



Meeting of the Presidential Infrastructure Coordinating Commission

08 September 2011

1. Introduction

From a local government perspective, the following are the key infrastructure issues that cut across all the infrastructure sectors such as water, sanitation, roads and public transport, electricity distribution, and solid waste management.

- i) The decaying infrastructure that requires refurbishment and replacement
- ii) Institutional Issues for services delivery management
- iii) Funding & pricing of services
- iv) Bulk Infrastructure
- v) Urban - rural balance in the design of SA municipalities
- vi) Skills

2. The decaying infrastructure that requires refurbishment and replacement

2.1 Rehabilitation/refurbishment funding

When municipalities were established and assumed responsibility for various municipal infrastructure services functions, they inherited old infrastructure some of which was way overdue for replacement. In some cases it was already more than 30 years old. This required huge investments in refurbishment of infrastructure. In a sense municipalities inherited a liability rather than an asset because by taking up these functions, they accepted an unalienable responsibility of replacing and refurbishing old infrastructure that was associated with the function.

On the other hand this infrastructure had been servicing or was consumed by a minority of the population largely defined along racial lines with whites having better access to services vs. blacks who made up a significant portion of those who did not have access.

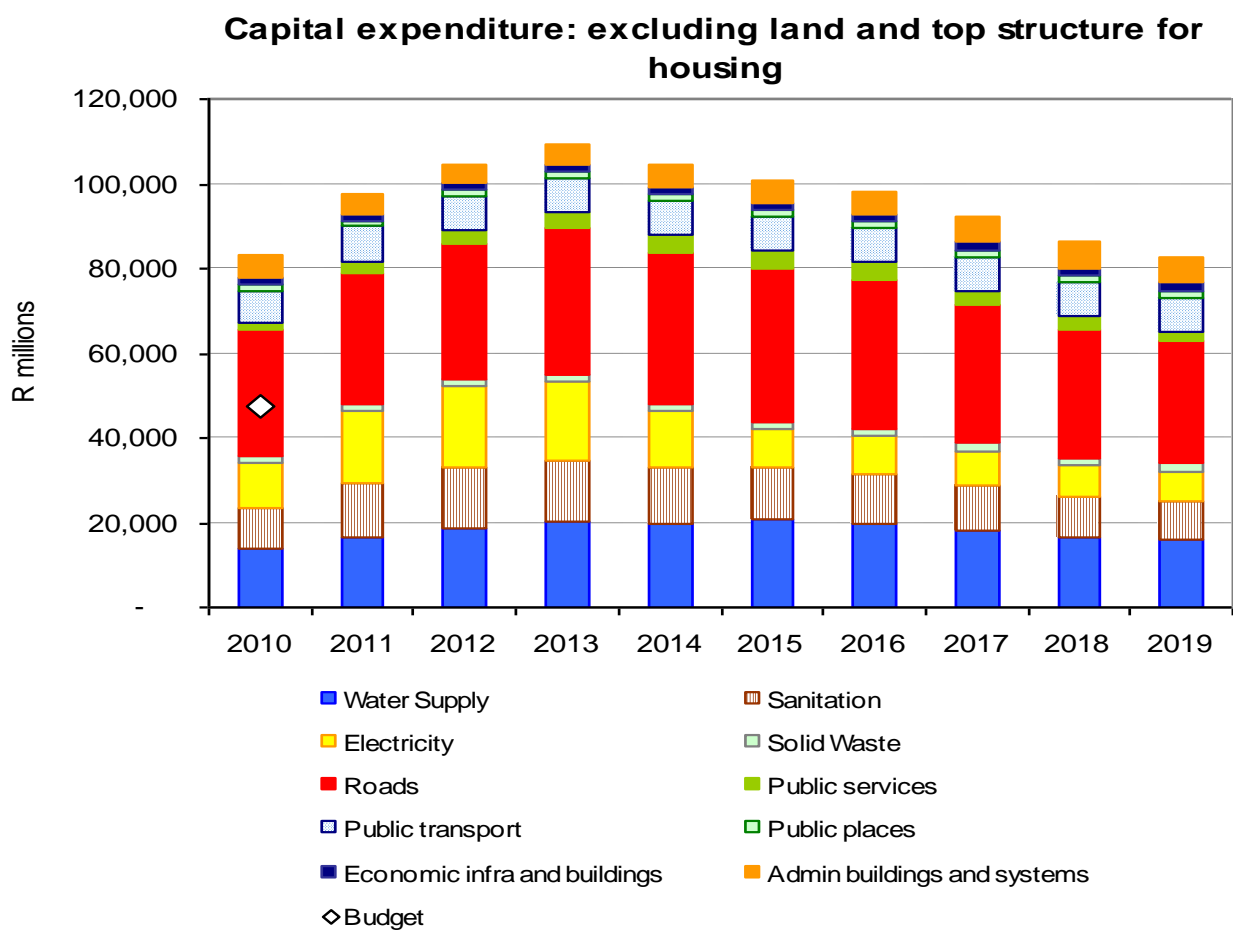


The policy response to this challenge by the new democratic government was to correctly prioritize extension of services to the unserved rather than refurbishing and replacing infrastructure that benefited a minority.

The effect of this was that whatever financial resources in reserves that were inherited by the new municipalities, supplemented by various national conditional grants, had to be spent in extending services to the unserved. Leading to a situation where there was no national or local funding available for investing in refurbishing and replacing infrastructure to ensure continued provision to services to the relatively developed areas of the country. In effect the country postponed investment in infrastructure refurbishment and replacement and further loaded this old infrastructure as more consumers utilized it.

In a sense an infrastructure replacement liability was given to local government without a policy solution as to how this liability was to be financed. The absence of such a policy solution is now playing itself out in the public domain through spectacular collapse of infrastructure in many municipal areas.

The graph below extracted from a CoGTA document shows that rehabilitation of infrastructure is estimated to about R20 billion a year of which about R7.5 billion a year is estimated to be backlog infrastructure (CoGTA, 2011).



Source: Discussion document: Development of a strategy that informs coordinated bulk infrastructure investment and motivates for the establishment of the Bulk Infrastructure Fund (BIF) June 2011

Available funding about is about R45 billion for the current financial years and remains at that level of the next ten years.

Formulating this policy solution can no longer be postponed and, given the scale required resources, it would be inappropriate to leave this to municipalities alone to solve this policy problem.

