6

Division of revenue and spending by provinces and municipalities

In brief

- Over the next three years, after providing for debt-service costs, the contingency reserve and provisional allocations, 47.9 per cent of nationally raised funds are allocated to national government, 43 per cent to provincial government and 9.1 per cent to local government.
- The division of revenue remains strongly redistributive, with taxes raised mainly in wealthier areas funding poorer provinces and municipalities.
- Changes to provincial allocations since the 2018 *Medium Term Budget Policy Statement* (MTBPS) include a wage freeze for political office holders, increased funding for the rollout of free sanitary products for learners from low-income households, and a reduction in the *human settlements development grant*, which requires reform.
- Local government equitable share allocations, which fund free basic services for low-income households, grow faster than inflation to account for household growth and higher costs of services. New conditional grant incentives encourage improved municipal performance in the construction and maintenance of infrastructure.
- Medico-legal claims are putting pressure on provincial health budgets, and a pattern of unfunded budgeting persists in local government. National government is working with provinces and municipalities to address these concerns.

Overview

Government is working with provinces and municipalities to rebuild governance and administration

Over the past decade, all spheres of government experienced an erosion of capacity and a weakening of institutional integrity. As national government takes steps to reverse this pattern by strengthening state capacity and exposing corruption, it will also work with provinces and municipalities to rebuild their governance and administration structures. Where necessary, national government will use the powers granted by the Constitution, the Public Finance Management Act (1999) and the Municipal Finance Management Act (2003) to ensure that distressed provinces and municipalities return to financial health.

Weak governance and financial controls jeopardise the provision of basic services

Provinces are responsible for basic education and health services, roads, housing, social development and agriculture. Local governments provide basic services such as water, sanitation, electricity reticulation, roads and community services. Where governance and financial controls are weak, these services are jeopardised.

Division of revenue

Over the medium-term expenditure framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 47.9 per cent of nationally raised funds are allocated to national government, 43 per cent to provinces and 9.1 per cent to local government.

Table 6.1 Division of nationally raised revenue

R billion	2015/16	2016/17 Outcome	2017/18	2018/19 Revised estimate	2019/20	2020/21 Medium-term estimates	2021/22	Average annual MTEF growth
Division of available funds								
National departments	**546.1**	**555.7**	**592.7**	**638.2**	**684.7**	**733.1**	**777.7**	**6.8%**
of which:								
Indirect transfers to provinces	*3.5*	*3.6*	*3.8*	*4.7*	*4.6*	*5.0*	*5.7*	*6.3%*
Indirect transfers to local government	*10.4*	*8.1*	*7.8*	*7.9*	*7.2*	*7.1*	*8.2*	*1.2%*
Provinces	**471.4**	**500.4**	**538.6**	**572.2**	**612.3**	**657.1**	**701.0**	**7.0%**
Equitable share	386.5	410.7	441.3	470.3	505.6	542.9	578.6	7.2%
Conditional grants	84.9	89.7	97.2	101.9	106.7	114.2	122.4	6.3%
Local government	**98.3**	**102.9**	**111.1**	**117.3**	**127.3**	**137.9**	**149.5**	**8.4%**
Equitable share	49.4	50.7	55.6	60.5	69.0	75.7	82.2	10.7%
Conditional grants	38.3	40.9	43.7	44.3	45.1	48.2	52.2	5.6%
General fuel levy sharing with metros	10.7	11.2	11.8	12.5	13.2	14.0	15.2	6.8%
Provisional allocation not assigned to votes	–	–	–	–	19.2	11.4	18.9	
Non-interest allocations	**1 115.8**	**1 159.0**	**1 242.3**	**1 327.6**	**1 443.5**	**1 539.5**	**1 647.1**	**7.5%**
Percentage increase	*9.7%*	*3.9%*	*7.2%*	*6.9%*	*8.7%*	*6.7%*	*7.0%*	
Debt-service costs	128.8	146.5	162.6	182.2	202.2	224.1	247.4	10.7%
Contingency reserve	–	–	–	–	13.0	6.0	6.0	
Main budget expenditure	**1 244.6**	**1 305.5**	**1 405.0**	**1 509.9**	**1 658.7**	**1 769.6**	**1 900.5**	**8.0%**
Percentage increase	*10.0%*	*4.9%*	*7.6%*	*7.5%*	*9.9%*	*6.7%*	*7.4%*	
Percentage shares								
National departments	*48.9%*	*48.0%*	*47.7%*	*48.1%*	*48.1%*	*48.0%*	*47.8%*	
Provinces	*42.2%*	*43.2%*	*43.3%*	*43.1%*	*43.0%*	*43.0%*	*43.1%*	
Local government	*8.8%*	*8.9%*	*8.9%*	*8.8%*	*8.9%*	*9.0%*	*9.2%*	

