3

Local government budget trends

Introduction

Municipalities are responsible for providing basic household and suburban services, such as electricity, water, sanitation, refuse-removal, municipal roads, parks and recreational facilities, among other functions provided for in the Constitution. These services were traditionally fully provided to formerly advantaged communities under apartheid, but in large parts were not provided to formerly black townships and homelands. Where they were provided, this was done by national public entities like Eskom rather than by municipalities. Post-apartheid municipalities are now expected to expand their delivery of services to all residents, and to subsidise such services to poor households. This is the key delivery challenge facing the new municipalities.

Extending services to all residents, including the poor, is a challenge for municipalities

The local government sphere has undergone three major restructuring phases since 1993. Each has involved the creation of new municipalities, with new boundaries, as they moved from interim (1993) to transitional (1995) and to new (2000) municipalities. The numbers were reduced from 843 municipalities to 284 in December 2000. The new municipalities are of three types: one tier metropolitan (or category A) municipalities, two-tiered district (category C) and local (or category B) municipalities.

Municipalities have undergone three phases of transformation since 1993

These changes have affected the stability of municipalities. Staff, income, expenditure, assets, liabilities, plans and budgets all changed with the creation of the new municipalities in each of these phases. For this reason, it is not possible to cover past municipal budgets (before 2001-02). Even the current budgets are not strictly comparable, as functions continue to be shifted between district (category C) and local municipalities (category B). Systems of reporting differ and institutional arrangements also vary. Furthermore, the imminent restructuring on electricity distribution will impact on future municipal budgets, probably reducing them significantly, as electricity comprises around 33 per cent of municipal budgets. Given all the restructuring that has taken place, and is taking place, it is not

Comparative analysis complicated due to transition possible to provide a comprehensive analysis of all municipal budgets. Neither is the information between municipalities comparable, because of diverse budgeting and reporting systems, variations in internal methodologies, and institutional and organisational structures.

Local Government follows a different financial year from national and provincial governments, starting three months later, on 1 July. Hence the 2003 national budget transfers to the local sphere will only be allocated in the 2003-04 municipal budgets, to be tabled in May and June 2003. Although, three-year budgets are being introduced in municipalities, most municipalities currently only table one-year budgets.

For these reasons, this chapter and *Review* only cover 2002-03[1] municipal budgets, and provide information on 2003 national and provincial transfers to municipalities.

Key priorities include provision of free basic services

Key priorities for municipalities include expanding their capacity to provide services, particularly the free basic services policy that came into effect in July 2001. Other priorities include the stabilisation and consolidation of municipalities, modernising delivery, budgeting, and financial management systems; and improving revenue collection.

Given the impact of the restructuring of the electricity sector, the finalisation of functions between district and local municipalities, and the publication of Census 2001 results this year, national Government intends to undertake a comprehensive review of the local government fiscal system. The *Review* will table proposals for the future of RSC levies, and new formulae for national grants to municipalities for the 2004 Budget.

2003 Budget Review and the Division of Revenue Bill cover national grants to municipalities

This *Review* does not provide detailed information on national grants to municipalities since these are contained in the *2003 Budget Review* and the Division of Revenue Bill, including the formulae for such allocations. Apart from this chapter, local government issues are also covered in chapters 5, 8, 10, 11 and 12 which respectively cover health, roads and traffic management, personnel issues, water and electricity sectors. Detailed data on municipal budgets are contained in Annexure C4.

2002-03 Municipal budgets and trends

Two-thirds of municipal activity is self-funded

About two-thirds of municipal activity is self-funded, as municipalities generate revenue through user charges for the consumption of services such as electricity and water. The remaining third is for public goods and services like suburban and municipal infrastructure. These do not raise significant revenue, but are normally funded from rates and regional services council levies. This is in contrast to provinces, which have little revenue-raising capacity and

[1] Throughout this review, '2002-03' is used to cover the municipal financial year from 1 July 2002 to 30 June 2003. In contrast '2002/03' is used to cover the national and provincial financial year, from 1 April 2002 to 31 March 2003. Similarly for other financial years.

are totally dependent on national grants; 95 per cent of their activities are the provision of public goods such as school education, health, social grants and welfare services, housing and provincial roads.

2002-03 is the second year for new municipalities' budgets

The 2002-03 municipal budgets are the second budget for the new municipalities, since their establishment in December 2000. Their first budgets for 2001-02 were generally not prepared for a single consolidated municipality, but were merely the aggregation of various budgets for the incorporated parts of previous municipalities. Furthermore, the information for 2001-02 is budgeted information, rather than actual spending information, which is a better reflection of what transpired in that year but is not available at this stage. The 2002-03 budgets are the first consolidated and integrated budgets of the new municipalities.

These are based on the municipal budgets submitted to the National Treasury, and reflect close to 98 per cent of income and expenditure budgeted in the local sphere. Annexure C provides detailed information for metropolitan, and district/local consolidated, municipal budgets, regional services levies and other relevant statistics.

Municipal budgets

Budget increases by 15,7 per cent to R74,5 billion

Municipal capital and operating budgets are estimated to total R74,5 billion[2] in 2002-03, compared to R64,4 billion, in 2001-02, reflecting an increase of 15,7 per cent (budget-to-budget growth). Capital[3] budgets total R13,1 billion compared to R11,7 billion in the previous financial year, showing an increase of 12 per cent. Municipalities also budgeted R61,4 billion for operating income compared to R52,7 billion for the previous year, showing an increase of 16,5 per cent.

Six metros make up 62,7 per cent of local government spending

Table 3.1 provides information on the largest municipal budgets. These are the six metropolitan municipalities, and the biggest local (category B) municipal budgets. The three largest municipal budgets for 2002-03 are around R10,0 billion each, with Johannesburg at R11,0 billion, Cape Town at R9,8 billion and eThekwini (Durban) at R9,3 billion, followed by Ekurhuleni's (East Rand) budget at R8,1 billion, and Tshwane (Pretoria) at R6,1 billion. The metropolitan budgets total R46,7 billion, and the average per capita is R3 700, ranging from R4 161 in Johannesburg to R2 571 in Nelson Mandela (Port Elizabeth). The R46,7 billion total for the six metropolitan municipal budgets comprises 62,7 per cent of total local government budgets for 2002-03.

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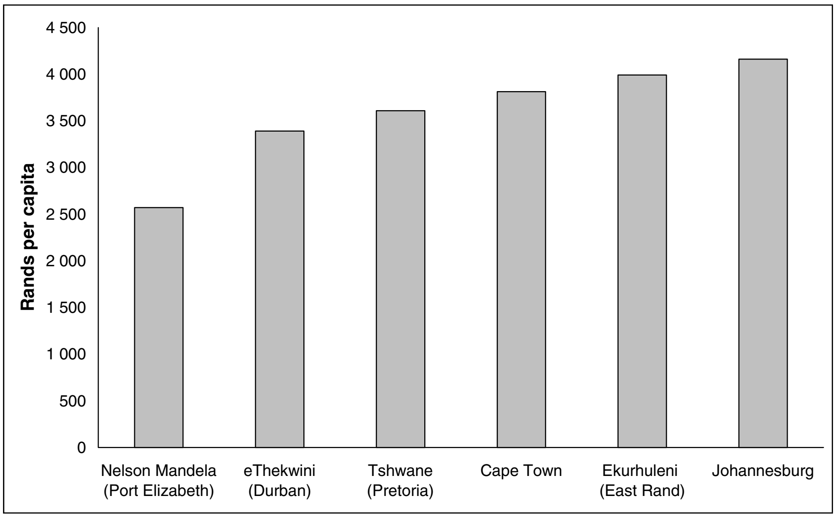
[3] The definition of 'capital' used is not the economic definition, as it includes maintenance budgets. Past practice included part of maintenance expenditure as capital.

