

Local Government Budgets and Expenditure Review, 2011

Strengthening governance to improve service delivery

National Treasury, 14 September 2011



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Why a *Local Government Budgets and Expenditure Review*?

Review measures progress in local government

- Allows progress over the last three years to be measured
- Are municipalities delivering services to all?

Review shows where municipalities have allocated and spent public money

- Are municipal budgets allocating funds in line with development priorities?
- Are budgets buying the planned outputs?

Review explores developmental role of municipalities

- Does government need to adopt a more differentiated approach to enable rural and urban municipalities to be more effective?

Review shows link between policies, budgets, expenditures and outputs

- Are policies delivering the intended outcomes?

Data issues

Factors that impact on the comparability of information over the period

- The implementation of the Municipal Budget And Reporting Regulations
- Compliance with the MFMA requirement relating to consolidated budgets and financial statements
- Replacement of the RSC levy for metros has an impact on the local government equitable share

Every effort made to ensure reliability of budget and expenditure information

- The following sources were used:
 - Audited financial statements for 2006/07 to 2008/09
 - Available audited financial statements and pre-audit information for 2009/10
 - Budget and related documents for 2010/11 to 2012/13

Detailed budget and expenditure data published on National Treasury's website

- www.treasury.gov.za/publications/igfr/2011/default.aspx

Outline of presentation

Key findings of the review



Summary of chapters

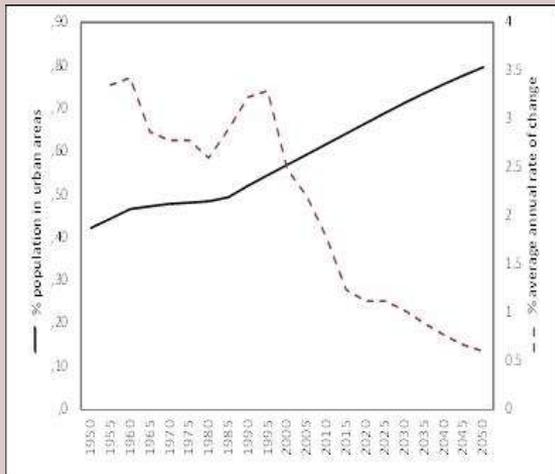


Conclusion

Local government faces ongoing challenges

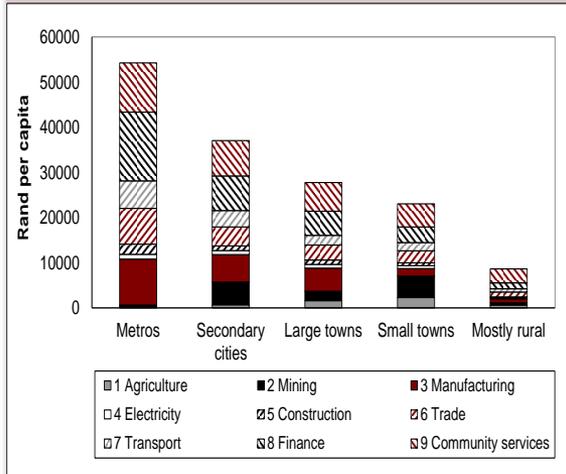
Demographic pressures arising from urbanisation

Percentage of population in urban areas and growth in urban population



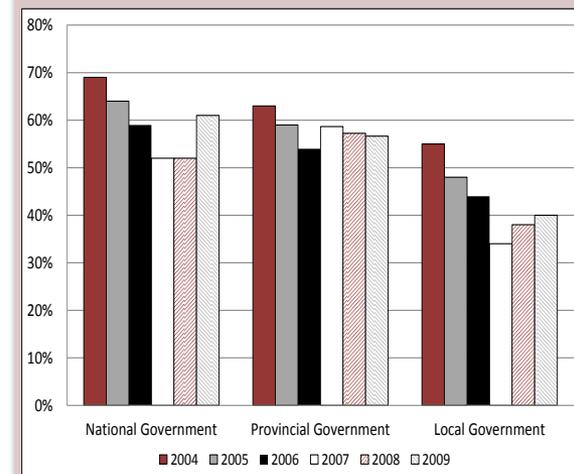
Economic pressures arising from economic growth

Gross value added per capita by type of municipality, 2009



Crisis in credibility

Trust in government institutions, 2004 to 2009

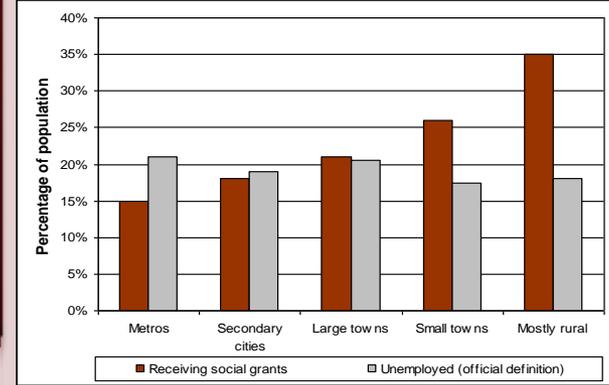


There is considerable pressure for infrastructure investment and improved service delivery

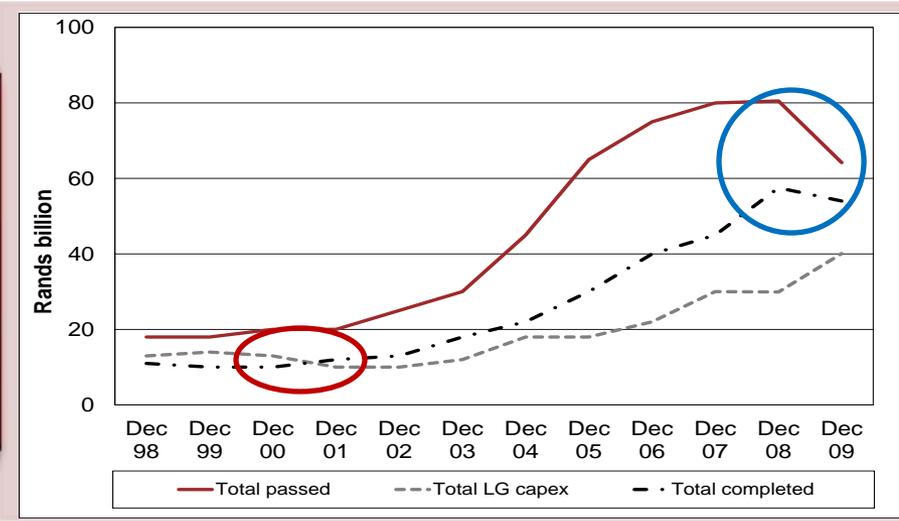
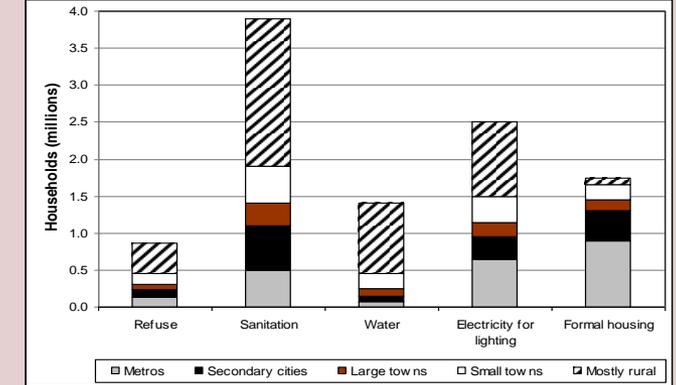
To combat poverty