Source: National Treasury

The division of revenue is strongly redistributive. Services benefiting poor South Africans in every province and municipality are funded by taxes raised mainly in wealthier urban areas. For example, over the past 10 years residents of Limpopo have paid less than 4 per cent of national income tax, yet the province received an average of 12.2 per cent of provincial equitable share allocations over the same period.

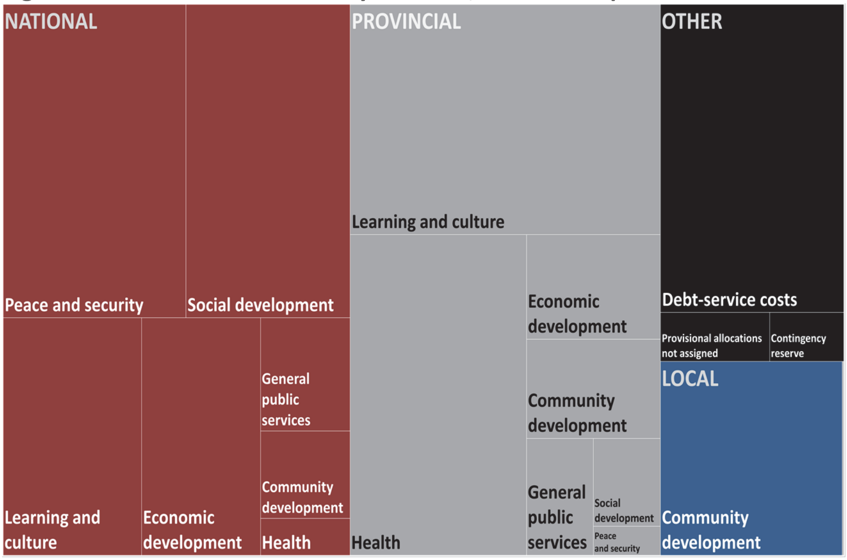
The *Explanatory Memorandum to the Division of Revenue*, published on the National Treasury website as Annexure W1 to the *Budget Review*, sets out the provincial and municipal allocations, details the equitable share formulas, and explains how the division incorporates the recommendations of the Financial and Fiscal Commission.

Sustainable and efficient public finances

Figure 6.1 shows how medium-term allocations in the main budget, for the functions described in Chapter 5, are shared across government. The budgets of national departments are dominated by four functions (peace and security, social development, learning and culture and economic development) that account for 88 per cent of allocations. In provinces, learning and culture, and health, account for 75 per cent of the budget. Ninety-nine per cent of local government transfers are for community development, which includes water, sanitation and electricity.

Peace and security, and social development, account for lion's share of national spending

Figure 6.1 Division of revenue by function, 2019 MTEF period*



**Function breakdown for provinces includes estimates of how equitable share funds will be allocated*
Source: National Treasury

Local government receives the smallest share of the division of nationally raised revenue because it has significant own revenue-raising powers. Any changes to the structure of the division of revenue would have implications for functions in all spheres of government. Strengthening the sustainability of the public finances will make more funds available for social and economic development. For example, to service its debt over the next three years, government will spend 62 per cent more on debt-service costs than transfers to local government. This is one of the reasons government is committed to moving towards a primary balance, thereby reducing its need to borrow funds and incur interest costs.

Government to spend 62 per cent more on debt-service costs than transfers to local government

Local government raises about 70 per cent of its own revenue, but would be able to raise more if municipalities improved revenue collection. In 2017/18, almost half of all municipalities collected less than 80 per cent of their billed revenue.

Past performance

National and provincial underspending has stabilised, but full expenditure can mask inefficient spending

Underspending has stabilised across national and provincial government. In 2017/18, national expenditure, excluding direct charges to the National Revenue Fund, amounted to R768.8 billion out of a total adjusted appropriation of R781.5 billion. This represents underspending of 1.6 per cent. Provincial government underspent its adjusted budget of R561.8 billion for 2017/18 by R5.8 billion (1 per cent), compared with R4.7 billion (0.9 per cent) in the prior year. Provincial conditional grant spending has exceeded 97 per cent over the past four years, with several grants fully spent. But full expenditure can mask inefficient spending. For example, in 2017/18, 99 per cent of the *human settlement development grant* was spent, but only 77 per cent of delivery targets were met.