Figure 3.1 Per capita budgets for metropolitan municipalities



Source: National Treasury local government database

The most significant local (category B) budgets are Buffalo City (East London), Mangaung (Bloemfontein) and Msunduzi (Pietermaritzburg) which are all around R1,2 billion. These are followed by Polokwane at R718,7 million, Rustenburg at R699,0 million and uMhlathuze (Richards Bay) at R616,8 million.

All other local and district municipalities have budgets below R500 million, with many lower than R100 million. For example, as reflected in Annexure C, of the 47 category C municipalities the largest operating budgets are Amatole at R452 million (transfers to category B municipalities over 80 per cent), Ugu at R295 million (transfer to category B's over 53 per cent), Ehlanzeni at R202 million (transfer to category B's over 75 per cent), and OR Tambo at R198 million (transfer to category B's over 66 per cent). The transfers from districts to category B municipalities consist predominantly of national capital grants flowing through district municipalities. The smallest district budgets are Namakwa at R15 million, Metsweding at R16 million, Xhariep at R18 million, and Sisonke at R19 million.

Difficult to compare budgets of category B and category C municipalities

The budgets of category B and C municipalities are difficult to compare, as they may vary in the division of functions between them. The budgeted per capita expenditure is also significantly lower than metropolitan areas, even for the larger category B municipalities, where the three largest are R3 297 (Stellenbosch), R3 145 (uMhlathuze) and R2 412 (Drakenstein). The three largest budget category B municipalities have lower per capita budgets of R1 934 (Buffalo City), R2 149 (Mangaung) and R2 242 (Msunduzi).

Table 3.1 Operating and capital budgets for a sample of municipalities

Municipality	Population	Total Budget (R'000)		Per Capita
		2001-02	2002-03	2002-03
Johannesburg	2 638 185	10 313 638	10 978 069	4 161
Cape Town	2 563 091	9 492 427	9 774 600	3 814
eThekwini (Durban)	2 753 479	7 920 258	9 335 727	3 391
Ekurhuleni (East Rand)	2 026 056	7 666 598	8 087 038	3 992
Tshwane (Pretoria)	1 682 144	5 436 214	6 070 661	3 609
Nelson Mandela (Port Elizabeth)	969 518	2 094 449	2 492 494	2 571
Sub total	**12 632 473**	**42 923 586**	**46 738 592**	**3 700**
Buffalo City (East London)	682 376	1 261 236	1 319 670	1 934
Mangaung (Bloemfontein)	603 528	1 065 399	1 297 021	2 149
Msunduzi (Pietermaritzburg)	524 937	1 110 528	1 176 940	2 242
Polokwane (Pietersburg)	424 835	535 994	718 747	1 692
Rustenburg	311 187	573 606	699 161	2 247
uMhlathuze (Richards Bay)	196 123	553 830	616 804	3 145
Drakenstein (Paarl)	186 149	371 124	448 966	2 412
Sol Plaatje (Kimberley)	204 186	430 480	438 264	2 146
Mbombela (Nelspruit)	425 503	374 429	437 475	1 028
Govan Mbeki (Highveld East)	209 626	369 053	355 475	1 696
Stellenbosch	103 719	270 517	342 009	3 297
Maluti-a-Phofung (Harrismith)	353 238	182 458	281 507	797
Mafikeng	242 146	193 500	169 170	699
Msukaligwa (Ermelo)	105 971	112 773	137 476	1 297
uMngeni (Howick)	69 742	65 551	82 834	1 188
Cederberg (Clanwilliam)	31 704	46 793	52 289	1 649
Engcobo	149 602	62 966	47 637	318
Musina (Messina)	33 061	30 528	33 180	1 004
Tokologo (Boshof)	26 767	17 630	30 966	1 157
Sub total	**4 884 400**	**7 628 403**	**8 685 599**	**1 778**
Total	**17 516 873**	**50 551 989**	**55 424 191**	**3 164**

Source: National Treasury Local Government Database.

Category B municipalities make up 30 per cent and district municipalities 4 per cent of total local government budgets

Table 3.2 reflects the budgets per category of municipality. Metropolitan councils make up around 64 per cent of total municipal budgets if it is assumed that there are over R2,2 billion in intra-municipal transfers. District or category C municipalities have a low budget share as their actual spending budgets are probably closer to R3,2 billion and that of local municipalities closer to R22,3 billion. Hence, local municipalities constitute 30 per cent of total local government budgets, and the district municipalities constitute only 4 per cent of total local government budgets. The low share of category C municipalities indicates that district municipalities currently provide relatively few services directly to residents. Consolidated district and local municipal budgets for 2002-03 are available in Annexure C.

Table 3.2 Budgets by category: 2002-03

R thousand	Operating Budget	Capital Budget	Total	As % of total: Operating Budget	As % of total: Capital Budget
Category A (Metros)	39 733	7 006	46 739	85,0%	15,0%
Category B (Locals)	17 386	4 976	22 363	77,7%	22,3%
Category C (Districts)	4 310	1 125	5 435	79,3%	20,7%
Total	**61 429**	**13 107**	**74 536**	**82,4%**	**17,6%**

Source: National Treasury Local Government Database.

Any shifts of the water and sanitation, refuse-removal and municipal health functions between district and local municipalities arising from the recent announcement[4] by national Government will only take effect for the 2003-04 municipal budgets. It is not clear to what extent the new arrangements for the division of functions will affect the budgets of district and local municipalities.

Five-year trend in municipal budgets

Table 3.3 sets out consolidated expenditure budgets for municipalities spanning five years from 1998-99 to 2002-03. Over the past five years, municipal expenditure budgets have grown from R54,8 billion in 1998-99 to R74,5 billion in 2002-03. The greatest year-on-year increase of 15,7 per cent is between 2001-02 and 2002-03. Disaggregated, budgeted operating expenditure has grown by 16,5 per cent and budgeted capital expenditure by 12 per cent above the 2001-02 levels, reflecting local Government's objective to address backlogs and service coverage.

Table 3.3 Consolidated municipal expenditure budgets

R billion	98-99	99-00	% change	00-01	% change	01-02	% change	02-03	% change	% of operating budget
Salaries	12,8	13,8	7,8%	15,9	15,2%	17,9	12,6%	19,8	10,6%	32,2%
Bulk services	12,8	13,8	7,8%	14,9	8,0%	13,7	9,0%	15,3	11,7%	24,9%
Other	15,6	16,9	8,3%	17,3	2,4%	21,1	17,3%	29,3	38,9%	47,8%
Operating budget	41,1	44,4	8,0%	48,1	8,3%	52,7	9,6%	61,4	16,5%	
Capital budget	13,7	13,7	0,0%	13,7	0,0%	11,7	-14,6%	13,1	12,0%	
Total	**54,8**	**58,1**	**6,0%**	**61,8**	**6,4%**	**64,4**	**4,2%**	**74,5**	**15,7%**	

Source: National Treasury Local Government Database

Operating expenditure

Municipalities on average use up to 32 per cent of their operating income to finance personnel costs

Salaries take up the largest share of municipal budgets, totalling R19,8 billion in 2002-03, or 32 per cent of operating income. This aspect of municipal spending needs intensive scrutiny and more transparency. Chapter 10 raises some of the necessary reforms on personnel matters.