Proposal 1: SALGA proposes the establishment of a national municipal infrastructure refurbishment fund that will to provide for the rehabilitation/ refurbishment of municipal infrastructure at the required scale.

2.2 Data on the state of infrastructure

A related challenge in respect of the state of infrastructure is lack of data regarding the state of infrastructure especially in sectors such as roads and water services. The figures quoted above are based on estimates rather than field data.

Many water and waste water treatment schemes inherited by municipalities from pre-1994 authorities were without documents such as updated drawing designs (as-is drawings). Consequently, in some of the inheriting municipalities, it is not known where infrastructure such as pipes is laid, the age and the materials used. The increasing use and pressure on these pipes leads to regular pipe burst and leaks. This in addition to the wastage of scarce resources increases the costs of service provision.

In order to address this, there is a need establish a national GIS based databases and national programmes to collect data and on the state of infrastructure in priority sectors such as roads, water services and electricity¹. This could be in the magnitude of magnitude of, for example, a programme such as the Working for Water Programme at the height of its implementation. The purpose of such an intervention would be to locate the infrastructure assess its condition, reconstruct the as-is plans, and facilitate planning for implementation of a refurbishment or replacement programme while at the same time establishing capacity for ongoing data collection and information management on the state of infrastructure.

This could be some kind of a Graduates Employment Programme where experienced professionals will supervise new graduates on methods of assessment of the condition of infrastructure and managing the database information at a local.

This will assist in informing infrastructure maintenance and refurbishment program plans.

¹ In the case of electricity distribution, a start has been made with the ADAM project.



Proposal 2: SALGA proposes the establishment of national GIS based databases and national programmes to collect data manage information on an ongoing basis on the state of municipal infrastructure starting with priority sectors such as roads, water services and electricity

3. Institutional issues

3.1 Operation and maintenance of infrastructure services

Section 78 of the Local Government: Municipal Systems Act No. 32 of 2000 enables municipalities to consider various institutional options through which municipal services can be delivered. Through a process prescribed in Section 78 of the Municipal Systems Act, a municipality can choose to deliver municipal services itself or contract an external services provider or consider an optimal combination of both. It is essentially a process that a municipality would embark on to think about how municipal services should be delivered to its community, i.e. through what institutional model, with its attached costs, based on the existing infrastructure and the costs to operate that infrastructure. The options must be legally acceptable and must take into account the delivery of services to the current backlog population. Finally, the options must be sustainable in the long term.