To support growth

Proxies of poverty by municipal location, 2007



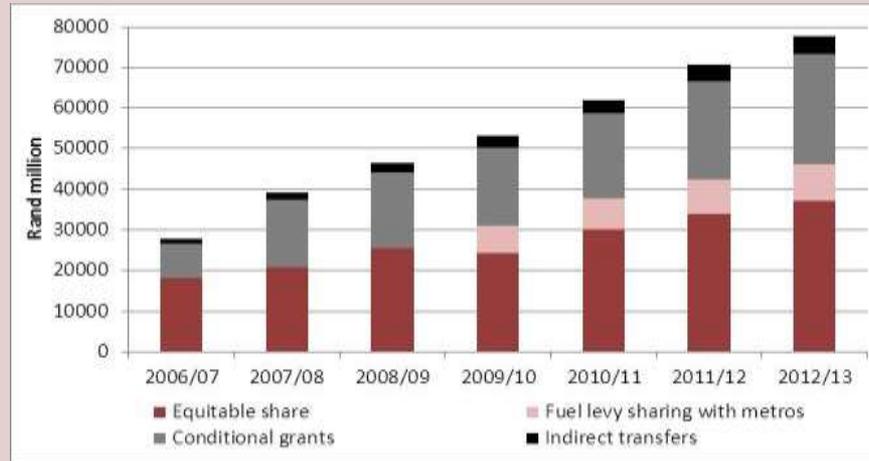
Households without access to basic services, 2007



Nominal value of building plans passed and completed vs local government capital expenditure, 1998 – 2009

National government continues to provide significant support to local government

Massive real growth in national transfers



Transfers by type, 2006/07 - 2012/13

Significant policy reforms

- Municipal Budget and Reporting Regulations
- Three-year allocations and payment schedules for national and provincial transfers (DoR Act)
- Improved in-year financial monitoring

Targeted capacity and systems support

- Support in planning and budget reform
- R3bn spent on Siyenza Manje between 2007 and 2010 to provide hands-on support to municipalities
- Additional support through conditional grants

... and municipal challenges remain ...

Priorities	Limited focus on economic development	Inadequate spending on repairs and maintenance	Prevalence of non-priority spending
Policies and plans	Outdated spatial plans	Poor quality IDPs	Unfunded budgets
Procedures	Poor revenue management	Badly managed procurement processes	Poor asset management processes
Performance	Delays in approving development plans	Underspending of capital budgets	Deteriorating levels of service

The 2011 LGBER offers both new and updated analysis of key issues

Focuses on the adequacy of municipal initiatives

- Supporting economic growth
- Providing basic services and supporting development
- Strengthening governance and the stewardship of resources

Structured in four parts

- Social and economic context for local governance
- Financing and management issues: trends, MFMA implementation, leveraging private finance and municipal personnel management
- Service delivery: water and sanitation, electricity, roads and solid waste services
- Service delivery contexts: delivering services in rural areas, and managing cities

Key issues identified...

Quality of governance is critical to performance

- Governance challenges undermines service delivery
- More competent senior managers needed
- Instability in senior management detracts from continuity

Municipal budgets must be funded and realistic

- Depleted cash reserves – operating at the absolute margin
- General under-pricing of municipal services – bankrupting municipalities
- Revenue projections are unrealistic – not based on requirements of the MFMA
- Operating expenditures are too high – driven by non-priority spending
- Capital budgets are too ambitious

Maintenance of existing assets needs urgent attention

- Lack of key technical skills – qualified managers, engineers and technicians
- Weak asset management systems
- Spending on repairs and maintenance inadequate to maintain assets
- Maintenance spending is reactive, and so is more costly than planned maintenance

Own funding of capital budgets needs to increase

- Increased grant reliance, and reduced own funding of the capital budget
- Tariffs and operating budgets not making provision to fund capital
- Municipalities (other than metros) not adequately leveraging private finance to fund economic infrastructure

Reconceptualise approach to combat poverty

- New housing developments are located on the periphery far from economic opportunities and services
- Municipalities are not using labour intensive approaches to deliver services
- Current modes of service delivery are too expensive and unsustainable, especially for poor households in rural areas

Potential policy responses include ...

Focus on leadership

- Bring mayors and councils into the Outcomes monitoring system
- Depoliticise senior management appointments
- Appoint competent MMs, CFOs and senior managers
- Highlight difference between political leadership and management roles

Creating fiscal space

- Get back to basics in all aspects of revenue management and cash management
- Ensure tariffs are cost-reflective – including maintenance and capital spending
- Make more innovative use of opportunities to leverage private finance
- Ensure value-for-money in procurement and contract management
- Eliminate non-priority spending

Focussing on sustainable human settlements

- Use spatial planning, development approval and location of bulk infrastructure to guide private investment decisions
- Effective development control to ensure poor households are located close to economic opportunities
- Ensure co-ordination of infrastructure and housing investments

Ensuring fiscally sustainable choices in service delivery

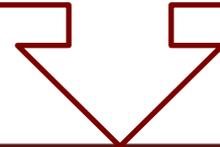
- Increase funding for repairs and maintenance
- Ensure indigents policy is appropriately structured and properly implemented
- Use appropriate service standards and technologies, especially in rural areas
- Use labour intensive service delivery methods

Adopting a differentiated approach towards municipalities

- Better coordination of financing with the allocation of powers and functions
- Devolving of functions to municipalities with management capacity, especially housing and transport
- Structuring the local government fiscal framework around municipalities' fiscal capacity, to ensure more equitable funding of rural municipalities
- Targeting support to municipalities where assistance is needed and there is a willingness to co-operate