[4] Refer to Gazette no. 24228 published on 3 January 2003 by the Minister of Provincial and Local Government.

Share of personnel spending is of concern

If the cost of bulk electricity and water purchases and intra-municipal transfers are excluded, then this share of personnel may be as high as 45 per cent in aggregate. This item has also increased rapidly in the past two years, rising at 15,2 per cent in 2000-01 and 12,6 per cent in 2001-02. It is budgeted to rise at 10,6 per cent in the current year over the previous year's figure of R17,9 billion. These marked increases are in spite of the fact that the number of employees has not increased since the new demarcations in 2000. Rather, they probably reflect the cost of amalgamation, which has tended to place upward pressure on wages and salaries to the highest level, without corresponding improvements in productivity or expansion in service delivery.

Total operating budgets for municipalities amount to R61,4 billion for the 2002-03 municipal year. Table 3.3 also shows that a total of R15,3 billion was budgeted for expenditure for bulk purchases of electricity and water. Moreover, a total of R29,3 billion was budgeted for the 'other' component, which includes repairs and maintenance, general expenditure, interest and redemption of loans and provisions for under-collection of revenue of the municipal operating budget for the year 2002-03. Collectively, the 'other' component constitutes 47,8 per cent of the total 2002-03 budget. This amount represents a substantial percentage increase of 38,9 per cent over the previous year's figure of R21,1 billion.

Table 3.4 Operating expenditure budget by function: 2002-03

	Johannesburg		Ekurhuleni		Tshwane	
R million		**%**		**%**		**%**
Electricity	2 856	25,9%	2 331	31,7%	1 716	33,1%
Finance & Admin	2 718	24,6%	1 196	0	719	13,9%
Water	2 246	20,4%	1 332	18,1%	782	15,1%
Public Safety	673	6,1%	502	6,8%	400	7,7%
Road Transport	584	5,3%	595	8,1%	445	8,6%
Waste Management	483	4,4%	461	6,3%	274	5,3%
Executive & Council	390	3,5%	62	0,8%	115	2,2%
Other	270	2,4%	19	0,3%	80	1,5%
Health	191	1,7%	257	3,5%	122	2,3%
Housing	189	1,7%	93	1,3%	66	1,3%
Sport & Recreation	155	1,4%	327	4,4%	226	4,4%
Community & Social Services	142	1,3%	97	1,3%	102	2,0%
Planning and Development	137	1,2%	82	1,1%	137	2,7%
Environmental Protection	-	0,0%	4	0,1%	-	0,0%
Total	**11 036**	**100,0%**	**7 360**	**100,0%**	**5 182**	**100,0%**

The operating budget of Jhb incl. R1, 3bn transfers between the city and its entities.

Source: National Treasury Local Government Database.

Capital expenditure and revenue

Actual spending on capital is less than budgeted, due to poor planning

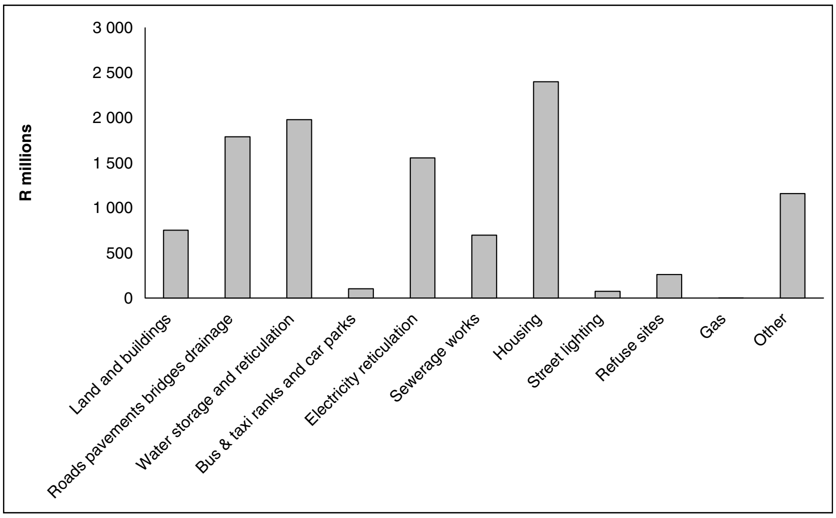
While the budgeted allocations for capital for 2001-02 have grown from R11,7 billion to R13,1 billion in 2002-03[5], past performance indicates that actual capital expenditure is less than budgeted. The

[5] There is some double counting in capital budgets due to intra-municipal transfers from districts to local municipalities. Current municipal infrastructure grants like the CMIP take up a large portion of such transfers.

main reason for this is that many municipalities prepare one-year capital budgets, have poor cash-flow and implementation plans, and only secure funding sources after the tabling of the budget. This delay often causes under-spending, lack of implementation and delayed service delivery.

For 2002-03, 82 per cent of the R13,1 billion capital budget is for general infrastructure, 11 per cent for other assets, 6 per cent for community infrastructure and 1 per cent for specialised vehicles. Figure 3.2 demonstrates that the largest proportion of general infrastructure expenditure is earmarked for housing, water reservoirs and reticulation, roads, bridges and pavements, electricity distribution. Annexure C provides more detailed tables on these components.

Figure 3.2 Total budgeted expenditure on infrastructure



Source: National Treasury local government database

Electricity makes up largest portion of local budgets, followed by water and sanitation

Table 3.4 shows a sample of municipal operational budgeted expenditure by function for 2002-03. The electricity distribution function makes up the largest share of expenditure, and accounts for over 30 per cent in Tshwane and Ekurhuleni municipalities, and just over 25 per cent for the City of Johannesburg. Water and sanitation is the next largest area of expenditure, comprising 15 and 18 per cent in the case of Tshwane and Ekurhuleni municipalities, respectively. Most of the other functions fall below the 10 per cent range. Further reforms through the financial management pilot programme will improve on the apportioning of activity and costs for functions.

Table 3.5 Consolidated capital income budgets

R million	2001-02	2002-03	%
National transfers	3 947	5 160	30,7%
Internal advances, contributions from revenue, public contributions	4 935	4 908	-0,6%
Other Financing, provincial contributions	1 166	1 361	16,7%
External loans	1 725	1 692	-1,9%
Total	**11 773**	**13 120**	**11,4%**

Source: National Treasury Local Government Database.

Table 3.5 shows that revenue for capital expenditure is derived from national and provincial allocations in the region of 39 per cent of the budgeted local government capital funding requirement of R13,1 billion. The secondary category of funding (internal advances, contributions from revenue, and public contributions) and the balance (other financing sources, donor funding, borrowing, provincial contributions) are not reported in detail. These figures are for the municipal financial year.

