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SALGA COMMENTS
LOCAL GOVERNMENT BUDGETS AND EXPENDITURE
REVIEW
PC COGTA
25 October 2011



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General Comments

- The Review is timely for new era of LG political leadership
- Encouraging to see improvement in municipal reporting that made the Review possible
- The Review highlights the importance of LG as the sphere of government at the front of service delivery to communities
- The Review highlights the serious challenges faced by LG
 - Structural (socio-economic, history, capacity)
 - Governance (political leadership, oversight, accountability)
 - Intergovernmental relations (powers and functions assignment/delegations, fiscal transfer system)
 - Financial (revenue and expenditure management, reporting, audit results)
 - Infrastructure and service provision (backlogs, repairs and maintenance, pricing)
 - External relations (suppliers, community, public trust)
- The Review sets a basis for further research and discussions to improve service delivery for LG



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Chapter 2: Socio-economic and fiscal context of LG

Key Observations

- Differences in geographical, economic and social contexts of municipalities
- Municipalities need to pursue different infrastructure investment and service delivery strategies
- Impact of the economic downturn varies according to a municipality's exposure to economic sectors
 - Declines in manufacturing, trade, and mining affects mostly urban areas (metros, secondary cities and large towns)
 - Declines in agriculture affects mostly rural municipalities and small towns
- Unemployment and steep increases in bulk service prices puts pressure on households' ability to pay for municipal services
- Municipal IDPs and budgets must be aligned to government's 12 priority outcomes
- The LG fiscal framework should further differentiate between rural and urban municipalities
- Poorer communities express dissatisfaction in service delivery through protests and wealthier communities through rates payers associations for formal engagements



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Chapter 2: Socio-economic and fiscal context of LG

SALGA Comments

- Differences in the service delivery contexts of municipalities are acknowledged
- Affordability of municipal services is a key concern as it impacts on municipal revenues
- Credibility of LG needs to be restored through relentless promotion of ethical behaviour and commitment to service delivery
- Municipalities need assistance and support in budgeting, supply-chain management and planning capacity to improve spending on infrastructure
- There is a need for integrated planning across the three spheres of government to better coordinate infrastructure delivery



Chapter 3: Intergovernmental Relations and the LG fiscal framework (1)

Key Observations

- Assignment of functions to LG has a bearing on LG fiscal framework
- Division of responsibilities between district and local municipalities needs to be reviewed
- National and provincial governments prefer delegation rather than assignment of functions to LG
 - Few assignments as it is perceived to require uniform approach rather than differentiation
 - Delegations are not properly managed leading to unfunded mandates and no clear lines of accountability
- Varying fiscal capacity of municipalities underscores need for differentiation
- Any nationally imposed restrictions on municipalities' fiscal powers and functions reduce municipal fiscal capacity
- Property rates are intended to fund general municipal services (roads, street lights, etc.)
- Municipal tariff policies and calculation needs drastic improvement
- Need for a dedicated regulator in the water sector
- Revenue-service relationship between residents and municipalities foster cooperation and accountability
- National and provincial government oversight of the smaller municipalities is weak
- Municipalities should identify non-essential, fruitless and wasteful expenditure
- Municipal financial systems and governance and financial information is deficient



Chapter 3: Intergovernmental Relations and the LG fiscal framework (2)

SALGA Comments

- Assignment of public transport and housing functions to municipalities (metros) is welcomed
- Unfunded mandates:
 - The Review acknowledge but does not analyse the extent of this
 - FFC analysed extent in metros to be R4bn p.a in their recommendation for the 2012/13 division of revenue and **government should start addressing this**
 - National and provincial government should properly cost and budget for agency functions and improve management of service delivery contracts
- Councillors need to encourage communities to pay for services, to deepen democracy and accountability
- Implementation of the Municipal Property Rates Act (MPRA) in rural areas often has no benefit
 - due to complexities around traditional land and generally low tax base
 - need to explore alternative taxes/revenue for rural areas



Chapter 3: Intergovernmental Relations and the LG fiscal framework (3)