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Service delivery

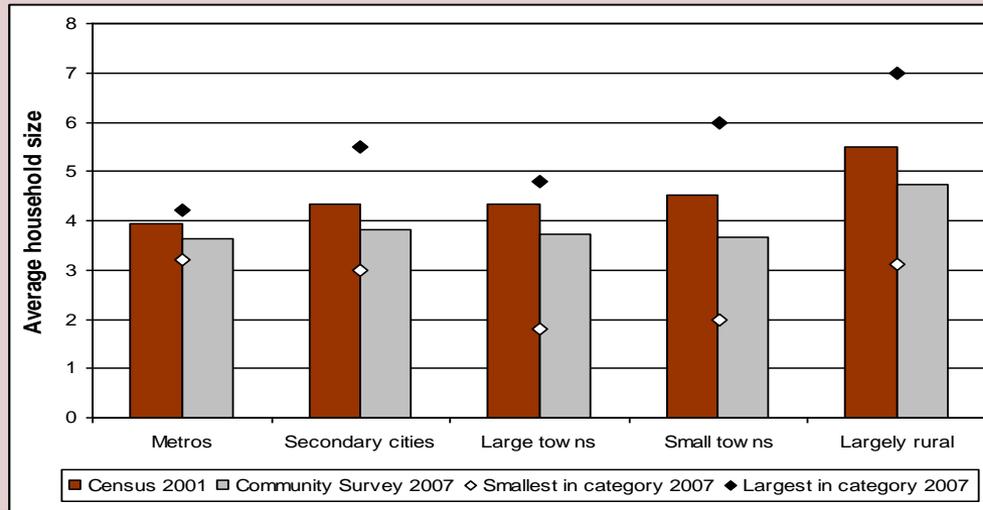
- 8. Water and sanitation
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Delivery contexts of rural and city municipalities

- 12. Delivering municipal services in rural areas
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There are significant differences between municipalities

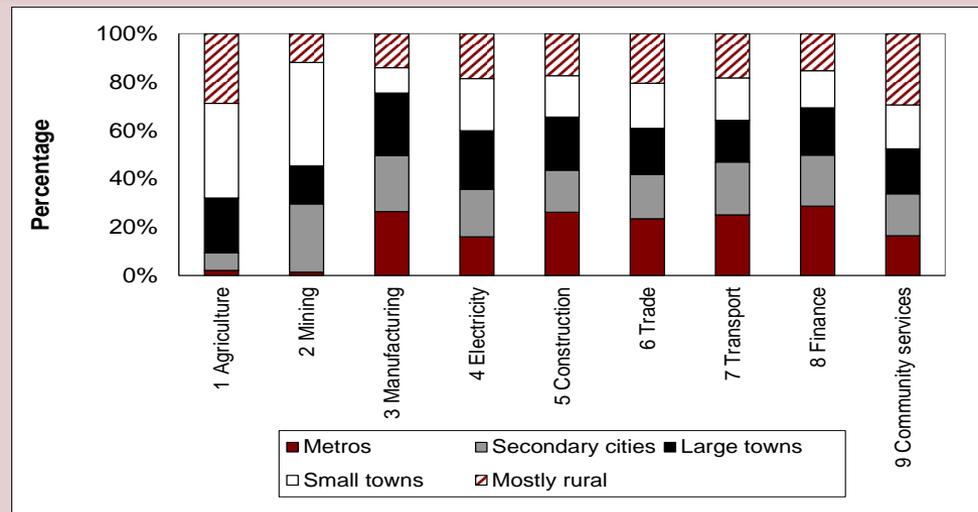
Demographic trends



Average household size by type of municipality, 2001 and 2007

The Census in October 2011 is critical to updating this information

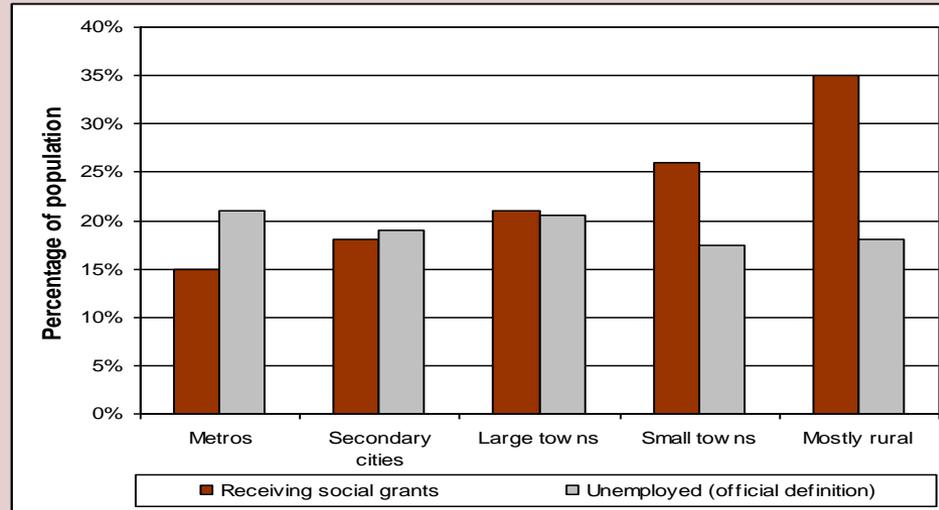
Economic profiles



Share of economic sector by type of municipality, 2009

This requires municipalities to respond differently to their specific contexts

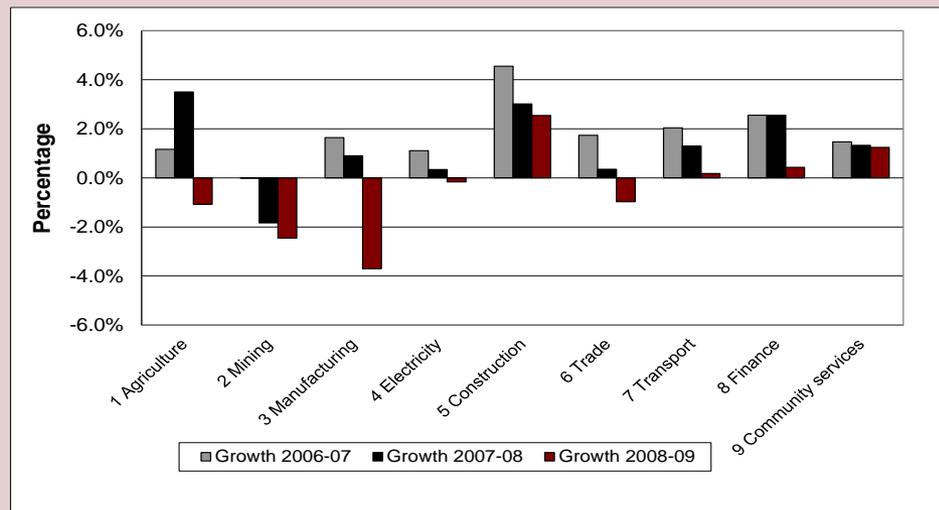
Combating poverty



Proxies of poverty by type of municipality, 2007

All municipalities need to be aware of the poverty and unemployment within their jurisdictions, so they develop appropriate service delivery strategies, indigent policies and revenue strategies.