National and provincial governments allocate 39 per cent for municipal infrastructure

Operating revenue

The largest share of operating revenue is derived from user charges, mainly from electricity and water, totalling R28 billion or 45 per cent. Property rates make up 20,2 per cent of operating revenue, and Regional Service Council (RSC) levies on business make up a further 7,1 per cent or R4,4 billion. The remaining R16,7 billion is budgeted to come from refuse removal, grants, subsidies, tariffs, fines and other user charges.

Breakdown of major sources of operating revenues places user charges on top

Table 3.6 Consolidated operating income budgets

R billion	2001-02	2002-03	% Change
Property Tax	11,5	12,5	8,6%
Bulk Services	25,0	28,0	12,0%
RSC levies	3,9	4,4	12,8%
Intergovernmental grants	3,6	6,7	86,1%
Other	10,3	10,0	-0,1%
Total	**54,3**	**61,6**	**13,4%**

Source: National Treasury Local Government Database.

Property taxes

Table 3.6 shows that budgeted income from property rates increases by 8,6 per cent over the previous year's income of R11,5 billion, while the income from user charges increases by 12 per cent from the previous year, to R28 billion. These large increases have a dampening effect on economic growth, local sustainability and fuel inflation.

Table 3.7 Property tax by category

R billion	2001-2002	2002-2003
Metros (Category A)	8,1	8,9
Local (Category B)	3,4	3,6
Total	**11,5**	**12,5**

Source: National Treasury Local Government Database.

Table 3.7 illustrates that the metropolitan municipalities raise over 71 per cent of the R12,5 billion in property taxes. Local or category B municipalities raise the remainder, as district or category C municipalities do not have the power to impose property taxes. Property tax revenues have shown a steady increase over the past three years in most provinces, despite moderate economic growth.

Substantial proportion of property tax revenue comes from the metros

User charges

Electricity and water functions not strictly ring-fenced and do not take account of overhead costs

These are charges raised by municipalities for services rendered predominantly for electricity, water and sanitation and refuse-collection. Following the discussion from Table 3.6, the increase in user charges compared to 2001-02 is 12 per cent, and indicates the effect of implementing free basic services. The electricity and water functions are not strictly ring-fenced and do not take account of overhead costs, such as salaries and administration, repairs and maintenance, capital charges on interest and redemption of loans. These functions generate income of R28,0 billion and incur bulk costs of electricity and water in the region of R15,4 billion. Municipal accounting systems are in the process of being reformed. Information from pilot municipalities is detailed in the chapters on electricity and water. Indications are that these trading services generate surpluses for municipalities, to use for funding or subsidising other municipal activities. A major issue facing municipalities is the high level of water and electricity losses. This will be discussed in chapters 11 and 12.

Regional service levies

These levies are raised on business and based on turnover and wages. The six metropolitan areas account for over 68 per cent of all regional service levies budgeted for 2002-03, as shown in Table 3.8. Regional services levy income also increases significantly by 13 per cent over the previous year's figure of R3,9 billion.

Table 3.8 Revenues from RSC levies: 1998-99 – 2002-03

District councils R million	1998-99	1999-00	2000-01	2001-02	2002-03
Eastern Cape	212	217	223	121	135
Free State	136	142	148	165	171
Gauteng	366	367	368	146	171
KwaZulu-Natal	181	189	198	203	186
Limpopo	73	84	84	90	111
Mpumalanga	187	202	217	248	282
Northern Cape	142	140	140	62	54
North West	52	55	55	126	154
Western Cape	119	126	132	143	155
Sub total	**1 469**	**1 521**	**1 567**	**1 303**	**1 419**
growth		*3,6%*	*3,0%*	*-16,9%*	*8,9%*
Metro's					
Eastern Cape	–	–	–	142	149
Gauteng	1 092	1 095	1 098	1 692	1 876
KwaZulu-Natal	247	270	283	210	323
Western Cape	475	500	527	562	654
Sub total	**1 814**	**1 865**	**1 908**	**2 606**	**3 001**
growth		*2,8%*	*2,3%*	*36,6%*	*15,2%*
Total	**3 283**	**3 386**	**3 474**	**3 908**	**4 421**
growth		*3,1%*	*2,6%*	*12,5%*	*13,1%*

Source: National Treasury Local Government Database.

Table 3.8 shows that 32 per cent of levies are collected by 47 districts and 68 per cent by the six metropolitan municipalities. RSC levy income has also risen sharply in metropolitan areas in 2001-02 and 2002-03, largely due to stepped-up levy collection efforts in Johannesburg, Cape Town and eThekwini.

Metros account for 68 per cent of RSC Revenues

Grants and 'Other'

Intergovernmental grants for recurrent purposes also increase significantly compared to 2001-02. The last category of funding – 'Other' –is significant, and includes items such as traffic fines, rental of housing stock, interest on investments and outstanding payment for services, refuse-removal and the use of previous years' surplus funds. However, this area is not well reported on by municipalities.

Intergovernmental grants to local Government

National allocations

The 2002-03 municipal budgets indicate the growing importance of national allocations for municipal budgets. Their contribution has grown and the latest estimates indicate that national transfers comprise about 17 per cent of local government revenue. For poorer municipalities the share is much higher, typically making up to 60 per cent of their total revenues. The significant increase in such transfers in 2002/03 is expected to lead to real increases in the 2003-04 municipal budgets.

National allocations comprise 17 per cent of local revenue on average, but over 50 per cent in rural municipalities

There has been a steady but significant real growth in national allocations since 1998/99, doubling from R4,4 billion to R8,8 billion in 2002/03. Table 3.9 shows the allocations increasing substantially in the 2002/03 budget, rising to R12,0 billion in 2003/04 and to R14,6 billion in 2005/06. This shows an increase of 18,9 per cent in nominal terms or 12,2 per cent in real terms over the next three years. These figures are for the national financial year.

The strongest growth is experienced by the equitable share as it increased by 19,2 per cent in nominal terms from R1,9 billion in 1998/99 to R3,9 billion in 2002/03. It is expected to experience even more robust growth over the medium term as it is set to increase by 24,8 per cent in nominal terms and 18,3 per cent in real terms, from R3,9 billion in 2002/03 to R7,7 billion in 2005/06.

Equitable share outpaces conditional grants

In the 1998/99 financial year, the unconditional equitable share portion of transfers to local Government comprised 44 per cent of total transfers. The unconditional share in 2003/04 has risen to 53 per cent, reflecting the move towards discretion at the local level.

Table 3.9 National transfers to local government

R million	2002/03	2003/04	2004/05	2005/06
Equitable share	3 964	6 343	7 078	7 698
Transition grant	223	–	–	–
Water and sanitation operating	700	836	858	934
Subtotal equitable share and related	**4 887**	**7 180**	**7 936**	**8 633**
Consolidated Municipal Infrastructure Programme	1 671	2 246	2 724	3 016
Water Services Project	999	1 102	948	1 037
Community Based Public Works Programme	260	260	–	–
Local Economic Development Fund	111	117	–	–
Sport & Recreation facilities	76	123	–	–
National Electrification Programme	228	240	245	258
Urban Transport Fund	40	9	–	–
Integrated Sustainable Rural Development	32	–	–	–
Municipal Infrastructure Grant	–	47	117	97
Unallocated[1]	–	–	555	588
Subtotal capital	**3 416**	**4 144**	**4 588**	**4 996**
Restructuring grant	250	315	343	363
Financial management grant	154	212	199	208
Municipal Systems Improvement	94	150	182	423
Subtotal capacity building and restructuring	**498**	**677**	**724**	**995**
Total transfers to local government	**8 801**	**12 001**	**13 249**	**14 624**

1. Poverty relief allocations in 2004/05 and 2005/06 are subject to a Cabinet review .

Source: Division of Revenue Bill 2003.