Many municipalities continue to adopt unrealistic budgets

Spending outcomes for 2017/18 varied across the 257 municipalities. Many local governments adopted unrealistic spending plans. As a result, 217 municipalities underspent their operating budgets and 220 municipalities underspent their capital budgets. Of the R30 billion in conditional grants transferred to municipalities in 2017/18, R28 billion (93 per cent) was spent – an improvement from 86.8 per cent in 2016/17.

Provincial revenue and spending

Transfers from national government constitute over 95 per cent of provincial government budgets. The provincial equitable share accounts for 80 per cent of all transfers to provinces. Despite a constrained fiscal environment, the equitable share has continued to grow in real terms. Over the last eight years, after taking inflation into account, provincial allocations have grown by 2.1 per cent, compared with average annual population growth of 1.8 per cent.

Table 6.2 Provincial equitable share

	2018/19	2019/20	2020/21	2021/22	Average annual
R million			Medium-term estimates		MTEF growth
Eastern Cape	65 500	68 824	72 744	76 293	5.2%
Free State	26 178	28 187	30 338	32 411	7.4%
Gauteng	93 384	102 448	111 636	120 700	8.9%
KwaZulu-Natal	99 264	106 014	113 370	120 324	6.6%
Limpopo	55 179	58 965	62 986	66 779	6.6%
Mpumalanga	38 468	41 428	44 475	47 389	7.2%
Northern Cape	12 475	13 424	14 388	15 309	7.1%
North West	32 392	34 973	37 694	40 325	7.6%
Western Cape	47 447	51 291	55 278	59 115	7.6%
Total	**470 287**	**505 554**	**542 909**	**578 645**	7.2%

Source: National Treasury

Allocations to each province are calculated largely on the basis of demand for major public services, such as the number of school enrolments, and visits to public clinics and hospitals. The different rates of growth in the provincial equitable share allocation for each province respond to changes in these demographic factors. Together with provincial treasuries, the National Treasury is reviewing the formula to ensure it is responsive to data and policy developments, and balances the needs of all provinces. These considerations are discussed in the *Explanatory Memorandum to the Division of Revenue*.

Changes to provincial allocations

Changes since MTBPS include wage freeze for political office holders

Since the 2018 MTBPS, the following changes have been made to provincial allocations:

- A wage freeze for political office holders will save R132.8 million of the amount transferred through the provincial equitable share over the MTEF period.
- The amount allocated to accelerate the rollout of free sanitary products for learners from low-income households has been increased from R78 million to R157 million.
- The *human settlements development grant*, which requires reforms to improve spending efficiency, has been reduced by R1 billion in 2020/21 and R2 billion in 2021/22 to limit growth of the fiscal deficit.
- Over the next three years, R887.3 million has been shifted from the *comprehensive agricultural support programme grant* to the Land Bank to support an increase in the number of emerging black commercial farmers able to access affordable loans.
- Funds earmarked for transfers to provinces to upgrade school sanitation will now be spent by the Department of Basic Education on their behalf through the *school infrastructure backlogs grant*.
- Allocations to hire more health professionals have been increased by a further R1.6 billion over the MTEF period. Funds will now be transferred to provinces through a new *human resource capacitation grant,* rather than the national department contracting these professionals.

Two social development grants have been absorbed into the provincial equitable share because these services have been entrenched in provinces. The grants previously funded substance abuse treatment facilities and employed social work graduates.

Budget will shift from government-subsidised units to broader housing market interventions

Previously, housing budgets focused on building government-subsidised houses for low-income citizens. Government is now targeting a broader set of housing market interventions with lower unit costs to improve the living standards of more South Africans. This involves shifting administration of the Finance-Linked Individual Subsidy Programme (which supports individual home-buyers in the affordable housing sector) from provinces to national government, reducing allocations to the *human settlements development grant* and introducing funding mechanisms dedicated to upgrading informal settlements.

Within both the *human settlements development grant* to provinces and the *urban settlements development grant* for metros, funds have been ring-fenced in 2019/20 to upgrade informal settlements. These upgrades will be undertaken in partnership with communities. The lessons learnt will be applied to the design of separate informal settlement upgrade grants that will be introduced from 2020/21.

