

Introduction

Overview

The *2006 Local Government Review* is the first National Treasury publication devoted wholly to local government finances. This report, which builds on *Trends in Intergovernmental Finances: 2000/01 – 2006/07*, published in August 2004, pays special attention to the challenges associated with the ongoing reform of local government.

Now more than ever local government, which is often referred to as “the service delivery arm of government”, plays a crucial role in South Africa’s transformation.

Since the advent of a democracy in 1994, a far-reaching package of legislation has been introduced to ensure that municipalities are more accountable, are financially sustainable and are capable of delivering services to all residents. The principal components of this legislative framework are:

- The Municipal Structures Act (117 of 1998), which establishes the categories of municipalities and the structures within them.
- The Municipal Demarcation Act (27 of 1998), which defines municipal boundaries.
- The Municipal Systems Act (32 of 2000), which deals with the powers and functions, planning processes, delegations, performance management and raising of revenue within the municipal structures.
- The Municipal Finance Management Act (56 of 2003) (MFMA), which strives to modernise budgeting and financial management, thereby ensuring that municipalities provide services in an affordable and sustainable manner.
- The Municipal Property Rates Act (2004), which deals with the imposition of property rates by municipalities to enhance their revenue-raising abilities in an equitable and responsible manner.

A special focus on the challenges associated with local government reform

Legislative framework aims to ensure accountable, sustainable municipalities

Local government fiscal framework is being refined

- The Intergovernmental Relations Framework Act (13 of 2005), which establishes a framework for the three spheres of government to promote and facilitate intergovernmental relations, and mechanisms and procedures to facilitate the settlement of disputes.

Local government is still in transition, and key elements of the local government fiscal framework are being refined, including:

- Alignment between the functional and fiscal division of powers between category B (local) and C (district) municipalities.
- Reforms to municipal own-revenue sources, including the exploration of new revenue source(s) to replace regional service council levies.
- Appropriate capital finance arrangements for the various types and categories of municipalities through own-revenue, infrastructure grant funding and borrowing.
- Continued assessment of local government grant formulae (equitable share and municipal infrastructure grant), to enable municipalities to deliver on their developmental mandate.
- The relations between provincial and municipal service delivery and funding requirements for housing, health and public transport .
- The impact of specific sector reforms – such as the restructuring of the water and electricity distribution sectors – on the finances of local government.

Constitution provides for three spheres of government with distinct functions

The intergovernmental system

The Constitution of the Republic of South Africa makes provision for three spheres of government: national, provincial and local. Although each is assigned distinct functions, they are interrelated and interdependent, and must function in a cooperative manner to achieve government's objectives.

Success depends on coordination of policy, planning, budgeting and implementation

To increase the efficacy of service delivery, the intergovernmental system is dependent on the coordination of policy, planning, budgeting, implementation, monitoring, evaluation and reporting *between* national, provincial and local government – and *within* the technical, executive and legislative levels in each sphere of government.

The following intergovernmental forums play important roles in shaping policy and the allocation of resources:

- Cabinet lekgotla, which reflect on government's achievements and challenges, and reach decisions that provide guidance to the medium-term strategic framework and the Medium Term Budget Policy Statement.

- The extended Cabinet, which decides on policy priorities and the division of revenue on which medium-term expenditure framework (MTEF) budgets are based.
- The Budget Council, which considers fiscal, budgetary or financial matters affecting provinces, including the responsibilities assigned to local government.
- The Budget Forum, the key strategic thrust of which is to link and coordinate policy, finance and fiscal matters affecting local government.
- The President's Coordinating Council, which consults on the implementation of national policy and legislation, facilitates coordination and alignment of priorities, objectives and strategies across the spheres of government, and reviews performance in the provision of services.
- Premiers' intergovernmental forums, which link provincial and local governments.

The Constitution further assigns service delivery responsibilities to the three spheres of government, with the provinces and municipalities allocated a pivotal role in the delivery of basic services, especially to the poor.

Municipalities play a pivotal role in delivering services to the poor

The functional competencies of local government are outlined in parts B of schedules 4 and 5 of the Constitution. The executive and legislative authority for these competencies is assigned to three different categories of municipalities in terms of section 155 of the Constitution, as follows:

- Category A (or metropolitan) municipalities have exclusive executive and legislative authority within their areas of jurisdiction. There are currently six such municipalities.
- Category B (or local) municipalities share executive and legislative authority with the district municipalities with which they overlap. There are 231 municipalities in this category.
- Category C (or district) municipalities have executive and legislative authority in areas with more than one local municipality. There are 46 district municipalities that fall into this category.

In addition, national and provincial government may, by agreement, assign certain matters listed in parts A of schedules 4 and 5 of the Constitution to local government.