Table 3.9 further disaggregates each category of grant. Included in the equitable share and related components, are operating subsidies for water and sanitation services transferred via the Department of Water Affairs and Forestry to predominantly rural jurisdictions.

Stronger movement towards grant consolidation in the medium term

The next category relates to infrastructure allocations. The largest portion is the Consolidated Municipal Infrastructure Programme (CMIP) which flows through the Department of Provincial and Local Government. The next largest grant flows from the Department of Water Affairs and Forestry, the National Electrification Programme (managed by the Department of Minerals and Energy), the Local Economic Development Fund, the Community Based Public Works Programme and the Building for Sports and Recreation programme. In the medium term, the different grants are to be phased into a single grant programme, the Municipal Infrastructure Grant (MIG).

The third category provides for capacity-building initiatives, in line with Government's capacity building strategy, and to give effect to skills development in planning, budgeting and financial management, and technical skills. For example, Government has commenced with piloting budgeting and financial management reforms in 39 municipalities. A large portion of this component deals with restructuring assistance to municipalities.

Equitable share

Equitable share formula enables local Government to provide basic services

The equitable share formula was first introduced in 1998 in line with section 214 of the Constitution, to enable the local sphere of Government to provide basic services and to perform functions assigned to it. The formula is based on six component parts. The major window is the S component, which targets households with expenditure of less than R1 100 per month. Annexure E of the *2003 Budget Review* and the 2003 Division of Revenue Bill provide more information on the formula, and the allocations per municipality for the 2003 Budget.

Major challenge facing municipalities is to ensure proper usage and targeting of equitable share

The shift in functions between category B and C municipalities has necessitated small adjustments to the formula for the 2003 Budget. The overall S grant of the formula is now split up as follows: 23,3 per cent water supply, 41,9 per cent electricity supply, 11,6 per cent sanitation services, and 23,3 per cent refuse removal. As a result, the portion of the equitable share allocated to category C municipalities increases to about 17 per cent in 2003/04, with a corresponding decline in the category B municipalities' share. The share for the category A municipalities remains unchanged at 20 per cent in 2003/04 as they are not affected by the shift in municipal powers and functions. The major challenge facing municipalities is to ensure proper usage and targeting of the equitable share to give effect to the policy intent. Clear and transparent reporting will ensure that funds are spent on the intended purpose.

Provincial transfers

Allocations from provinces to municipalities shown for the first time

Table 3.10 shows the allocations from provinces to municipalities for the period 2000/01 to 2005/06. The 2003 provincial budgets provide this information for the first time. The upside for municipalities is that provincial allocations as well as national allocations are available for multi-year allocations. This move signals the policy intent where the total transfers to municipalities will be known much earlier in the budget process.

Table 3.10 Transfers from provinicial budgets to municipalities

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	*Average annual*	
	Actual	Actual	Estimated	Medium-term estimates			*2002/03-*	*2002/03-*
R million			actual				*2003/04*	*2005/06*
Eastern Cape	128	219	328	356	377	350	*8,5%*	*2,2%*
Free State	59	61	336	254	236	91	*-24,4%*	*-35,3%*
Gauteng	392	435	670	755	692	579	*12,7%*	*-4,7%*
KwaZulu-Natal	139	129	121	138	155	88	*14,0%*	*-10.1%*
Limpopo	7	5	432	451	394	396	*4,4%*	*-2.9%*
Mpumalanga	–	–	–	61	61	66	–	–
Northern Cape	1	5	6	49	54	55	*716,7%*	*109,3%*
North West	76	66	80	50	49	31	*-37,5%*	*-27,1%*
Western Cape	300	269	304	296	302	309	*-2,6%*	*0,5%*
Total	**1 102**	**1 189**	**2 277**	**2 410**	**2 320**	**1 965**	***5,8%***	***-4.8%***

Source: Provincial budget statements 2003.

Distribution of grants to local Government

This section analyses the distribution per household of the equitable share and infrastructure grants.

National support to municipalities amounts to R300 per person on average and targets the poor

The total support provided to local Government in the 2003/04 financial year amounts to just under R300 per person. Since many of the services supplied by municipalities take the 'household' as the basic unit, this allocation translates into an average annual allocation of around R1 200 per household. Since municipalities direct these grants to poor households, this means that an even larger allocation is provided per poor household, at around R3 700 per poor household.

Table 3.11 shows backlogs and per capita allocations for a sample set of municipalities. The metropolitan municipalities all receive considerably less than R300 per capita, with Cape Town at the low end, receiving R116 per capita, and Nelson Mandela receiving R223,84. One reason for this lower allocation is that the equitable share, which accounts for a substantial portion of the overall transfers, has a poverty-targeting component, and metropolitan areas have a smaller poverty count than many of the rural areas.

To facilitate comparability with category A municipalities, the equitable share allocations have been adjusted for the powers and functions assigned to B and C municipalities. Some B municipalities will be receiving smaller grants because of these shifts as they now carry out fewer functions. Since category B and C municipalities service the same area, all allocations to that category C municipality must be consolidated with all the category B municipalities in that district in order to compare with category A municipalities.

Analysis of per capita allocations

For example, in municipalities like Engcobo or Ulundi, only 37 per cent and 34 per cent respectively of the transfers go directly to the category B municipality. A further substantial indirect subsidy and other infrastructure subsidies flow to category C municipalities.

Another way of analysing the impact of these subsidies is to compare them with different measures of backlogs. Three available measures of backlogs are: the number of households without flush or chemical toilets; the number of households without piped water in their dwelling or on site; and the number of households without electricity. Since the source of the information is the 1996 census, these measures may be substantially overstated, since it does not take into account delivery since that period.

Table 3.11 indicates that there is considerable variation between municipalities in how much each receives through the various flows of funds. The total per capita allocations to the category B municipalities - directly and through the district - are substantially higher than those of the metros.