Indications are that, while there are examples of excellence, especially in the cities, this is one of the cases in which municipal councils have not done well². Many municipalities simply continued with whatever institutional mechanisms they inherited and never rigorously evaluated possible better alternatives or where they did, preferred alternatives were never fully implemented if at all implemented.

This has led to unsustainable institutional arrangements for services delivery in the sector such as water services and solid waste management. This has negatively impacted on the operation and maintenance of infrastructure leading to rapid deterioration of infrastructure to a point where it requires replacement before the end of its design life span.

3.2 Implementation of infrastructure projects

In many cases, the current practice in government which is now also very prevalent in municipalities, especially in smaller municipalities, is to retain very limited in-house technical capacity and depend on external service providers for the design and implementation of infrastructure projects; even small projects such as sealing of roads or repairing of pot holes.

There are many cases where there is even no capacity to manage the quality of work of these external services providers leading to situations where consultants have unfettered roles in municipal infrastructure development. Consultants design development projects and have disproportionate influence in the procurement of EIA consultants and contractors leading to abuse of municipal procurement between consultants and contractors. This has led to many cases where service provision pricing by contractors and been artificially inflated and it provides a door for corrupt practices.

² In the case of the electricity distribution sector, this was complicated by the REDs establishment process which has since been abandoned.



Proposal 3: SALGA proposes that as part of implementing LGTAS:

- During the first year of this 5 year council term, provincial and national departments facilitate and support all municipalities that never formally considered alternative institutional options for services delivery to do so for at least the water services and solid waste management sectors. In the Year 2, all council decisions in respect of preferred institutional options must be implemented; and
- A National minimum benchmark organogram guideline must be set for each category of municipalities, based on their functions and differentiated capability. Then the S component of the Equitable Share for municipalities must seek to fund this capacity requirement for poor households in the municipal area

4. Funding and services prices

Trends analysis is beginning to suggest that SA is on a trend towards pricing basic services such as water supply, sanitation services and electricity supply at a level that will begin to work against country's economic competitiveness and ability to sustainably provide services to poor households as they will consume at levels that are above the ability of the state to subsidize without paying the difference or connect illegally or temper with meters when supplies get cut off in order to restrict consumption to the state subsidy levels.

This is driven by a policy framework that requires that these services be financially self-sustainable and therefore recovers all capital and operating costs from user chargers. This is a policy framework that drives water pricing by water boards and is pushed to drive water pricing by municipalities. The high bulk water price increases in the last two years is a direct result of both lack of economic regulation in the sector and the water pricing policy framework.

The unfortunate consequence is that more and more middle and high income households and SMMEs are beginning to default on payment. This then leads to inability by municipalities to pay bulk services providers such as water boards and Eskom.

To complicate matters further, currently, electricity income is the only other revenue source, in addition to rates income, from which municipalities must raise 90% of the revenue they require to perform the 38 functions assigned to them by the constitution. The perverse evidence of this is that municipalities that are not electricity distributors do not have revenue that is anywhere close to the levels required to meet their responsibilities, even at a basic level.

The dire financial circumstances of municipalities force them to milk the electricity distribution industry to a skeleton and price electricity at a level wherein it would enable them to keep the skeleton from collapsing completely while using the rest to do the same to the other 37 functions.

Proposal 4: SALGA proposes that:

- The municipal services pricing policy especially the ideology of 100% self financial sustainability be reviewed;
- There be more urgency in the establishment of an independent and effective economic regulator in the water sector; and
- More urgency in the review of the local government fiscal framework



5. Bulk Infrastructure Services

The issue of bulk infrastructure for municipal services tends to be discussed as if it is a one dimensional singular problem; the funding of bulk infrastructure and how this lack of funding constrains development. This has then led to a discussion, within government, about the need to introduce a bulk infrastructure grant.

