number of households being placed on indigent registers despite persistent levels of poverty. Access to free water, electricity, sewerage and sanitation, and solid waste management decreased by 22%, 18%, 20% and 34%, respectively.
5. Without increasing the equitable share to municipalities, non-retrogression cannot be reversed.

Service delivery has implications for both climate and gender justice

37. Service delivery failure has profoundly gendered consequences that the White Paper does not adequately address. Women, particularly in informal settlements and rural areas, bear the primary burden of household water collection, care work under load-shedding and load-reduction conditions, and navigating bureaucratic indigent registration processes. A progressive local government White Paper must integrate a gender-transformative analysis of service delivery and fiscal policy.
38. The White Paper's treatment of climate resilience and the just energy transition, while present, remains peripheral to its central fiscal and institutional analysis. Municipal infrastructure investment must be understood both as a service delivery imperative *and* as a climate adaptation obligation. The AIDC calls for re-industrialisation at the level of local government that is linked to a broader growth and development framework that creates jobs while simultaneously fulfilling community needs.

[3] https://theconversation.com/making-economic-policy-in-south-africa-in-hard-times-the-role-of-human-rights-167409
[4] https://www.statssa.gov.za/publications/P0318/P03182025.pdf

Alternative financing mechanisms to address the underlying issue of municipal financial distress

39. The fundamental issue with the review is that it assumes the issues can be resolved by improving administration and governance while failing to rectify the inadequacy of funding provided to the local government through intergovernmental transfers. The White Paper in its current form risks reducing people's constitutional rights to basic services because it assumes that fiscal constraints should be resolved by squeezing households into user pay and full cost recovery models. It does not, however, interrogate or list the alternative ways to progressively raise money and increase the scope and scale for municipalities to deliver free basic services.
40. Options to progressively raise revenue are listed below:

    40.1. Taxing just the wealthiest of the wealthy, the top 1%, a small percentage of their total wealth can raise approximately R192[5] billion every year. Despite political opposition to meaningful redistribution, research shows that 64% of dollar millionaires in South Africa are supportive of a 2% wealth tax to better fund social protection, education or the just energy transition.
    40.2. SARS estimates that R600 billion is lost to tax evasion every year. Funding SARS properly to ensure they can work to close this gap is essential. Additional funding for SARS should be directed to combating tax evasion of corporations, trusts and high-net-worth individuals rather than going after individuals with low-income and relatively low levels of outstanding tax payments.
    40.3. The medical aid credit rebate and the retirement fund contribution deduction disproportionately benefit high-income earners. Cancelling the medical aid credit rebate and changing the structure of the retirement fund contribution deduction to a tax credit can serve the taxpaying working class better. These two small reforms together will raise an additional R53 billion in revenue annually.
    40.4. A comprehensive menu of options to enhance the progressivity of the South Africa's tax system is explained in AIDC's report, *Tax in the World's Most Unequal Country: the South African Fair Tax Monitor on opportunities for resource mobilisation*.
    40.5. Estimates suggest that a significant R1.8 trillion of capital in South Africa remains idle. This underutilised resource represents potential investment that could fuel economic growth and create essential employment opportunities. We therefore advocate for the immediate implementation of a tax on idle capital. This measure would serve to disincentivise hoarding and encourage capital

[5]Adjusted for inflation to November 2025 rand terms.

holders to actively invest and deploy funds productively within the economy. It will also raise substantial funds for the state.

40.6. Government Employees Pension Fund (GEPF) holds a massive R2.38 trillion in assets. We believe that switching the GEPF's mandate to investing primarily in government bonds would provide safer, more reliable returns for the GEPF and a more affordable funding source for the government. Further, we believe returning the GEPF to a pay-as-you-go scheme from a fully funded scheme can avail GEPF surpluses to overcome fiscal constraints. If utilised smartly, these additional funds could drive public investment into local, green industrialisation, creating jobs and kickstarting the process to fundamentally change our macroeconomic structure.

Conclusion

41. The equitable share formula must be substantially revised to weight fiscal transfers toward poverty, unemployment, infrastructure backlogs, and historical underdevelopment. Growth-based revenue-sharing instruments, including any origin-based VAT proposal, must be subordinated to redistributive objectives.
42. The Reviewed White Paper on Local Government represents a missed opportunity to break decisively with the fiscal orthodoxy that has produced the current municipal crisis. Its diagnosis is often accurate, but its prescriptions remain tethered to the assumptions (cost recovery, own-revenue primacy, private sector partnerships, and revenue neutrality for national government) that created the problem it seeks to solve.
43. A local government system capable of delivering on the constitutional promise of dignity, equality, and progressive realisation of socioeconomic rights requires transformative fiscal and institutional reform.