Table 6.3 Conditional grants to provinces

R million	2018/19 Adjusted budget	2019/20	2020/21	2021/22	MTEF total
		Medium-term estimates			
Direct conditional grants					
Comprehensive agricultural support programme	2 019	1 538	1 676	1 814	5 028
Ilima/Letsema projects	552	583	615	653	1 852
Community library services	1 424	1 501	1 584	1 679	4 764
Education infrastructure	10 094	10 514	11 467	12 327	34 308
Maths, science and technology	370	391	413	436	1 241
National school nutrition programme	6 802	7 186	7 696	8 165	23 047
HIV, TB, malaria and community outreach	19 922	22 039	24 408	27 753	74 200
Health facility revitalisation	6 057	6 007	6 360	6 858	19 225
Health professions training and development	2 784	2 940	3 102	3 273	9 315
National tertiary services	12 401	13 186	14 069	14 843	42 097
Human settlements development	18 267	18 780	15 937	15 397	50 114
Informal settlements upgrading partnership	–	–	3 015	4 322	7 337
Provincial roads maintenance	11 036	11 382	12 093	13 021	36 496
Public transport operations	5 990	6 326	6 750	7 121	20 196
Other direct grants	4 215	4 339	5 021	4 694	14 054
Total direct conditional grants	**101 932**	**106 712**	**114 206**	**122 355**	**343 274**
Indirect transfers	**4 730**	**4 561**	**4 980**	**5 675**	**15 216**
School infrastructure backlogs	2 272	2 027	1 769	2 339	6 135
National health insurance indirect	2 458	2 534	3 211	3 336	9 081

Source: National Treasury

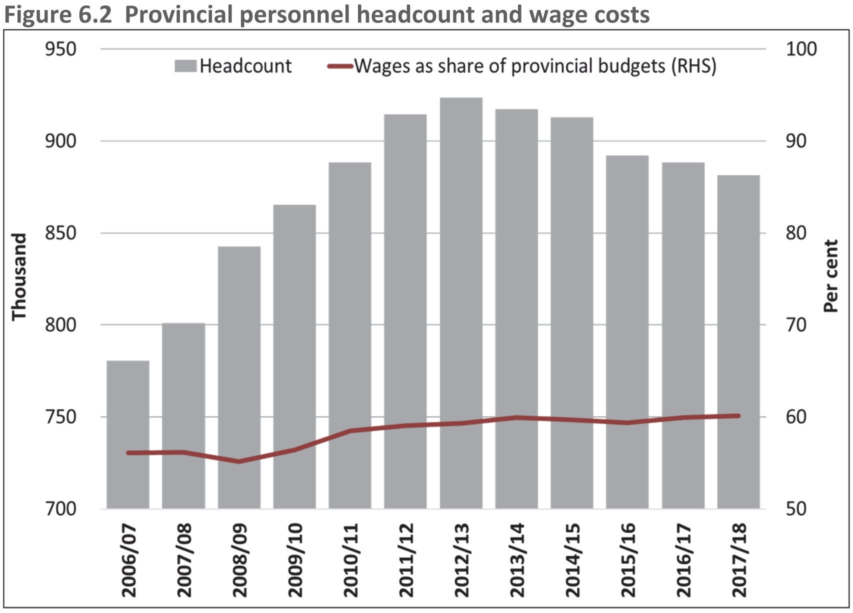
Managing spending pressures in provinces

Provinces continue to balance rising costs and growing demand for services within tight budgets. Sound financial management by provincial treasuries, and national interventions where necessary, have ensured that provincial finances remain sustainable.

Compensation costs continue to increase above inflation

Compensation, which accounts for 61 per cent of provincial spending in 2018/19, continues to increase above inflation.

Figure 6.2 Provincial personnel headcount and wage costs



Source: National Treasury

Provinces have managed these costs by limiting growth in personnel and saving in other areas. The number of provincial employees declined from 923 646 in 2012/13 to 881 228 in 2017/18, returning the total number of provincial employees to a level slightly lower than in 2010/11. However, the cost of those employees has increased from 58.5 per cent to more than 60 per cent of provincial spending over the same period.

Provinces have accumulated R25.1 billion in unpaid invoices

Unpaid invoices owed by provinces, which totalled R25.1 billion in 2017/18, remain a major financial challenge. Health departments account for 57 per cent of these unpaid bills.