Supporting economic growth

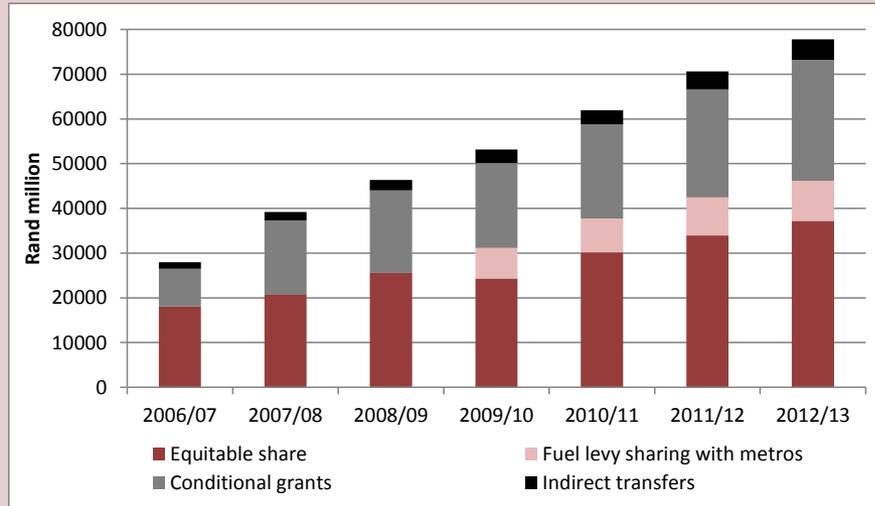


Growth by economic sector, 2006 and 2009

Municipalities need to be aware of how the sectors of the economy represented within their areas are performing – and then tailor their spatial plans and IDPs to provide appropriate support

... while also responding to the opportunities created by national fiscal policy

Growth in transfers to local government



Transfers to local government, 2006/07 – 2012/13

Transfers to LG grow by 10.4% between 2010/11 and 2013/14, compared to 7.6% for total government spending

Stable macro-economic policy

- Insulating LG from the effects of the recession
- Stable and transparent transfers to LG
- Prudent fiscal stance provides room for increased borrowing by municipalities

Public investments

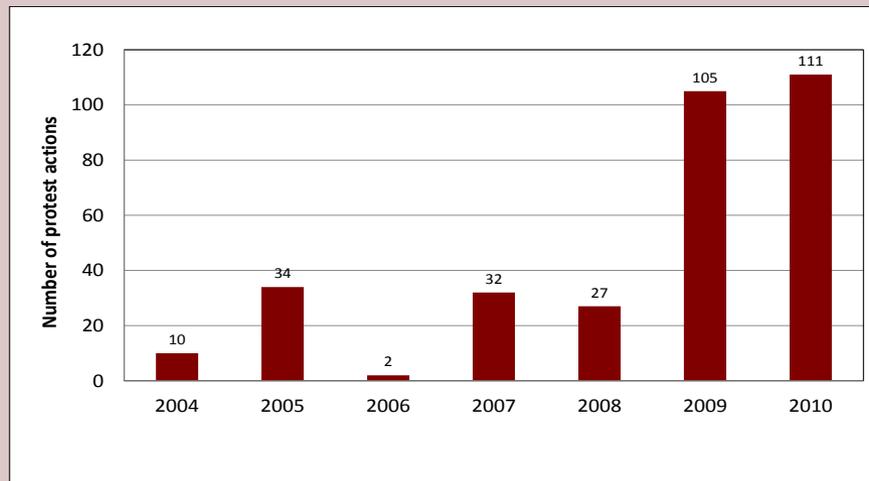
- Expanded public investment in infrastructure places pressure on municipal development planning and approval processes

...and learning to do things better

Lessons from the World Cup

- Success depends on hiring the best
- Use 'anchor management tools' to drive delivery
- Forward thinking in risk management of projects
- Detailed cash management and payment transparency

Crisis in credibility



Service delivery protests, 2004 to 2010

Disputes with ratepayers in 42 towns – paying funds into trust accounts

Getting governance right

- Commit to acting ethically and in the best interests of the municipality
- Understand and respect the council/management division of responsibilities
- Make appointments on the basis of competency
- Put operating policies and procedures in place
- Councils must fulfill their oversight function

Local government has very specific service delivery responsibilities

Objects of local government

- **Section 152 of the Constitution**
 - to provide democratic and accountable government for local communities
 - to ensure the provision of services to communities in a sustainable manner
 - to promote social and economic development
 - to promote a safe and healthy environment
 - to encourage the involvement of communities and community organisations in the matters of local government

Developmental duties of municipalities

- **Section 153 of the Constitution**
- A municipality must -
 - Structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community, and
 - Participate in national and provincial development programmes