SALGA Comments

- SALGA has developed guidelines to support municipalities to improve tariff policies and calculation. This has been piloted in WCape, ECape, FState, with plans to roll out to others in partnership
- SALGA made several recommendations to the Budget Forum over the last three years, including:
 - for an independent commission to conduct a review of the LG fiscal framework taking into account the need for differentiation. **Empirical research should underpin this.**
 - National Treasury must develop a framework of revenue management that is applicable to all policy and legislative impacts on local government, including a compulsory assessment of the implementation costs (of legislation) and also to revisit these two years after implementation to deal with any unintended consequences
 - National Treasury must develop norms and standards for billing and systems to enhance credit control and debtors collection in municipalities
 - NERSA tariff setting processes need to be aligned with the municipal budget process



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Chapter 4: Revenue and expenditure trends in LG (1)

Key Observations

- LG contributes 20% to total government expenditure and 7% to GDP
- Own revenue sources forms largest portion of revenue and government grants second
- Grant dependency, particularly for infrastructure, is increasing across all municipalities
- Growth in grants were maintained during recession to insulate LG from the slow down
- Municipal own revenues, particularly service charges held up well during recession and are growing strongly
- A large portion of revenue from services charges flow to Eskom and Water Boards
 - Rapid increases in bulk services costs squeezed municipal surpluses
 - Municipalities are forced to absorb some of the increases
 - Services become unaffordable, consumption drops and bad debt increase
- Outstanding debtors increased, but slower than revenues
- Reflection of some positive action to revenue management
- Under pricing of services - taxes and tariffs are not appropriately structured
- Cash management needs to improve
- Capacity to budget for infrastructure spending including repairs and maintenance is weak



Chapter 4: Revenue and expenditure trends in LG (2)

SALGA Comments

- NT must develop a annual report on conditional grants spending and non-financial achievements
- LG should become central to discussions on reforming capacity building grants
- SALGA is working on improving awareness of conditional grants and DoRA responsibilities through dissemination of brochure on 2011/12 allocations to municipalities
- Grant dependency:
 - Understandable in rural municipalities due to inadequate tax bases to raise own revenue
 - Generally, government's fast tracking of basic service delivery underpins fast growth in grants
- Transfers from provinces require closer monitoring
 - Gazetted allocations are not always transferred to municipalities and if they are, they are not always on time
- SALGA recommended to Budget Forum in 2010 that National Treasury should report net debtors rather than gross debtors to differentiate between recoverable and irrecoverable debt
- National government should assist with provisions for repairs and maintenance
- The Municipal Systems Improvement Grant should provide more assistance for billing systems



Chapter 5: Financial Management and MFMA implementation (1)

Key Observations

- Compared to 2003, significant strides have been made with implementation of new financial management arrangements in MFMA
- Progress is however, uneven as some municipalities need to implement both letter and spirit of MFMA
- NT is working on further reforms (e.g. SCOA, revenue and cash management, non-financial reporting, misconduct, etc.)
- 272 municipalities developed their 2010/11 budgets according to the prescribed budget schedules
- Evaluating the credibility of budgets is a complex exercise
 - Only 123 municipalities' budgets for 2010/11 were appropriately funded
 - PTs are encouraged to conduct budget benchmarking exercises for delegated municipalities
- Overspending of operational budgets indicates poor spending control and budgets that are not credible
- Under spending of capital budgets is either due to budgets that are unfunded or lack of capacity to implement
- Reporting of financial information is improving (quarterly MFMA s71, AFS and annual reports)
- Significant improvement in audit outcomes, however, does not imply financial soundness
- Capacity building initiatives is hampered by low levels of staff experience, inappropriate qualifications, vacancies



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Chapter 5: Financial Management and MFMA implementation (2)

SALGA Comments

- Implementation of MFMA happened together with a range of other new legislation, e.g. Municipal Structure and Systems Act, Municipal Property Rates Act
 - Municipal capacity has been severely challenged
- Further reforms to budgeting and financial management are welcomed (capacity consideration)
- Municipalities must be provided with support through NT and PTs
- The chapter does unfortunately not cover the issue of risk management in municipalities which is critical for identifying risks and developing necessary mitigation strategies
- SALGA annual Budget Week workshops facilitates peer learning and encourages municipalities exchange of best practices in budgeting and financial management



Chapter 6: Leveraging private finance (1)

