Municipal infrastructure


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The key financial policy objectives for sustainable local government are derived from constitutional obligations. These obligations require municipal organisation, planning and budgeting systems to target the provision of basic services and socio-economic development. Municipal budgets are the main fiscal policy instruments that direct the revenue and expenditure stance of local government in achieving the service delivery targets.

Context

The 1998 White Paper on Local Government did not address the challenges of the administrative and management capacity of post-apartheid municipalities to execute budgets and comply with accepted accounting and financial management and reporting practices. In many instances these inadequacies were reflected in poor revenue projections and poor collection and credit control systems. Data was unavailable, resulting in unreliable socio-economic statistics and inaccurate financial and service delivery information.

This led to the inability of municipalities to undertake effective expenditure planning, budgeting and financial management. Since 1998 this inadequacy has resulted in the inequitable distribution of revenue for the provision of basic services and for the promotion of socio-economic growth and development in local communities. This trend has been most starkly demonstrated in the area of municipal infrastructure planning and delivery.

Inadequate municipal infrastructure has negative consequences for the delivery of basic services and economic growth and development. Despite much of the finance for municipal infrastructure being provided by national government, trends indicate that municipalities have not shown enough progress in the construction, maintenance and repair of basic infrastructure. Unless these issues are addressed, the achievement of sustainable local government as envisaged in the Constitution will be delayed and the inequalities that characterise our society will be aggravated and exacerbated.

Challenges

The 2006 Local Government Review by the National Treasury focuses on the challenges consequent on the current local government reform process. It identifies key areas that require refinement and reform in the existing local government system, including aligning the different powers and functions of category B local municipalities and category C district municipalities.

A second area of concern is finding an alternative source of own revenue to replace the recently abolished regional services council (RSC) levies. For many poorer municipalities, with high levels of unemployment and a lack of economic investment, the RSC levies were the main source of revenue in the absence of a property tax base.

The third area of focus is the need to assess the capital financing arrangements and the instruments used by municipalities. In particular, such an assessment is expected to examine the efficient use of own revenues, infrastructure grant funding and borrowing arrangements.

Fourth, given the high levels of service delivery and infrastructure backlogs and the consequent inequalities among municipalities, the government wants to review the local government equitable share formula and the municipal infrastructure grant (MIG) mechanisms. Clearly the growing infrastructure backlogs and associated service delivery problems are an indication that the current mechanisms are inadequate or inappropriate and compromise local government's ability to deliver on its constitutional and developmental mandates.

The fifth area of concern is the lack of planning and coordination between municipalities and provinces where these two government spheres have concurrent funding responsibilities for the delivery of housing, health and public transport services.

Sixth, government identified the need to assess the impact on municipalities of restructuring the electricity and water distribution sectors. Over the past year this issue has taken on a greater urgency with respect to electricity generation and distribution.

The 2006 review reflects the government's intention to set specific policy targets to eradicate remaining backlogs in sanitation, water, electricity and other services between 2008 and 2013. Notwithstanding this enormous task, municipalities are expected to maintain appropriate service delivery levels where they are currently in place in communities. In addition, local governments are required to create conditions for economic growth. To support these policy objectives the review reports that local government's share of nationally raised revenue rose to 7% between the 2006 / 07 and 2008 / 09 medium-term plans.

The envisaged focus areas for the 2006 / 07 medium-term period were free basic services for households that cannot afford such services; a proper waste management system; eradication of the bucket sanitation system; giving housing and built environment the necessary infrastructure for sustainable communities; enhancing financial management and the capacity of municipalities to deliver quality services; and ensuring that the delivery of municipal infrastructure contributes to job creation.

The 2006 review implies that the major constraint in attaining the policy targets is the lack of reliable data and information from municipalities, making comparisons very difficult across local governments.

Municipal infrastructure funding

In the 2006 Budget Review, the government committed itself to ensuring the provision of free basic services to poor households. Included in this list of services were water, sanitation, electricity and waste management. In addition, the government committed itself to the eradication of the bucket system and the development of the built environment with the concomitant infrastructure for communities. These commitments are to be underpinned by increasing support for financial management and the capacity of municipalities to deliver services. Over the 2006 / 07, 2007 / 08 and 2008 / 09 budget cycles, the government added R8,3 billion, R10,5 billion and R13,9 billion respectively to the local government budget framework. Over the three-year cycle the equitable share baselines were revised upwards by R1,6 billion to support the roll-out of free basic services.

The provision of free basic services depends, however, on adequate and well-maintained and operated municipal infrastructure. The development and construction of infrastructure is funded largely through the conditional MIG dedicated for spending on basic public infrastructure in previously disadvantaged communities. The MIG is the largest infrastructure allocation and was increased by R21,5 billion for the 2006 / 07 to 2008 / 09 period. In addition to the MIG, municipalities received R4,4 billion as part of the electrification programme for connections to poor households.

Initially, municipalities were able to spend most of their infrastructure allocations. By 2006 both the National Treasury and the Financial and Fiscal Commission (FFC) observed a marked underspending on the MIG allocations. In its Review of Transfers in the Intergovernmental Fiscal Relations System in South Africa, the FFC attributed this underexpenditure to several factors. One of the reasons was that municipalities continued spending MIG funds rolled over from previous years. Others were the lack of proper project planning, ineffective project management, a lack of capacity for managing MIG funds and the late approval of projects and budgets by council officials.

Comment

While many problems and challenges associated with the MIG may be attributed to the inadequate capacity and capabilities of some municipalities, other problems and challenges are inherent in the design of the MIG grant. For example, the merging of the Consolidated Municipal Infrastructure Programme (CMIP) with the MIG carried over the design defects of the CMIP into the MIG. A review of the MIG must address the design issues and consider the generally accepted intergovernmental fiscal principles and criteria that are the foundation of such conditional grants.

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