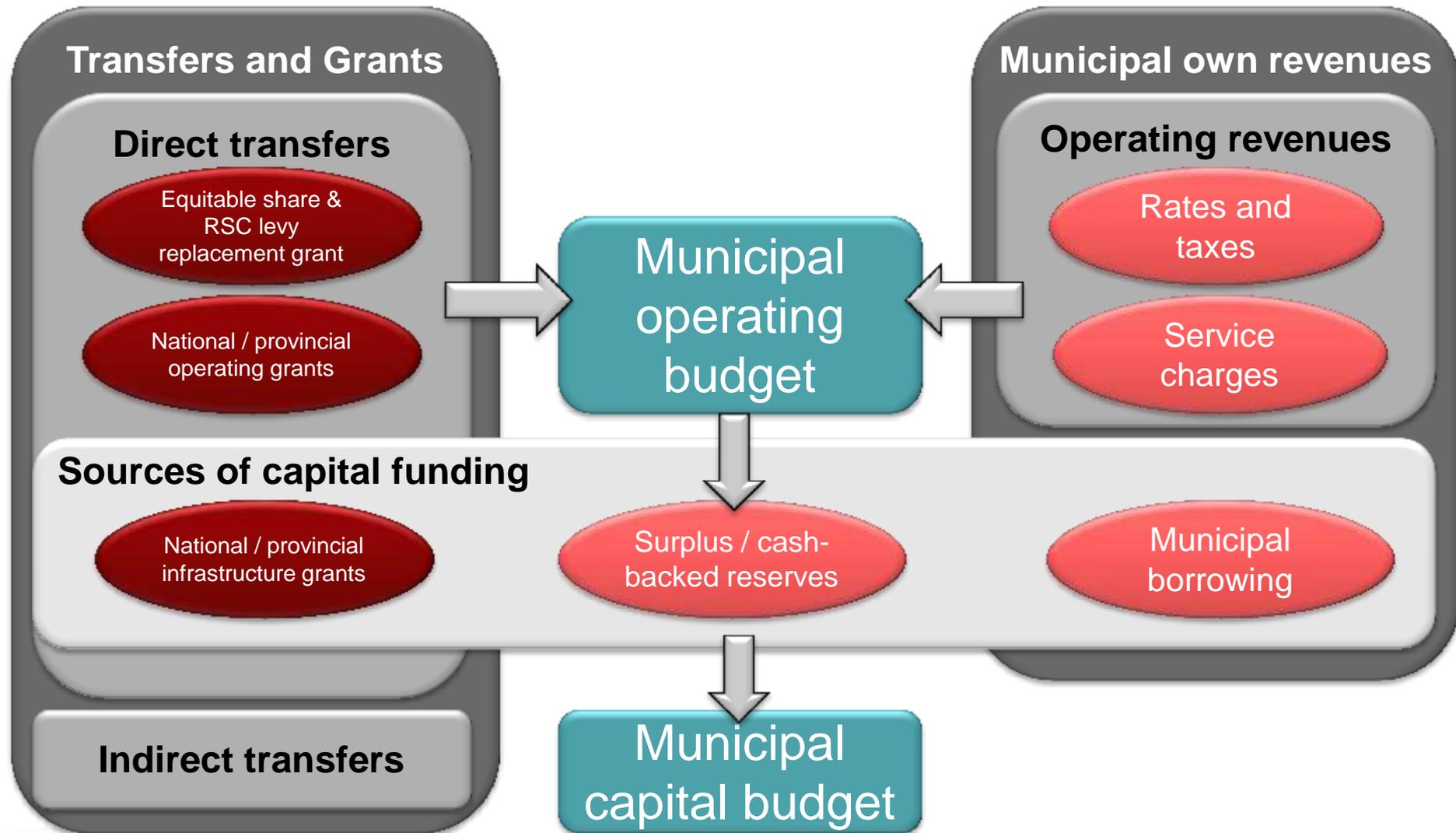
Priority functions of municipalities

Water (potable)
Electricity reticulation
Sanitation
Refuse removal

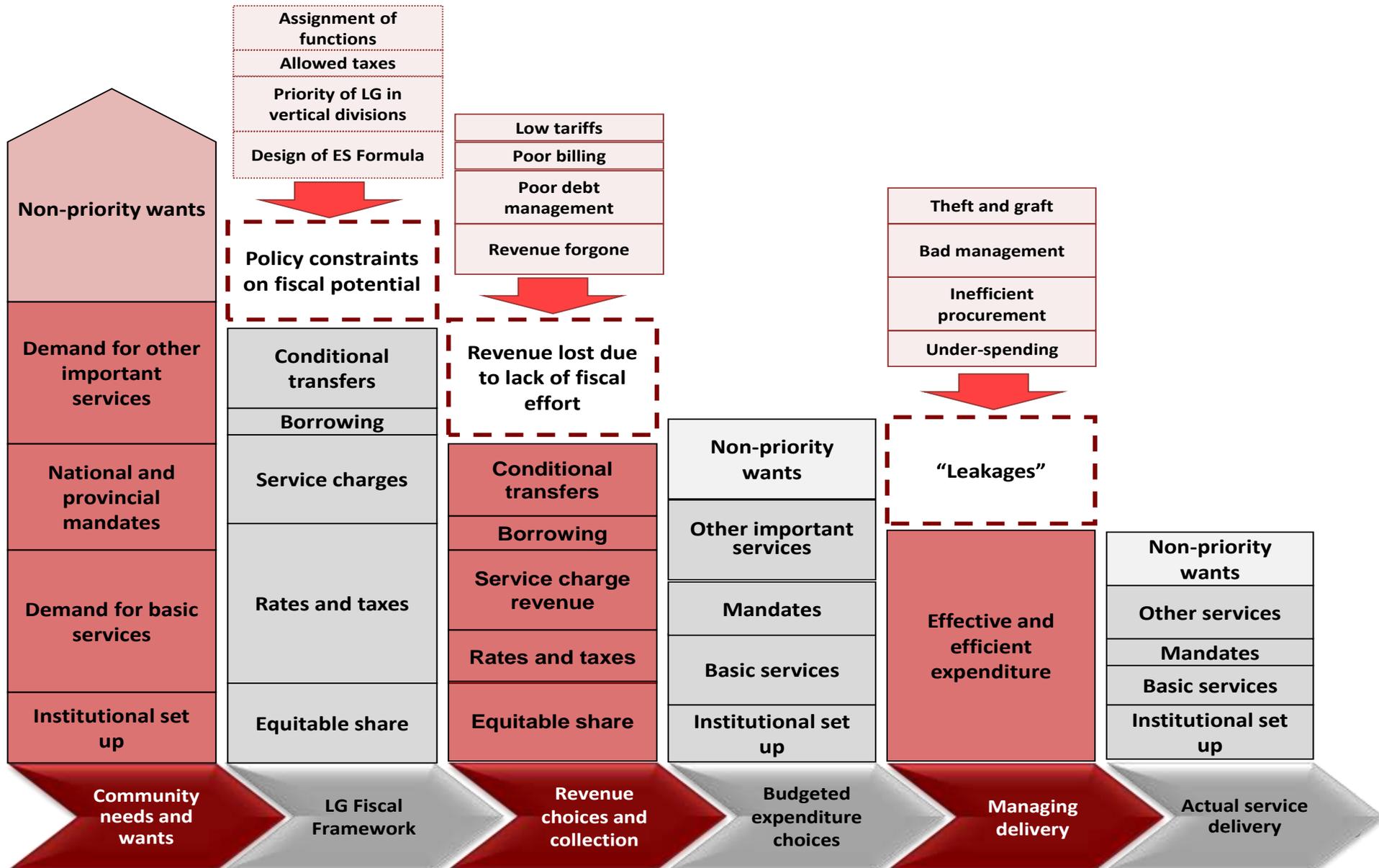
Cemeteries
Fire fighting
Municipal health services
Municipal planning
Municipal roads

Storm water
Traffic and parking
Building regulations
Municipal public transport

That the *WHOLE* local government fiscal framework is designed to finance municipalities



At the heart of local government is managing finances to deliver services



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Municipalities are important economic actors

Contribution to GDP

- LG expenditure averages about 6.9% of GDP
- LG infrastructure and services are essential inputs to the rest of the economy
- Approximately 80% of GDP generated in the 27 largest cities

Contribution to infrastructure investment

- LG responsible for 15.9% of total public sector infrastructure expenditure
- Share is declining due to more rapid growth in capital expenditures by provinces and public enterprises

They manage a significant portion of the public budget

Significant component of total public expenditures

- 20.0% of total government spending in 2009/10
- R176.3 billion in operating revenues, mainly from service charges, property rates and grants
- R37.5 billion in capital expenditure, funded mainly by grants