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Key Observations

- Total investment requirements for all municipalities estimated at R500bn over 10 years
- Levels and focus of investment needs differ between municipalities
- Many municipalities use borrowing to fund social infrastructure
 - this costs money to operate
 - but does not expand their revenue base
 - Impact negatively on creditworthiness
- Treasury management skills vary significantly across municipalities
- DBSA need to explore partnerships with private sector to crowd-in lending to LG
- DBSA should lend more to municipalities with limited access to external funding
- NT is developing a framework for norms and standards on development charges
- Municipalities should use proceeds of land sales to purchase other productive land
- Municipalities should access private finance on strength of their balance sheets



Chapter 6: Leveraging private finance (2)

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SALGA Comments

- Investment in social infrastructure could be indicative of municipalities wanting to fast track eradication of backlogs
- The recapitalisation of the DBSA has been announced two years ago but there has been no reporting of the bank's strategy and achievements thus far - in increasing funding for municipalities
- Finalisation of the legal framework for development charges will assist in managing this revenue source
- There is a need to identify opportunities for PPPs in LG



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Chapter 7: Managing municipal personnel (1)

Key Observations

- Success or failure of a municipality depends on the quality of its political leadership, sound governance of its finances, the strength of its institutions and the calibre of staff
- Personnel management is critical to the effective and efficient functioning of municipalities
- Personnel management has been marred by:
 - Poor recruitment processes
 - Political interference in appointments and dismissals
 - Inability to attract and retain suitably qualified staff
 - High vacancy rates
 - Lack of performance management systems
- LG employment increased by 4% between 2006 and 2009
- The decline in employment in electricity and waste management sectors is concerning
- There has been much improvement in filling senior management positions
- Average cost of employment has increased at rates above inflation



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Chapter 7: Managing municipal personnel (2)

SALGA Comments

- Total salaries in relation to the total operating budget is within the NT guideline of 30%
- Analysis of the growth in municipal personnel salaries should be done alongside that of the other spheres of government to get proper perspective
- Attracting and retaining scarce skills to rural areas is difficult for all spheres of government
 - Special salary and other incentives as in other spheres, for LG to be funded by national fiscus
- SALGA will facilitate the development of a human resource management strategy for LG
- A human resource intelligence/reporting system will improve reporting frequency and accuracy
- Performance management is receiving attention through a partnership with DCoG and DBSA with funding from LGSETA
- SALGA agreements with unions for 2009-2012 provides for filling of all vacant, critical and funded positions in LG



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Chapter 8: Water and sanitation services (1)

Key Observations

- Water is a scarce resource
- There needs to be a balance between urban and rural water needs
- Critical investments must be made to upgrade current water resource infrastructure
- Access to piped water increased in all provinces with current backlog of 3.6 million people
- Backlogs in access to sanitation is huge – 10.6 million people
- Most expenditure related to water occurs in metros and large urban municipalities
- Capital spending on water falls in metros as they focus increasingly on repairs and maintenance which is part of operating expenditure
- Municipalities are prioritising the roll out of sanitation services
- Highest domestic water tariffs are in Gauteng and lowest in NCape
- Non-revenue water (due to losses and/or unauthorised use) is about 35% in SA
- Municipalities must develop water demand management strategies
- Water assets are not strategically managed, particularly in rural municipalities
- Possible climate change impacts complicate the planning for water



Chapter 8: Water and sanitation services (2)

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SALGA Comments

- Development of integrated bulk raw water storage facilities particularly in smaller municipalities
- Advocate for shift of focus towards maintenance and rehabilitation vs new infrastructure – making a strategic choice
- Monitor the capital infrastructure development programmes of water boards in relations to demand
- Municipal institutional reform is required in the short to medium term within the water value chain (water service authority functions to be reviewed)
- Fund municipal water and sanitation business in relations to the type of infrastructure operated and managed



Chapter 9: Electricity (1)

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Key Observations

- Electricity is a major source of revenue for municipalities
- Significant tariff increases are expected for the sector
- Investment in maintenance and refurbishments is critically needed
- Higher tariffs will deal with excessive consumption
- Inclining block tariffs set to protect low-use poor households
- Disbanding of REDs policy provides certainty to LG
- Municipalities must ensure that they have supply contracts with Eskom in areas where Eskom is the provider of electricity



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Chapter 9: Electricity (2)

SALGA Comments

- NT should fast track the development of norms and standards on surcharges to allow unlicensed municipalities to raise revenue from electricity sales
- Municipalities are unable to use the disconnection of electricity as a credit control measure in areas where Eskom is the supplier of electricity
- NERSA's inclining block tariff used Eskom data to determine a national tariff structure. This is a serious shortcoming since the Eskom data is not relevant to individual municipalities and also do not adequately segment residential customers. While Eskom are able to recover distribution costs in areas where it is the service provider, municipalities, especially smaller ones, are at risk
- NERSA tariff setting processes should be better aligned with the municipal budget process