Provinces continue to implement cost-containment measures agreed with the Minister of Finance in January 2016. These measures focus on improving revenue collection, merging or closing provincial entities with duplicated functions, reducing non-essential administrative personnel, and cutting spending on non-core goods and services. The purchase of buildings currently under lease is being considered. In addition, provinces have identified several new initiatives that can boost revenue, such as selling redundant vehicles.

Responding to rising medical negligence claims

Government is committed to providing accessible, quality and cost-effective health services in line with the Constitution. Patients have the right to compensation for injuries resulting from medical negligence. However, the number and value of claims lodged against provincial departments of health in recent years appear to have risen disproportionately. Claims against health departments grew from R28.6 billion in March 2015 to R80.4 billion in March 2018. Over the same period, payments for claims increased from R498.7 million to R2.8 billion.

The mounting value of claims puts enormous pressure on provincial health budgets, with departments increasingly forced to divert funding from service provision to pay these claims. Medico-legal claims have risen because of inadequate quality of care, weaknesses in administration (including patient record management and legal capacity), and increasingly litigious behaviour from law firms.

To address the apparent rise in unjustified or excessive claims, government is:

- Prioritising improvements in areas where claims of negligence are more prevalent.
- Improving medical record-keeping and recruiting more specialist medical personnel.
- Inspecting public healthcare facilities regularly (through the Office of Health Standards Compliance) to ensure they adhere to norms and standards.
- Strengthening the medico-legal units in provincial departments of health, and recruiting national teams of experts to provide specialist support.
- Referring possible fraudulent cases to the Special Investigations Unit.

Government is also considering legislative amendments to allow periodic settlement payments instead of lump-sum payments, which would help provincial budgets manage these costs. Most importantly, government continues to improve the quality of public healthcare. Together, these measures will help stabilise the growth in claims and allow provinces to budget more realistically for them.

Municipal revenue and spending

Sustainable municipal finances depend partly on efficient revenue collection

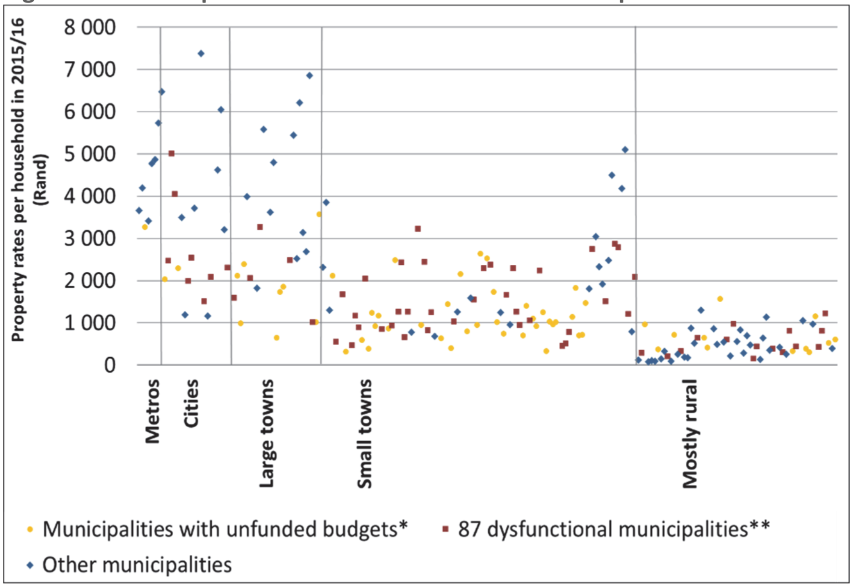
Legislation governing local planning and budgeting emphasises community participation in decision-making. The partnership between municipalities and communities relies on the public recognising the value of, and paying for, municipal services. While government subsidises municipal services for low-income households, these services are only sustainable if people who can afford them – and use larger quantities – pay their bills.

Over the period ahead, equitable share allocations, which fund free basic services for low-income households, grow faster than inflation to account for household growth and higher costs of services. But, for most municipalities, own revenues are a larger proportion of their funding than transfers. Their sustainability depends on how they collect and spend their own revenues.

Several towns and intermediate cities have significant revenue bases

Figure 6.3 shows the large range in the revenue-collecting capacity of metros and local municipalities. In general, urban municipalities have higher revenues from property rates. However, there are several towns and intermediate cities with significant revenue bases.