Municipal own revenues are key to service delivery

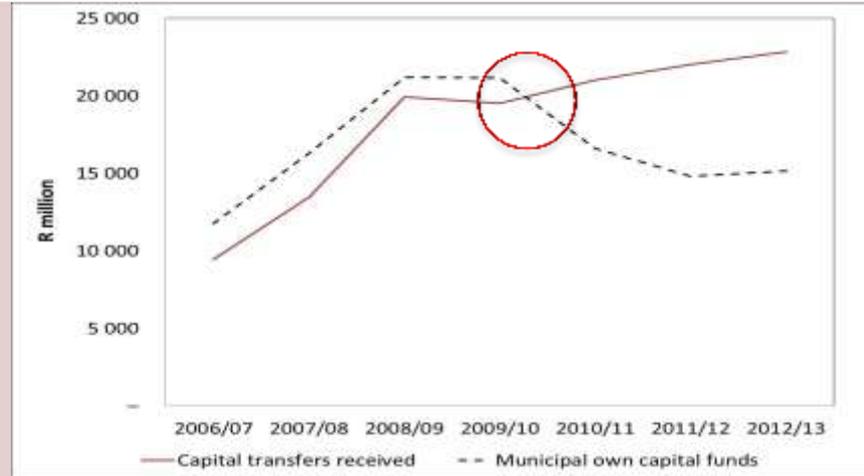
- The revenue –service link between customers and municipalities is an important dimension of democratic local accountability
- Revenues from service charges pay for bulk electricity and water
- National transfers recognise differences in fiscal capacity and support the extending access to basic services

Significant variation between municipalities

- Average annual per capita spending of R4208 in 2009/10, but varies from R6609 in Gauteng to R1993 in Limpopo
- Reflects variations in:
 - provision of services, no. of business customers and income levels
 - levels of revenue effort and capacity to spend
 - maturity, given history of local government in region

Municipalities continue to face important fiscal challenges

Municipal own contribution to capital spending



Municipal own contribution to capital expenditure, 2006 to 2012

Municipal own contributions are now less than 50% of total capital spending

Pay attention to revenue management

- Get the basics right to ensure revenue value-chain is complete
- Integrity of billing information, accuracy of billing systems and ability to collect

High outstanding consumer debts

- In December 2010, municipalities were owed a total of R62.3 billion. This represents an increase of 10.8% from the same month in 2009

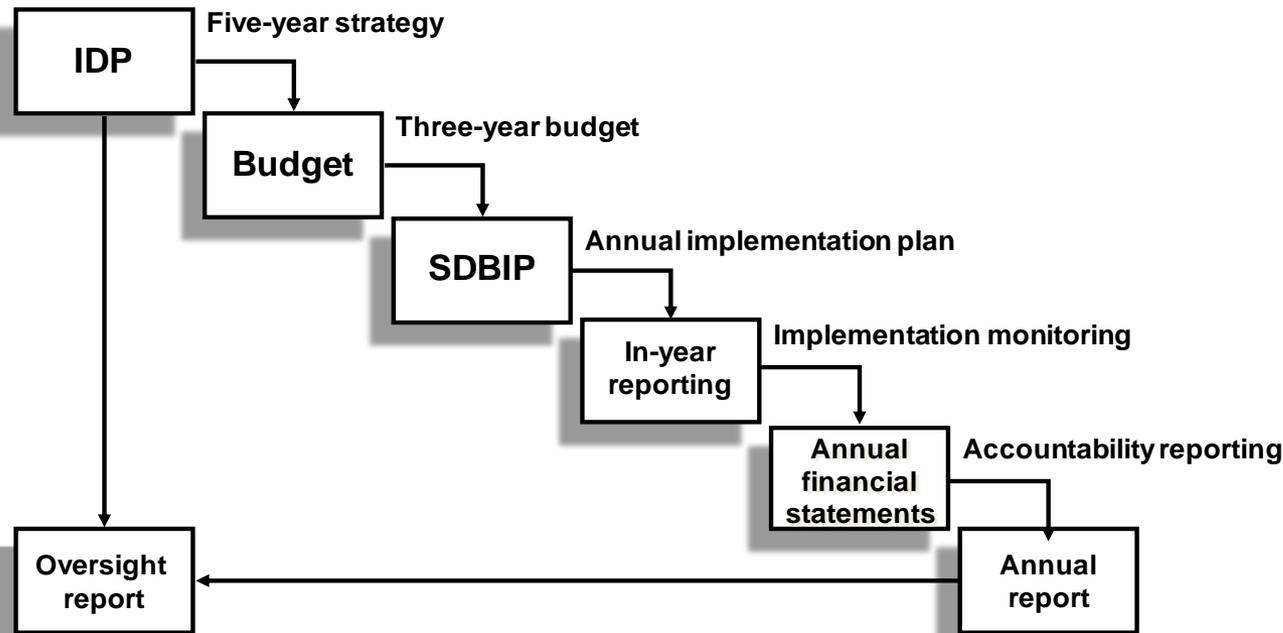
Under-pricing of services

- Municipalities not following the Systems Act principles for tariff setting
- On average, tariffs must reflect the cost of rendering the service

Inadequate spending on repairs and maintenance

- Cutting spending on maintenance is not seen as politically sensitive, but will have a disastrous impact on the reliability of services

MFMA aims to ensure alignment in the municipal accountability cycle



Accuracy of information depends on:

- Organisational structure aligned to basic services
- Sound municipal policies, processes and procedures
- Standard chart of accounts for municipalities

Recent financial management reforms

- Municipal Budget and Reporting Regulations
- Strengthening in-year reporting
- Return of unspent conditional grants to the national revenue fund in line with DoRA

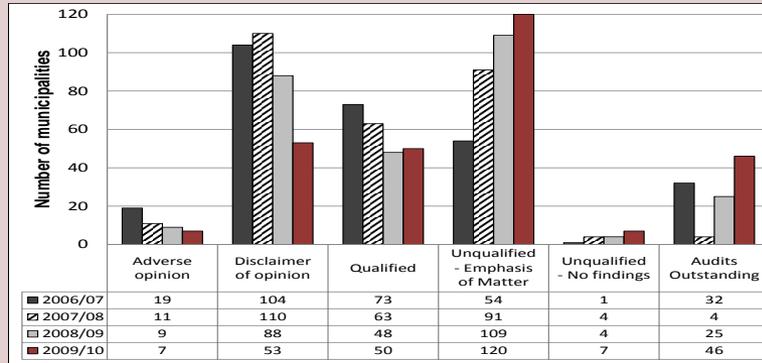
Planned future reforms

- Standard chart of accounts of local government
- Strengthening revenue and cash management
- Structure of the Service Delivery and Budget Implementation Plan
- Strengthen reporting on non-financial information
- Regulations on financial misconduct to facilitate enforcement

