



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Release of the 2011 Local Government Budgets and Expenditure Review

14 September 2011

The National Treasury today releases the *Local Government Budget and Expenditure Review*. This is the third time National Treasury has published this document. This year, the *Review* covers municipal spending and budgets for the period 2006/07 to 2012/13.

This *Review* builds on the 2006 *Review* which described the basic fiscal and financial position of the local government system, and the 2008 *Review* which largely examined the impact that municipalities have had on their socio-economic environment. This year's *Review*:

- a. Explores some of the contextual differences between rural and urban municipalities; and
- b. Highlights the different kinds of development challenges they face and the need for the regulatory and fiscal frameworks to respond to these differences.

The municipal budget and expenditure information used to compile this *Review* is the best available dataset covering all 283 municipalities, and further details are provided in the Technical Notes at the beginning of the *Review*. The *Review* and the entire dataset are published on www.treasury.gov.za. Attached to this press release is an overview of the information contained in each of the chapters of the *Review*.

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OVERVIEW OF CHAPTERS

The *2011 Review* is made up of thirteen chapters that are divided into four thematic areas, namely an overview of the context for local governance; financing and financial management issues; municipal performance in service delivery; and service delivery contexts of different municipalities.

Part one: an overview of the context for local governance

The following two chapters fall into this section:

- a. *Chapter 2: The socio-economic and fiscal context for local government* highlights the wide variation in social and economic contexts among South Africa's 283 municipalities. It outlines the key components of national government's fiscal policy stance that address major social and economic trends, highlights the importance of adopting differentiated policies to local government, and the importance of getting municipal governance right to ensure greater effectiveness.
- b. *Chapter 3: Intergovernmental relations and the local government fiscal framework* explains local government's position and role within South Africa's system of intergovernmental relations, describes the key elements of the local government fiscal framework and how it relates to municipalities' service delivery responsibilities, and highlights the important role municipal councils play in ensuring the effective management of municipal resources.

Part two: financing local government and key financial management issues

Four chapters make up part two:

- c. *Chapter 4: Revenue and expenditure trends in local government* provides a broad overview of intergovernmental transfers and the financial performance of municipalities. It highlights five issues – the need to get the basics right in relation to revenue management, and in the collection of consumer debts, under-pricing of services, inadequate maintenance expenditure by municipalities, and the need to curb spending on non-priorities.
- d. *Chapter 5: Financial management and MFMA implementation* focuses on continuing initiatives to reform municipal financial management, particularly measures to strengthen the framework for aligning municipal plans and budgets, initiatives to strengthen oversight through improved transparency and reporting practices, and national government programmes to support institutional strengthening and capacity building.
- e. *Chapter 6: Leveraging private finance* notes the demand placed on municipalities to respond to local social and economic needs. It highlights initiatives to strengthen the municipal borrowing markets, including the bond

market, and the opportunities afforded by development charges, land leases and public private partnerships.

- f. *Chapter 7: Managing municipal personnel* considers trends in municipal employment. It highlights the modest contribution that municipalities make to overall employment. Personnel expenditure has been growing strongly, but with little noticeable impact on services. This raises questions about the effectiveness of municipal performance management systems.

Part three: municipal performance in the delivery of major services

Four chapters make up part three:

- g. *Chapter 8: Water and sanitation* highlights challenges in the water and sanitation sector, specifically those related to system losses arising from inadequate maintenance. Importantly, it highlights emerging problems in the pricing of water services.
- h. *Chapter 9: Electricity* outlines the structure of the electricity sector in South Africa and some of the challenges it is facing. Again, issues of asset maintenance and pricing are highlighted as key challenges facing the electricity distribution industry.
- i. *Chapter 10: Roads* considers the current demand for municipal investment in roads in the context of limited public expenditure and an environment of institutional overlap and uncertainty.
- j. *Chapter 11: Solid waste services* provides an overview of institutional arrangements and financing for the provision of solid waste services, access to solid waste services, and the challenge of waste minimisation, recycling and energy recovery.

Part four: the service delivery contexts of smaller municipalities versus metros and secondary cities

Two chapters make up part four:

- k. *Chapter 12: Delivering municipal services in rural areas* explores distinguishing features of rural municipalities and the specific challenges they face when delivering services and raising own revenues.
- l. *Chapter 13: Cities and the management of the built environment* reviews the demographic, economic and spatial challenges that confront South African cities. It also looks at challenges in current fiscal and institutional arrangements that complicate the ability of city administrations to manage the built environment. Public expenditure on public transport, housing and community assets is also reviewed.