In addition to the powers and functions mentioned above, municipalities are assigned fiscal powers and functions in terms of section 229 of the Constitution to raise revenue through property rates, service charges, specific taxes, levies and duties. Local government is also entitled to a share of revenue raised nationally in terms of section 227 of the Constitution, to enable it to provide basic services and perform the functions it is assigned.

Constitution assigns municipalities fiscal powers and functions

Challenges for the period ahead

Progress made in addressing backlogs and spatial distortions

Since the advent of democracy, government as a whole has made measurable progress in addressing backlogs and spatial distortions, and in planning for a sustainable future. Post-2001 census surveys show that access to proper sanitation; safe, potable water; and electricity has improved significantly.

Government targets eliminating all backlogs by 2013

Government has set a target of eradicating the remaining backlogs in sanitation by 2008, water by 2010, electricity by 2012 and all other backlogs in basic services delivery by 2013. At the same time, municipalities are required to maintain appropriate service levels throughout communities that already benefit from such services, and to create the conditions required for vibrant economic growth.

Local government's share of nationally raised revenue continues to rise

To give impetus to service delivery provision, local government's share of revenue raised nationally has continued to increase over the past few years, and is expected to rise to 7 per cent over the medium term, as shown in Table 1.1.

Table 1.1 Division of revenue between spheres of government, 2002/03 to 2008/09

R million	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	Outcome			Revised	Medium-term estimates		
National departments	129 297	148 142	168 018	196 429	214 964	233 996	254 495
Provinces	107 317	122 673	137 836	154 528	176 679	196 351	217 481
<i>Equitable share</i>	93 895	107 538	120 885	135 292	150 753	167 701	187 100
<i>Conditional grants</i>	13 422	15 135	16 951	19 237	25 926	28 649	30 382
Local government	8 102	11 581	13 837	16 859	26 532	30 503	35 575
<i>Equitable share</i>	4 187	6 350	7 678	9 643	18 058	20 076	22 775
<i>Conditional grants</i>	3 916	5 231	6 159	7 215	8 474	10 428	12 801
Non-interest allocations	244 717	282 396	319 690	367 816	418 176	460 850	507 552
<i>Percentage increase</i>	13,7%	15,4%	13,2%	15,1%	13,7%	10,2%	10,1%
State debt cost	46 808	46 313	48 851	51 160	52 049	53 324	55 716
Contingency reserve	–	–	–	–	2 500	5 000	8 000
Main budget expenditure	291 525	328 709	368 541	418 976	472 725	519 174	571 268
<i>Percentage increase</i>	10,9%	12,8%	12,1%	13,7%	12,8%	9,8%	10,0%
Percentage shares							
<i>National departments</i>	52,8%	52,5%	52,6%	53,4%	51,4%	50,8%	50,1%
<i>Provinces</i>	43,9%	43,4%	43,1%	42,0%	42,3%	42,6%	42,8%
<i>Local government</i>	3,3%	4,1%	4,3%	4,6%	6,3%	6,6%	7,0%

Medium-term plan emphasises service delivery to poorest communities

Building on the successes of the past, over the medium term government seeks to ensure that:

- Free basic services are provided to all households that cannot afford to pay for such services
- A proper waste management system is in place
- The bucket sanitation system is eradicated
- The built (or spatial) environment develops, with all the necessary infrastructure to bring about sustainable communities
- Financial management and the capacity of municipalities to deliver quality services is strengthened

- The delivery of municipal infrastructure contributes to job creation.

Chapter overview

This publication consists of six chapters:

- This introduction covers the main features of the intergovernmental system.
- Chapter 2 outlines overall trends in local government budgets and actual outcomes in a sample of 59 municipalities.
- Chapters 3 and 4 cover electricity and water, including pertinent issues related to the extension of these services to all residents, provision of free basic services to very poor households and the challenges involved in restructuring these two sectors.
- Chapter 5 deals with selected personnel issues in local government.
- Chapter 6 discusses financial management reforms and the implementation of the MFMA.

While it is a sign of real progress that we are now able to present data from municipalities in a publication such as this one, it is also evident from the information supplied to the National Treasury that more work is needed to improve the availability, quality and comparability of data across municipalities. The MFMA will certainly contribute to this process, but more work is required to reach the point at which all municipalities are able to report comprehensively on their financial and service delivery trends.

More work required to improve availability and quality of municipal data

Conclusion

This chapter summarises the intergovernmental system in its current form. The intergovernmental relations system is guided by principles of cooperative governance, accountability and transparency, reinforced by a culture of consultation and public participation as set out in the Constitution.

Intergovernmental system is guided by principles of cooperative governance

While underpinned by a stable legislative framework, local government is in a state of transition, and the fiscal framework continues to be refined.

Real success has been registered in reducing the backlog in basic services, such as the provision of water, sanitation, electricity and refuse collection. However, local government still faces huge service delivery challenges. The *2006 Local Government Review* describes in some detail some of these challenges, and the urgent work that needs to be done by municipalities to meet their constitutional obligations.

This page is left blank intentionally