Management is improving in response to financial management reform programme

Reforms essential for accountability

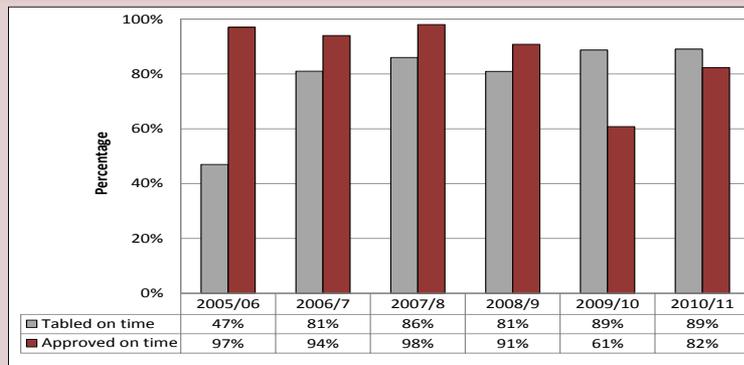
Improving audit outcomes, off a low base



Audit opinions for all municipalities, 2006/07-2009/10

Improved budgeting

More timely budget preparation



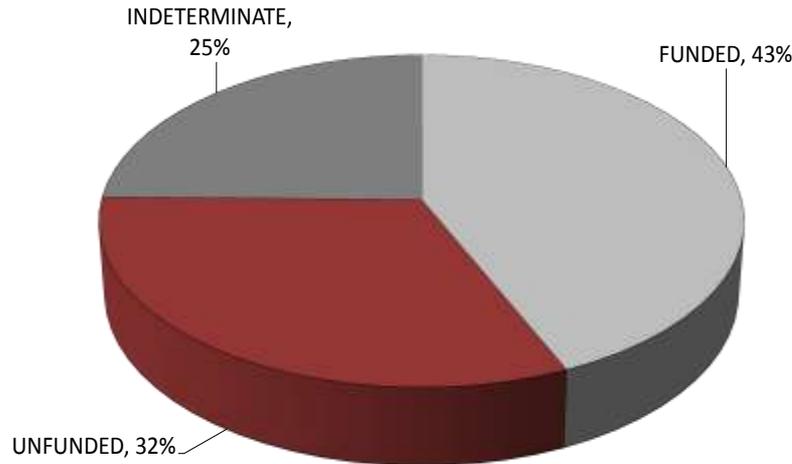
Municipalities that tabled and approved budgets on time, 2005/06-2010/11

Improved reporting

- In-year reporting coverage has improved and all municipalities now report on a routine basis
- Annual financial statements are submitted by most municipalities
- More municipalities need to produce annual reports

Concerns with the quality of budgeting...

Many municipal budgets are not funded



Funding compliance of municipalities' approved 2010/11 budgets

Only 123 municipalities had budgets that were adequately funded

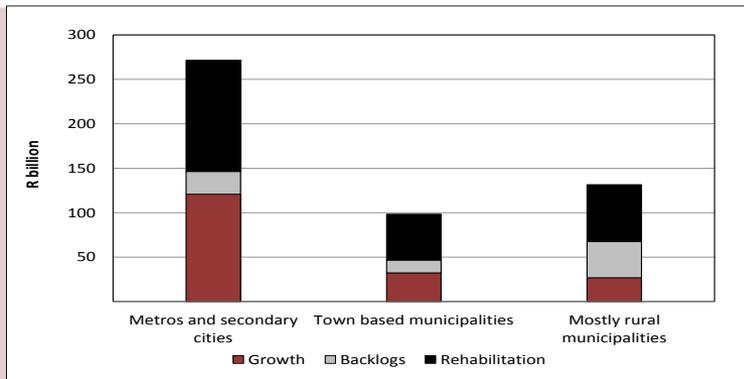
Need to strengthen capacity

- Municipalities need to prepare for implementation of the Competency Regulations
- Internship programme – 1241 interns have been through the programme since 2004
- National Treasury is now responsible for the deployment of hands-on financial support to municipalities

Scope exists to improve access to private finance

Demand for capital infrastructure remains high

Rehabilitating existing infrastructure is a priority



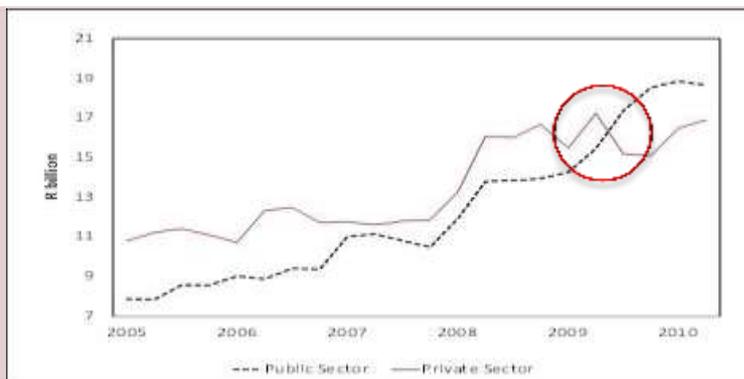
Municipal infrastructure investment requirement, 2009

Scope exists for further growth in private capital funding

- National transfers are the major source of finance for municipal capital budgets – they provided 51% of capital funding in 2010/11
- External loans contributed 20.7% as a funding source in 2010/11. This is down from 24.9% in 2006/07.

Lending dominated by the DBSA

INCA (a major private lender) has withdrawn from the municipal market



Trends in the municipal borrowing market

Various sources of private finance are available

Municipal borrowing

- Municipal borrowing increased from R18.7bn to R38.1bn between 2005 and 2010 (growth of 15% per annum)
- Municipal bonds issued by Johannesburg, Cape Town and Ekurhuleni come to R11.8bn

Development charges

- Costs of new infrastructure are paid by the property owners benefiting from such developments
- Facilitates more rapid development, and a better application of scarce capital funding

Land based financing strategies

- Using the proceeds from land sales to finance infrastructure replaces an appreciating asset with a depreciating asset
- Good stewardship = using the proceeds from selling municipal land to buy other land
- Alternatives – security for loans, leaseholds, land-use exchanges and land swaps
- Aim to use municipal land to facilitate realisation of the municipality's spatial development framework

Public Private Partnerships

- A model for risk sharing between a municipality and its private sector partners
- Private partners raise debt and equity to finance the project

Scope exists to further develop private finance opportunities

Clear regulatory framework in place

- National government does not stand surety
- National and provincial government may not lend to municipalities
- Municipalities may offer lenders a range of credit enhancements
- Term of borrowing may not exceed the useful life of the assets being financed
- Municipalities are encouraged to get credit ratings

Dealing with constraints

- Forward planning of capital budgets is generally poor, resulting in underspending
- Growth in conditional grants to fund capital are reducing municipalities' incentive to explore alternative financing mechanisms for infrastructure
- Need to develop the capacity of the treasury function
- Explore creating a pooled finance vehicle for secondary cities
- DBSA needs to find ways of crowding in private finance, rather than competing with private lenders