Figure 6.3 Municipalities differ in terms of context and performance



**Figures are for 2018/19*
***Identified by the Department of Cooperative Governance (2018)*
Source: National Treasury, Department of Cooperative Governance and Statistics South Africa

Governance and financial management challenges affect both urban and rural municipalities. For example, the adoption of unfunded budgets is widespread across all types of municipalities. In some ways, municipalities with little capacity to raise their own revenue have an easier task when budgeting, because most of their budget is funded from transfers, which are stable and predictable. The redistributive nature of the division of revenue also means that, on a per household basis, transfers to rural municipalities are more than twice as large as those to metros.

New incentives reward good governance and spending on municipal infrastructure projects

New incentives in conditional grants encourage improved municipal performance. In 2019/20, seven intermediate cities will move from the *municipal infrastructure grant* to the new *integrated urban development grant*, which encourages cities to maximise their investments from non-grant funding and to maintain assets. These cities qualified through good governance, spending and reporting. Three of these municipalities financed more than 70 per cent of their capital budgets from non-grant sources, demonstrating the potential for non-metropolitan municipalities to fund significant infrastructure investments from their own revenue and borrowing. An incentive is also introduced in the *public transport network grant*, which rewards municipalities for using their own revenues to help subsidise public transport systems.

Principles for reforming the local government infrastructure grant system

The National Treasury, together with the Department of Cooperative Governance, the South African Local Government Association, and the Financial and Fiscal Commission, have reviewed the local government infrastructure grant system. Reforms are being implemented in three areas:

- Consolidating the number of grants, and differentiating urban and rural challenges more clearly. For example, a new grant for intermediate cities is being introduced and fewer grants are directed to metros as a result of incorporating the *integrated national electrification programme (municipal) grant* allocations for metros into the *urban settlements development grant*.
- Using grants to renew infrastructure, and providing incentives to improve asset management and maintenance. For example, grant conditions have changed to allow funding of asset renewal, and the incentive component of the new *integrated urban development grant* rewards up-to-date asset management plans and maintenance spending.
- Strengthening national management of the grant system. This involves clarifying the roles of national departments, improving their oversight and advisory capacity, and streamlining reporting requirements. For example, Municipal Finance Management Act Circular 88 introduces a consolidated performance reporting system for metropolitan municipalities.

Since the 2018 MTBPS, the indirect *integrated national electrification programme (Eskom) grant* in 2020/21 has been reduced by a further R500 million as part of government's fiscal consolidation efforts.

Table 6.4 Transfers to local government

R million	2018/19 Adjusted budget	2019/20	2020/21	2021/22	MTEF total
		Medium-term estimates			
Equitable share and related	**62 732**	**68 973**	**75 683**	**82 162**	**226 819**
General fuel levy sharing with metros	**12 469**	**13 167**	**14 027**	**15 182**	**42 376**
Direct conditional grants	**44 771**	**45 149**	**48 171**	**52 154**	**145 473**
Municipal infrastructure	15 288	14 816	15 660	16 831	47 307
Integrated urban development	–	857	939	1 013	2 809
Urban settlements development	11 306	12 045	9 717	9 373	31 135
Informal settlements upgrading partnership	–	–	2 985	4 384	7 369
Integrated national electrification programme (municipal)	1 904	1 863	1 977	2 131	5 972
Public transport network	6 287	6 468	7 495	8 367	22 330
Water services infrastructure	3 769	3 669	3 871	4 161	11 702
Regional bulk infrastructure	1 957	2 066	2 180	2 344	6 590
Other direct grants	4 260	3 363	3 346	3 550	10 259
Total direct transfers	**119 971**	**127 289**	**137 881**	**149 498**	**414 668**
Indirect transfers	**7 887**	**7 208**	**7 109**	**8 167**	**22 485**
Integrated national electrification programme (Eskom)	3 262	3 374	3 063	3 821	10 257
Regional bulk infrastructure	2 887	3 038	3 207	3 447	9 692
Other indirect grants	1 738	797	840	899	2 536

Source: National Treasury

Strengthening municipal financial management

The National Treasury's *State of Local Government Finances* report found that 128 municipalities were in financial distress at the end of 2016/17. The Auditor-General noted a continued pattern of deterioration, with only 145 of 257 municipalities achieving unqualified audits in 2016/17. At the end of 2017/18, 40 municipalities had negative cash balances.