Table 3.11 Backlogs and per capita allocations

	Backlogs			Per capita allocations				
Municipality	flush/ chem toilet number	tap in dwelling / on site number	electricity number	Total infra-structure R/c	Total Recurrent R/c	Total Indirect R/c	Total equitable share R/c	Total grants R/c
Cape Town	1 883	1 925	1 529	51,46	1,37	1,63	62,42	116,88
Nelson Mandela	1 741	1 767	976	66,24	3,61	–	153,99	223,84
eThekweni	668	794	890	54,88	1,45	0,73	134,54	191,60
Ekurhuleni	970	985	629	42,73	1,73	0,15	95,00	139,61
Johannesburg	1 344	1 299	1 227	51,34	1,33	2,05	90,50	145,22
% coming direct				70,3%	58,7%	0,0%	94,5%	27,6
Sol Plaatje	2 746	4 628	2 234	86,82	9,80	–	131,66	228,27
via/ incl district	3 353	5 650	2 728	19,18	15,06	15,67	5,46	55,37
total				106,00	24,85	15,67	137,12	283,64
% direct transfers				81,9%	39,4%	0,0%	96,0%	80,5%
Buffalo City	1 043	876	623	73,62	4,40	8,35	274,27	360,64
via/ incl district	1 946	1 635	1 163	63,76	3,38	54,03	40,40	161,56
total				137,37	7,77	62,38	314,67	522,20
% direct transfers				53,6%	56,5%	13,4%	87,2%	69,1%
Engcobo	9	9	9	1,67	–	–	172,00	173,67
via/ incl district	646	653	668	122,75	5,83	65,3	95,67	289,54
total				124,42	5,83	65,3	267,67	463,22
% direct transfers				1,3%	–	0,0%	64,3%	37,5%
Mangaung	570	837	745	73,36	77,88	1,66	330,74	483,63
via/ incl district	666	979	871	12,46	3,68	28,40	1,06	45,61
total				85,83	81,56	30,06	331,79	529,24
% direct transfers				85,5%	95,5%	5,5%	99,7%	91,4%
Msunduzi	341	408	608	36,88	81,91	–	142,97	261,76
via/ incl district	658	788	1 175	34,34	6,36	91,30	24,65	156,65
total				71,22	88,27	91,3	167,62	418,41
% direct transfers				51,8%	92,8%	0,0%	85,3%	62,6%
Ulundi	133	142	148	19,06	–	–	88,83	107,89
via/ incl district	768	819	857	91,22	5,79	67,61	49,79	214,42
total				110,28	5,79	67,61	138,62	322,31
% direct transfers				17,3%	–	0,0%	64,1%	33,5%

Source: Flush/chem toilet, tap in dwelling / on site and electricity numbers (Census 1996), Transfers (Division of Revenue Bill 2003).

Municipal borrowing

Good financial argument for long-term borrowing

Municipalities need to address backlogs in infrastructure in order to provide basic services. Given that a large portion of municipal infrastructure has the potential to generate revenue, there is a strong economic argument to finance such capital expenditure through long-term borrowing, in order to accelerate the pace of delivery. This option allows the financing of expensive and bulky assets to be spread over the useful life of the assets. The beneficiaries of these assets often straddle generations and hence the burden of repayment should be spread equally over the consumption period and not on current consumers.

Although borrowing from the private sector continues to be an attractive option for financing infrastructure, it remains largely untapped. The municipal borrowing market has remained stagnant since 1994. At the end of December 2002, the total outstanding borrowing by municipalities amounted to R20,2 billion, marginally up by R300 million from a year earlier. The municipal borrowing market is also currently concentrated among a few lenders and larger urban municipalities. The main source of public sector credit to municipalities is sourced from the Development Bank of Southern Africa (DBSA) and amounts to R7 billion.

Steps taken to facilitate municipal borrowing

National Government is strongly committed to the development of a strong municipal borrowing market, and has taken a number of steps to facilitate borrowing. The main reasons for the stagnant municipal borrowing market are the transition process and uncertainty in:

- the legal framework particularly in relation to recourse in the event of defaults
- finalising municipal boundaries and shifting of functions
- national allocations
- capital planning and spending capacity of municipalities.

Steps taken by national Government to reduce this uncertainty include:

- the enactment of Constitutional amendments and the finalisation of the Municipal Finance Management Bill
- completion of the demarcation process in 2000, and the gazetting on 3 January 2003 of powers and functions between category B and C municipalities
- early publication of all national and provincial allocations for a three-year period
- piloting of reforms to modernise budgeting and financial management (including multi-year budgets), and the extension of the pilot programme to all other municipalities.

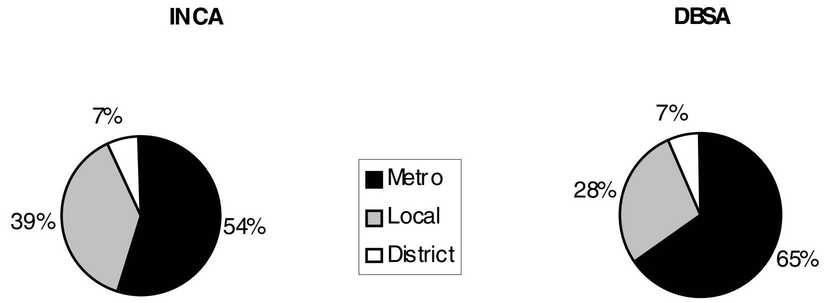
Two major players in the local government market

Private sector credit currently at R12 billion accounts for 60 per cent of municipal borrowings, primarily provided by commercial banks and the Infrastructure Finance Corporation (INCA). Together, these institutions account for 79 per cent of the private sector market. Insurance and pension funds, which used to account for 35,3 per cent of private sector lending to municipalities in 1997, now account for a mere 2,5 per cent of private sector lending.

Securities used to be the main instrument of municipal borrowing. The DBSA increased its market share through mainly granting long-term loans to municipalities. As a result, securities declined from 68,3 per cent to 35,9 per cent in March 1997 to December 2002. The absence of tradable municipal securities does pose a challenge to the development of a municipal bond market.

INCA and DBSA

The Infrastructure Finance Corporation (INCA) is a private sector lender and the Development Bank of Southern Africa (DBSA) is a public sector lender. Both institutions lend to municipalities and other infrastructure service providers. Together these institutions' exposure to the municipal sector exceeds R10 billion. Their portfolios, reflected as a proportion of lending to local government, show that INCA provides a larger share to non-metropolitan areas at 39 per cent, while the DBSA has a larger share of its lending to metropolitan municipalities at 65 per cent.



Source: INCA and DBSA (2003)

39 municipalities make up 70 per cent of the market

In a sample survey of pilot municipalities, as Table 3.12 shows, it was found that over R14 billion or 70 per cent of total municipal borrowing, estimated at R20 billion, is in 39 municipalities. Category A municipalities account for 93,4 per cent, category B municipalities for 6 per cent and category C municipalities a negligible percentage, with only five municipalities reporting having credit.

Table 3.12 Borrowings by category – pilot municipalities

R million	Current Borrowings	Planned Borrowings	No. of Municipal Credit Ratings
Category A (Metros)	13 236	1 000	4
Category B (Local)	851	223	1
Category C (Districts)	80	13	–
Total	**14 167**	**1 236**	**5**

Source: National Treasury survey.

Key budgetary challenges

The following section provides a discussion and analysis of key budgetary challenges that relate to revenue collection, leakage in service delivery, the need for improvement in financial management and quality of reporting.

Revenue collection and outstanding debtors

Accumulated municipal debtor balances rise annually by about R1,8 billion

Recent surveys by the Department of Provincial and Local Government have raised the issue of revenue collection by municipalities. The most recent reports suggest that municipalities have accumulated R24,3 billion in outstanding debtor balances or unpaid consumer bills. This accumulation over the recent past represents approximately 10 per cent of the total operating budgets for the last five years. Annually, municipal accumulated debtor balances rises by about R1,8 billion, representing 3 per cent of the total annual expenditure of municipalities.