Funding of bulk infrastructure is indeed an issue and a sustainable funding model for bulk infrastructure is required. However the other dimension to the bulk infrastructure constraint to development is **institutional**. This institutional dimension has municipal infrastructure services sectors nuances.

Therefore the problem of bulk infrastructure has sectoral dimensions as well as the funding and institutional elements. A bulk infrastructure grant discussion without considering the institutional aspects of bulk infrastructure as well as sector nuances is not going to solve the problem.

While accepting the need for sustainable funding of model for bulk infrastructure services across municipal infrastructure services sectors, there is a need consider institutional issues on a sectoral basis.

For example in the water services sector, one of the factors that impact negatively on the delivery of water services is the absence of bulk water service (Providers of bulk unpurified water e.g. Catchment Management Agencies and Providers of Bulk purified water e.g. Water Boards) in most of the non-metropolitan areas of South Africa.

Coincidentally, these areas tend to be areas under the jurisdiction of municipalities that are not financially strong. These largely financially challenged municipalities are then forced to take up the responsibility of being bulk service providers in addition to their reticulation function. Typically these municipalities are not funded to perform this bulk water services function.

Proposal 5: SALGA supports the process of establishing a bulk infrastructure fund but also proposes that there be an intervention that seeks ensure that there are appropriate institutional arrangements for managing investments and O&M in both bulk and connector infrastructure

6. Urban - rural balance in the design of SA municipalities

6.1 The design issues

The construct of the SA local governance one-size- fits-all system is generally urban biased even though it also has problems with respect to urban spaces e.g. some built environment functions allocated to provinces.

The powers and functions are essentially about managing built environments than scattered rural settlements that are generally primarily suitable to agricultural production than other forms of economic activity.



Few municipalities have rural development strategies and appropriate institutional capacity to execute this.

The prioritization and conception of infrastructure investment in rural areas is from an urban residential perspective than and has very little relevance to rural areas that should be focusing primarily on utilizing land for economic production.

6.2 Fiscal powers

Fiscal powers result in dependence on urban spaces. A greater part of most non-metropolitan municipal areas is rural (some metros also have significant portions of rural areas). Government policy requires that services such as water supply, sanitation, refuse removal, roads and electricity be provided to these rural areas. Yet with the exception of prepaid electricity, there are no service charges or rates levied in these areas. Therefore urban rate payers and poor rural households, who are paid for by the national fiscus, have to carry the unfair subsidy burden to the rural middle and high income households, intuitions and businesses. Unfortunately, a municipality cannot overtax urban rates payers leading to situations where there is no financial provision for investment and maintenance of the rural infrastructure services except for the small contribution made by the national fiscus, on behalf of poor households. Ironically, middle and high income households and businesses are the most vocal in their demand for good quality services.

Proposal 6: SALGA proposes that:

- A new concept of a rural local government institution (a rural municipality) be designed including a different fiscal framework and powers and functions for it;
- In the short term the implementation of rural rates and service charges be considered in order to finance provision of infrastructure services in these areas; and
- Municipalities which are predominantly rural be supported to develop and implement rural infrastructure development strategies that facilitate economic activity in rural areas

7. Technical skills shortage

There is a serious skills shortage across municipal infrastructure services sectors. The problem has, among others, the following facets:

- There are few qualified engineers and technicians vis the need;
- The few qualified engineers and technicians are getting older and will soon retire;
- There are fewer than required new entrants;
- Due to few qualified engineers and technicians and technicians there is very limited capacity to supervise artisans into qualified engineers and technicians; and
- Most of the qualified engineers and technicians find government service, especially municipalities, unattractive for employment and as soon as they get the required qualification and experience they move to the private sector



All of the above contribute poor service delivery as municipalities struggle to attract suitable candidates when they recruit to fill these positions. They then take a lot of criticism for not employing suitably skilled personnel even though skills development is a national competency.

Proposal 7: SALGA is proposing that the Department: Higher Education & Training, SALGA, the relevant sector Departments, relevant SETAs, ESKOM, Water Boards and CoGTA establish a national training facilitation partnership whose focus will be to improve the number of graduates in technical fields from further education, training and tertiary institutions and experiential learning of new graduates and artisans