Declining collection rates and weak revenue collection undermine municipal finances

Problems in revenue management are the largest contributor to financial distress in local government. Households, followed by commercial customers and government, owe the largest share of outstanding municipal revenues. There are two notable trends:

- Collection rates have declined. In the first quarter of 2016/17, 65 municipalities collected over 95 per cent of their bills; by the same period in 2018/19 this had fallen to 52 municipalities.
- Weak revenue collection affects payments to suppliers and the sustainability of services. At the end of September 2018, municipalities had outstanding debts older than 90 days totalling R24 billion, of which R12.8 billion was owed to Eskom and R6.4 billion to the water boards. In turn, outstanding revenues have affected the financial positions of those institutions.

The graphs below show the profile of municipal debt, a growing portion of which is older than 90 days and will be difficult to collect. They also highlight differences in performance, with municipalities in four of nine provinces demonstrating a better record of managing outstanding payments.

Figure 6.4 Debts owed to municipalities

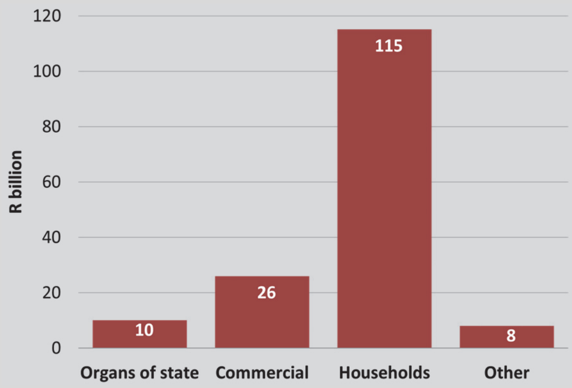


Figure 6.5 Growth in debts owed to municipalities

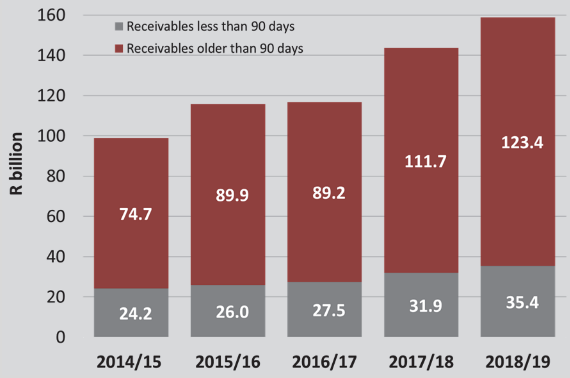


Figure 6.6 Debts owed by municipalities (>90 days)

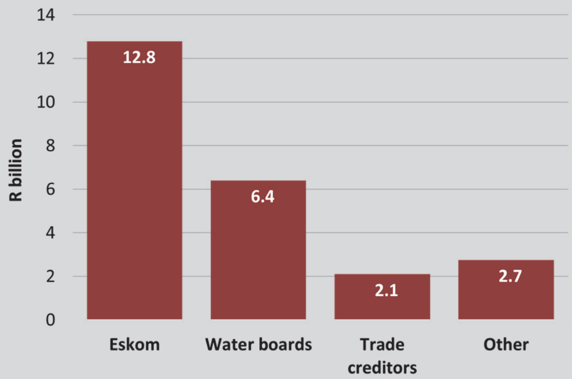
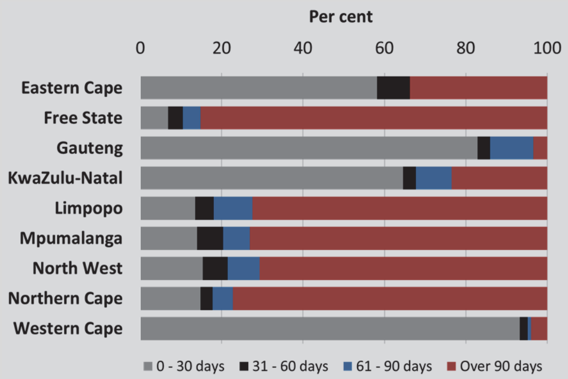


Figure 6.7 Amounts owed to municipal creditors*



Source: National Treasury, MFMA Section 71 reports for Q1 2018/19
All figures are as at 30 September 2018
**By age*

For the July 2018 to June 2019 municipal financial year, 113 municipal councils adopted unfunded budgets, up from 83 the prior year. These municipalities do not have credible revenue projections to match planned expenditure. In four provinces – the same ones that have the highest levels of outstanding amounts owed to creditors – more than half of councils adopted unfunded budgets. National and provincial treasuries engage all municipalities on their draft budgets and advise them on changes to avoid adopting unfunded budgets. Nonetheless, the power to adopt a budget rests solely with the elected municipal council.