Table 3.13 provides a national aggregate of outstanding consumer debtors broken down by province and category of municipalities for June 2002. Data for a later period is still being consolidated.

Table 3.13 Outstanding consumer debtors

R thousands	Category A (Metros)	Category B (Locals)	Category C (Districts)	Total
Eastern Cape	845 688	952 584	1 576	1 799 848
Free State	–	1 800 980	–	1 800 980
Gauteng	10 737 100	1 450 080	–	12 187 180
KwaZulu-Natal	1 832 880	1 169 430	53 834	3 056 144
Limpopo	–	331 470	–	331 470
Mpumalanga	–	800 283	–	800 283
Northern Cape	–	539 929	13 689	553 618
North West	–	917 960	5 460	923 420
Western Cape	1 699 250	625 174	9 911	2 334 335
Total	**15 114 918**	**8 587 890**	**84 470**	**23 787 278**

Source: DPLG project viability report.

Of the total outstanding consumer debtors, R15 billion (63,5 per cent) is owed to metropolitan municipalities, R8 billion is owed to municipalities in Free State, Gauteng and KwaZulu-Natal and a smaller proportion to district municipalities because their main source of revenue is transfers and regional levies.

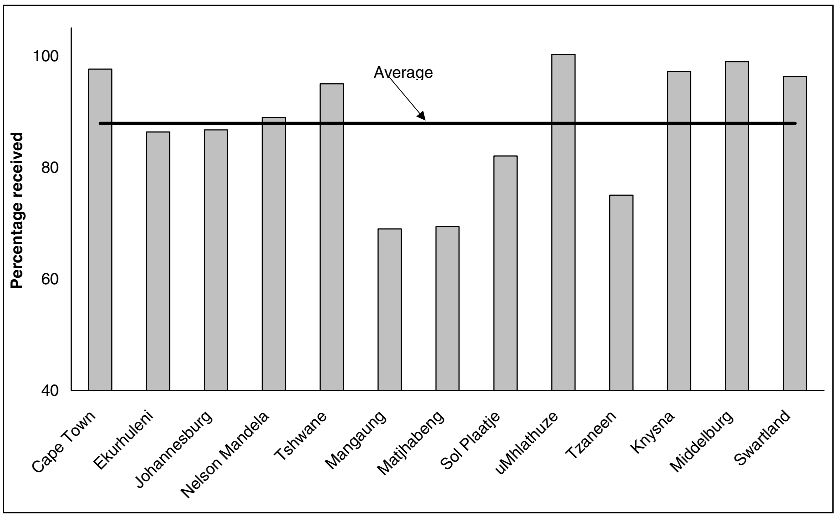
Many municipalities over-optimistic about poor households' ability to pay for basic services

The reports on outstanding payments to municipalities must be assessed in their proper context. Many municipalities have tended to budget for 100 per cent payment on all billings, and have tended to be over-optimistic about the ability of poor households to pay for basic services. In addition, the current reporting system does not differentiate between unrealistic billings, poor planning (on what revenue can be collected from poor households), acceptable levels of bad debt, and poor collection systems.

Holistic approach needed to address revenue collection

A holistic approach is required to address current problems. This includes improvements in customer care, accurate and timely billings, cleansing of internal systems, appropriate write-offs and the provision of appropriate levels of service. The new budget and accounting reforms being piloted, will correct some of these problems. These reforms must be supported by an appropriate and more effective indigent policy. Many municipalities have also taken appropriate steps to extend a minimum level of service to poor households, and provide free basic services. Some of the metropolitan municipalities now exempt property valued up to a certain level (for example, R20 000 in Johannesburg and R50 000 in Cape Town). Once municipalities are able to target poor households, they will be free to pursue more vigorously higher income households and businesses refusing to pay for rates and services.

Figure 3.3 Revenue collection in selected municipalities 2001-02

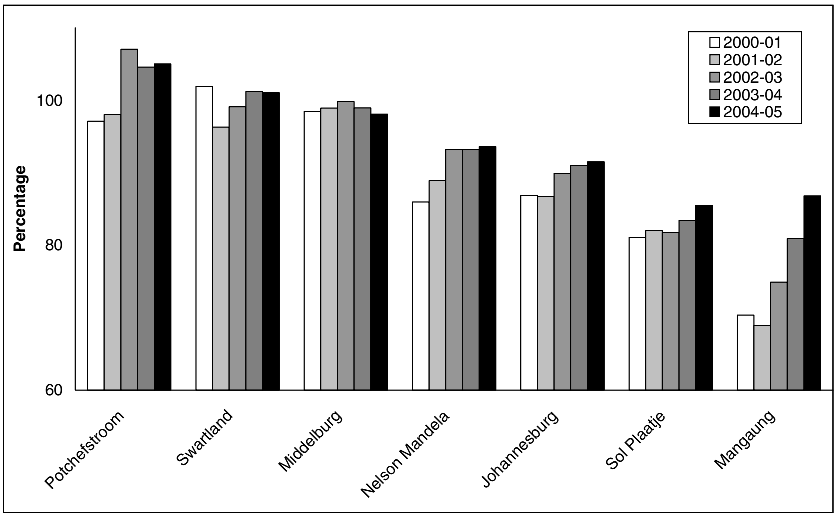


Source: National Treasury survey

Figures 3.3 and 3.4 demonstrate collection levels reported for a sample of municipalities. Only metropolitan and local municipalities are reflected, as district municipalities do not have significant amounts of outstanding debtors due to the nature of their functions. This is likely to change with the shifts in powers and functions. Figure 3.3 shows collection levels for 2001-02 reported by 13 municipalities. Seven municipalities show collection levels of below 90 per cent and of those, two are actually below 70 per cent.

Figure 3.4 shows trends in collection levels for seven municipalities. Some municipalities do not appear to be adequately tackling this challenge, as four municipalities still plan to be collecting less than 95 per cent in 2004-05.

Figure 3.4 Revenue collection in selected municipalities



Source: National Treasury survey

Eskom also has difficulty in collecting revenue

The problem of non-payment does not only affect municipalities but also public entities. Reports of Eskom's proposal to write-off its arrears will put pressure on municipalities to do likewise. It is therefore important that such write-offs be coordinated between organs of state.

Water and electricity leakages

Municipalities need to reduce technical and other losses in water and electricity distribution functions

As important as improving revenue collection systems, is the need for municipalities to reduce the technical and other losses in their water and electricity distribution functions. Some of these arise from disparities between purchased and billed services while others through criminal conduct. Project viability information suggests that water losses for Msunduzi and Matjhabeng municipalities amount to over 40 per cent of water purchased. This is similar to losses experienced in Johannesburg, and higher than the 18 per cent loss in Cape Town. For electricity, Johannesburg estimates its loss at 18 per cent, Cape Town at 7 per cent and Sol Plaatje municipality at 16 per cent .The chapters on water and electricity discuss related issues in more detail.

Water loss in Johannesburg Metro

In preparing its budget, Johannesburg Metro estimated its unaccounted for water as follows: (Unaccounted for water is defined as the difference between water purchased and water billed to consumers.)