Chapter 10: Roads (1)

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Key Observations

- Roads are expensive to develop and maintain
- Current funding for maintenance and rehabilitation is insufficient
- Improvements in roads infrastructure is critical as it impacts on service delivery and undermine economic growth
- Municipalities must increase roads budgets and effectively use EPWP
- Integrated transport plans should provide a long term vision that facilitates mobility



Chapter 10: Roads (2)

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SALGA Comments

- Need for a national GIS database on the condition of roads infrastructure and responsibilities across the 3 spheres
- Funding must be provided for roads infrastructure management capacity in rural municipalities



Chapter 11: Solid Waste services (1)

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Key Observations

- Municipalities and industries do not give sufficient attention to waste minimisation
- This impacts negatively on operating and capital cost structures
- Move towards producer responsibility promotes recycling
- Need to establish differentiated targets on basic access to the services
- Lack of access to services remains highest in rural areas
- Failure to provide services in informal settlements and other underserviced areas leads to unregulated dumping
- On aggregate municipalities are under-pricing
- Little priority is given to solid waste investment in capital budgets



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Chapter 11: Solid Waste services (2)

SALGA Comments

- There is a need to develop a sustainable funding model and policy for municipal waste management services



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Chapter 12: Delivering services in rural areas (1)

Key Observations

- Overall the chapter gives the perception that LED is only a issue in rural area / municipalities.
- What appears key is the issue of infrastructure investment and maintenance in rural areas is key.
- The report also notes that there is no single, approved and recognized definition of rural areas or rural municipalities
- What is also missing from the chapter is how National, Provincial governments programmes and policies actually undermine rural LED, for example:
 - Preferential Procurement Regulations
 - There is no support, clarity or policy linking municipalities and/ or municipal LED with agriculture sector support
 - Tourism, like LED, often remains misunderstood and underfunded at Local Government
- There is no mention of ICT's particularly broadband access for rural areas
- The report states very little on the key role and importance of the Informal Economy
- There have been little to no linkages between the Comprehensive Rural Development Programme



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Chapter 12: Delivering services in rural areas (2)

SALGA Comments

- There is a need for a rural development strategy that would inform infrastructure planning
- Rural municipalities must be capacitated to similar extent that cities are capacitated under the Urban Settlements Development Grant for cities
- While it may be correct to say that a differentiated approach to LED is required, the principal that LED is only applicable or necessary in a rural context, is not supported;
- Fully support that the most appropriate and innovative technologies are not being applied in the most necessary/suitable of places.
- Balancing the needs of pro-poor LED and creating a conducive environment for LED is a challenge and makes prioritization very difficult.
- There is no clarity about what percentage of MIG should go towards LED.
- We fully support the point made in the report that LED success relies on the quality of leadership and skills of officials



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Chapter 13: Cities and the management of the built environment (1)

Key Observations

- Large urban municipalities are different from rural municipalities
- Cities require a different policy treatment to allow them to focus on their specific challenges
- Failure to provide for challenges around population growth, poverty and demand for economic infrastructure in cities leads to:
 - declining levels of access to services
 - Congestion of infrastructure networks
 - Informal settlements development
 - bottlenecks to economic growth
- City planning units must be able to balance provision of amenities with provision of public transport
- A long term vision for city spatial development is required



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Chapter 13: Cities and the management of the built environment (2)

SALGA Comments

- It is recommended that in terms of section 156 (4) of the Constitution, full assignment of the human settlements function must be granted to all the Metropolitan Municipalities immediately instead of the staggered and cumbersome approach prescribed in the Housing Act and Municipal Accreditation Framework (MAP).
- The MAP should rather be utilized to assess the remaining priority and aspiring municipalities with preference and priority to secondary cities.
- The MAP must accordingly be amended in line with recent national developments and resolve conflicts with the Housing Act.
- SALGA and some metros will soon apply for Local Business Tax to fund economic infrastructure
- SALGA recommended to the Budget Forum that the Sharing of the General Fuel Levy for metros must be re-assigned to fund development of public transport and road infrastructure