When a municipality is unable to perform its functions, or is in a state of financial crisis, the constitutional remedy is for provincial or national government to intervene and assist – or in severe cases, to take over its responsibilities. The record of such interventions, however, shows that they have rarely resulted in sustained improvements, partly due to weaknesses in the capacity of the intervention team and a lack of willingness to cooperate on the part of municipal officials.

Budget provides funds for Municipal Financial Recovery Service to assist troubled administrations

The 2019 Budget provides funds to increase provincial treasuries' capacity to manage financial interventions, and for the National Treasury's Municipal Financial Recovery Service to develop financial recovery plans. These changes aim to improve the effectiveness of interventions in municipalities.

Recently promulgated amendments to the Public Audit Act (2004, amended 2018) increase the powers of the Auditor-General. New powers include setting binding remedial actions if previous recommendations are not implemented, referring material irregularities for further investigation, and issuing a certificate of debt where an accounting officer has failed to recover money. These more robust powers will complement the work of the recently established municipal public accounts committees, which are responsible for improving accountability.

National government spends more than R2.5 billion per year on capacity support for municipalities. During 2019, this system will be reviewed and improvements will be implemented from 2020/21.

Leveraging private funding to retrofit municipal infrastructure and save energy

Government aims to draw on private-sector funding and expertise to help solve public infrastructure challenges. This approach can be applied to municipal infrastructure upgrades if municipal service revenues are used to pay back the funds invested by the private sector.

In 2019/20 the Department of Energy is piloting this approach. It aims to create a market for private companies to invest in retrofitting municipal infrastructure with energy-efficient technologies that also reduce energy losses in the distribution system. The private firms will be paid back from the savings realised. This approach is expected to lead to energy and cost savings on a much larger scale than the current grant-funded rollout of energy-saving measures, helping to improve the long-term viability of municipal electricity distribution. A portion of the existing *energy efficiency and demand-side management grant* will be used to develop the market and a project pipeline.

This approach supports South Africa's commitment to mitigating climate change and allows municipalities to benefit from related donor financing. A guarantee fund from the Nationally Appropriated Mitigation Action facility has been established with funding from the German and UK governments to help private energy service companies obtain loans to implement the programme.

Increasing municipal borrowing

Most municipalities fund the majority of their operations from their own revenues. Well-run municipalities should finance infrastructure investment by borrowing against future revenues generated by that infrastructure. Over the past 10 years, however, the share of municipal capital budgets financed through borrowing has declined, from 24 per cent in 2008/09 to 15 per cent in 2017/18. The National Treasury recently reviewed the Municipal Borrowing Policy Framework. An update, to be published in 2019, will:

- Clarify the role of domestic and global development finance institutions. Lenders should be guided by an investment approach combining social outcomes and financial returns.
- Encourage a liquid secondary market in municipal debts.
- Allow project finance, revenue bonds and tax increment financing, and address pooled finance arrangements.

Updates to the Municipal Borrowing Policy Framework will be published in 2019

Limitations on municipal pledges of conditional grant funds have already been removed in line with the updated policy.

The National Treasury publishes a quarterly Municipal Borrowing Bulletin on its website.

Catalytic infrastructure projects to drive transformation of cities

Since 2015, metropolitan municipalities have identified integrated public land development programmes that will generate mixed-use, mixed-income living environments. Although significant public investment in infrastructure, including housing, is anticipated, the intention is to attract substantial contributions from the private sector over the long term. Taken together, the seven highest priority catalytic programmes in the metros are worth an estimated R32.6 billion.

Cornubia in eThekwini is launching its second phase and the Conradie Hospital Redevelopment in Cape Town has just begun construction. Programme preparation has also advanced in most metros, with detailed feasibility assessments under way for the Louis Botha Corridor in Johannesburg and the Bellville Waste Water Treatment Works in Cape Town.

The National Treasury continues to support programme preparation activities through guidelines, technical assistance and independent expert review services. However, progress has been slow due to institutional instability, changes in planning priorities and weak discipline in managing portfolios, programmes and projects.

Conclusion

Sustainable public services depend on efficient revenue collection, realistic budgeting and prudent expenditure

Government is working with provinces and municipalities to rebuild their capacity and improve service delivery. Each province and municipality is accountable for prioritising their resources appropriately and reducing wasteful spending. But government services will only be sustainable if revenue collection is efficient, if households that can afford to pay for services do so, if budgeting is realistic, and if each rand is wisely spent.