	Ml/ pa	Percent
Physical losses:	62 128	17,0
Not billed – informal areas:	7 314	2,0
Not billed – data errors:	31 084	8,5
Illegal connections:	9 142	2,5
Incorrect capturing:	12 799	3,5
Underestimation of billing:	27 793	7,6
Total unaccounted for water :		42

This table shows that 42 per cent of water purchased is unaccounted and suggests that a concentrated effort in this area could yield substantial savings that could be used to increase service levels. The loss may also be divided between unpaid losses and technical losses.

Source: City of Johannesburg

Audits and Annual reports

Lack of timely financial reporting

A critical problem facing municipalities is the failure by a significant number of municipalities to submit their financial statements on time (or at all) and the high number of qualified opinions by the Auditor-General. Table 3.14 provides the latest information on municipal financial statements as at 30 September 2002 supplied by the Auditor-General. The information shows that 38 municipalities or 5 per cent, and 236 municipalities or 77 per cent of financial statements for municipal financial years 2000-01 and 2001-02, respectively, were still outstanding. The table also shows the low proportion of audits that were not qualified – 29 per cent of the 543 audits that were issued with financial statements. This means that of the 543 audits issued, an overwhelming 71 per cent were qualified, disclaimed or have audit opinions outstanding.

Table 3.14 Status report from the Auditor-General

Number	2000-01	2001-02
Municipalities	843	284
Audits to be performed	777	306
Financial statements yet to be submitted 30/09/2002	38	236
Audit reports issued with financial statements	543	unknown
Audit reports not qualified	159	unknown
Either qualified / disclaimed / opinion outstanding	384	unknown

* *Difference between 777 and 843 audits is ascribed to TRC's audits as part of District Councils.*

** *Difference between 306 and 284 audits is ascribed to TRC's reporting separately.*

*** *Number of municipalities reduced from 843 to 284 due to new demarcations in 2000.*

Source: Office of the Auditor-General.

Provincial governments and legislatures have the constitutional responsibility to monitor and oversee that municipalities are fulfilling their executive obligations. It is not clear what action is taken by provinces when municipalities fail to submit their financial statements, or fail to take corrective steps after receiving a qualified audit opinion.

Significant delays are experienced in finalising financial statements

Information from a survey of 31 municipalities suggests that there are significant delays at the initial stages of submitting financial statements. For example, Rustenberg, Swartland, Matjhabeng and OR Tambo municipalities all submitted 2000-01 financial statements by the second half of 2002 – more than 12 months late. In other instances even if statements were submitted within a reasonable timeframe, delays still occurred thereafter, often because of the poor quality financial statements or lack of audit personnel. For example, Potchefstroom's audit report was issued nearly a year after it was submitted. Furthermore, out of the 31 pilot municipalities examined, only eight municipalities attained unqualified audit reports on their 2000-01 financial statements. The reasons cited for qualification were: insufficient provision to cover exposure with irrecoverable debtor balances; failure to write off irrecoverable consumer debtors; and lack of policy for recovering the outstanding consumer debtors. Asset registers were also not updated regularly and incomplete accounting records did not support stated amounts and transactions.

Better quality non-financial and performance information is needed

Another area in need of improvement is in the quality of non-financial and performance information provided in annual reports. A brief survey of annual reports indicates that municipalities are failing to use annual reports to assess their performance. Indeed, most municipalities do not even provide the basic information on key functions.

Table 3.15 shows the audited financial outcome of income and expenditure against budgets for the 2001-02 financial year in the case of the City of Tshwane. Their annual report does go into some detail in explaining the variances but needs to provide better descriptive analysis in relation to corrective action.

Table 3.15 Tshwane Case Study – Audited Results

R million	Original Budget	Adapted Budget	Actual	Variance
Income				
Operating Income	4 609	4 677	4 882	4,4%
Capital Income	824	920	503	-45,3%
Expenditure				
Operating expenditure	4 612	4 680	4 490	-4.1%
Capital Expenditure	824	920	503	-45.3%

Source: City of Tshwane Financial Statements for the year ended 30 June 2002.

The City of Tshwane's annual report is summarised below. The comment in the box also captures areas in need of improvement.

Annual Report of Tshwane

The municipality of Tshwane has begun to prepare better quality financial reports compared to previous years. These include better and more useful information about service delivery. However, more can still be done to enhance reporting in the area of management information. For example, the following is extracted for the City of Tshwane annual report:

- Water and sanitation: initiated various water projects in several informal settlements at a cost of over R2,8 million, installed 1 000 prepayment water meters and completed 60 ablution buildings, - A reference to the measurable objectives at budget tabling time, the extent of the backlogs that have been addressed and are still remaining, the number of households benefiting from this delivery would have been useful.
- Electricity: 3 000 new streetlight fittings in Mamelodi; and installed 10km of new streetlights in Soshanguve, 12 high mast lights in high-crime areas at a cost of R1 million. Similar comments as water also a cost breakdown would have been useful.
- Community Health: little said about achievements.
- Roads and Stormwater: Initiated 31 projects in this regard in keeping with councils *"Quick and Visible Programme"* at a total cost of over R2,3 million. More details on the type of projects and beneficiaries would have been useful.

Source: City of Tshwane annual report: 2000-2002

Public-private partnerships (PPP's)

PPP's to benefit over 280 000 households

The *2001 Intergovernmental Fiscal Review* provided a comprehensive discussion on the role of PPPs in financing infrastructure. This continues to be a growing area, particularly in water and sanitation, waste management, municipal transport, electricity, refuse removal, fire fighting services and recently municipal airports. A key role-player facilitating these transactions is the Municipal Infrastructure Investment Unit (MIIU).

Conclusion

Local Government has been through three phases of transformation that have entailed redrawing of boundaries, movement and assignment of functions between category B and C municipalities; transferring personnel, assets and liabilities; and changing integrated plans and budgets. This process of restructuring is not complete, as the electricity restructuring and new division of functions between local and district municipalities take effect.

The electricity restructuring process will have a significant impact on local Government, given that electricity makes up about 33 per cent of local government activity. Though numbers are not known (as the electricity activities are not ring-fenced), one scenario would be that municipalities shift over R20 billion of their budgets, at least 25 000 personnel and a substantial portion of its liabilities to the regional electricity distributors. This will result in local government budgets shrinking from R72 billion to R50 billion, personnel employed from 210 000 to 185 000 (or even less), and reduction of substantial liabilities estimated to be in the region of R7 billion. The value of assets to be shifted is not known.

The new division of functions between district and local municipalities will also take effect from 1 July 2003, and cause further changes in budgets, assets, liabilities and number of personnel.

Municipalities face great challenges in implementing these reforms, and ensuring that service delivery does not deteriorate while such transformation is taking place. Further, local government systems are antiquated, with poor information systems, and municipalities need to modernise their systems of delivery and management, in order to perform better and promote their accountability to residents, rate-payers and customers. This includes short-term improvements to revenue collection systems, reduction of water and electricity losses, and containing the share of personnel expenditure. Poor information systems mean that this *Review* cannot comprehensively cover municipal activities.

In many cases the expansion of service delivery to previously under-serviced areas is ready to take effect, given the additional resources allocated by national Government. Improvements in planning and budgeting through Government's prioritised capacity-building programmes will help local government deliver on its mandate.

The challenge is to translate these best-practice policy reforms into practical and executable programmes, impacting positively on communities, addressing poverty and moving the pace of economic growth at the local level.