Staff are a major municipal asset

Significant number of employees

- Over 278 000 jobs, or 2.1% of total SA employment (2009)
- Accounts for between 25 and 30% of operating expenditures

Expenditures growing faster than jobs

- Personnel expenditure increases from R30bn in 2006/07 to R46.7bn in 2009/10 (growth of 52.5%)
- Employment grew by 4% or 10 700 employees between 2006 and 2009
- Vacancies rose from 21.9% to 23.2% between 2006 and 2008, mainly due to municipalities revising their organisational structures

Cost per employee rising (mostly slower than wage increases)

Rand	2006	2009	Percentage growth
Category A (Metros)	122 033	230 777	47.1%
Category B (Locals)	102 361	145 445	29.6%
<i>Secondary cities - 21</i>	<i>142 069</i>	<i>160 439</i>	<i>11.4%</i>
<i>Towns - 140</i>	<i>83 886</i>	<i>129 234</i>	<i>35.1%</i>
<i>Mostly rural - 70</i>	<i>88 029</i>	<i>158 826</i>	<i>44.6%</i>
Category C (Districts)	137 005	202 438	32.3%
Category B + C	106 130	152 940	30.6%

Average cost per employee, 2006 and 2009

Wage agreements from 2006 to 2009 provide for a cumulative basic increase of 35.73%

Personnel policies require careful management

Getting the personnel mix right

Number	Total positions	2009 Positions filled	Percentage positions vacant
By category of municipality			
Category A (Metros)	134 068	101 670	24.2%
<i>Financial administration</i>	15 713	12 207	22.3%
<i>Electricity</i>	13 632	9 118	33.1%
<i>Water</i>	13 872	10 014	27.8%
<i>Waste water management</i>	2 540	1 355	46.7%
<i>Waste management</i>	11 226	8 251	26.5%
<i>Other</i>	77 085	60 725	21.2%
Category B + C	144 523	122 258	15.4%
<i>Financial administration</i>	26 501	22 099	16.6%
<i>Electricity</i>	7 643	6 134	19.7%
<i>Water</i>	13 985	12 035	13.9%
<i>Waste water management</i>	9 730	7 413	23.8%
<i>Waste management</i>	13 867	12 309	11.2%
<i>Other</i>	72 797	62 268	14.5%
Total	278 591	223 928	19.6%

Percentage of positions vacant in key sectors, 2009

Filling key positions

Number	2006*	2007*	2008*	2009
Category A (Metros)	8	7	3	29
Category B (Locals)	206	212	163	204
<i>Secondary cities - 21</i>	25	21	26	30
<i>Towns - 140</i>	135	140	99	118
<i>Mostly rural - 70</i>	46	51	38	56
Category C (Districts)	66	32	49	41
<i>Category B + C</i>	272	244	212	245
Total	280	251	215	274

Vacant posts for section 57 managers, 2006 and 2009

Value for money from personnel spending depends on better performance management

Legal framework for performance management

- Municipal Systems Act requires each municipality to have in place a performance management system
- Municipal managers and s57 managers must have performance agreements linked to the IDP and budget
- Performance agreements of MMs and s57 managers must be made public (published on official website)

Dealing with poor performance

- Poor performance is indicative of poor governance
 - 22% of MMs did not have performance agreements in 2009
- Do officials in critical positions have the required competencies?
 - Are municipalities implementing the Municipal Regulations on Minimum Competency Levels?
- Is performance being properly evaluated?

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Water services have seen significant growth in access and expenditures

Access to basic water and sanitation services improved

- Access to basic water increased by 7% or 695 000 btwn 2008 and 2009
- Access to basic sanitation increased by 7.6% or 657 000 btwn 2008 and 2009

Provision of Free Basic Services is being better targeted

Province	2007	2008	2009	2007	2008	2009
	Free basic water			Free basic sanitation		
Eastern Cape	574 165	775 360	786 263	402 467	534 148	590 419
Free State	569 622	402 978	470 333	250 566	181 873	202 797
Gauteng	2 060 021	1 461 966	1 496 021	889 946	592 101	710 015
Kw aZulu-Natal	1 537 122	1 246 349	1 329 741	348 514	322 514	330 574
Limpopo	535 471	567 194	609 114	193 444	155 780	177 207
Mpumalanga	517 861	342 915	359 510	110 975	93 114	101 837
Northern Cape	87 432	90 530	94 267	66 096	64 955	69 658
North West	497 481	353 125	342 752	119 167	98 887	100 037
Western Cape	846 112	834 372	892 850	737 059	709 430	752 968
Total	7 225 287	6 074 789	6 380 851	3 118 234	2 752 802	3 035 512

Households receiving free basic water and sanitation

Municipal water expenditure increases from R8.4bn in 06/07 to R35.8bn in 12/13

- Between 2009/10 and 2012/13, operational expenditure increases at 35% p.a
- Capital expenditure grew by 114% p.a. between 2006/07 and 2009/10 – from a low base
- Municipalities budgeted to spend R23.5bn on water service infrastructure between 2010/11 and 2012/13

Municipal sanitation expenditure increases from R3.3bn in 06/07 to R15.4bn in 12/13

- Between 2009/10 and 2012/13, operational expenditure increases at 32% p.a
- Capital expenditure grew by 36% p.a. between 2009/10 and 2012/13
- Municipalities budgeted to spend R15bn on sanitation infrastructure between 2010/11 and 2012/13

... but sector faces important challenges

Water resources - concerns with quality and availability

- South Africa is a water scarce country
- Division of country into catchment-based water management areas to facilitate better management of water resources
- Only 26 municipalities tap water given 'Blue drop status' in 2009/10
- 75% of sewerage treatments plants not up to 'Green drop status' in 2009/10

Issues in the water and sanitation functions

- Need to clarify responsibilities between local and district municipalities
- Need to improve alignment of funding allocations to municipalities responsible for the actual delivery of the water and sanitation services
- Non-revenue water: 29.7% is lost and 5.9% is stolen
- Increase investment in renewal and maintenance of existing water infrastructure
- Need to ring-fence functions and ensure tariffs are cost-reflective

Similar trends are evident in electricity distribution

Household access to electricity improved

- 340 000 more households had access to electricity in 2009 than 2008
- 6.2% more households received free basic electricity in 2009 than 2008

Province	2008			2009		
	Number of consumer units receiving basic electricity services	Free basic electricity services		Number of consumer units receiving basic electricity	Free basic electricity services	
		Number of consumer units	%		Number of consumer units	%
Eastern Cape	811 953	282 175	34.8%	872 170	312 975	35.9%
Free State	576 790	345 545	59.9%	602 434	379 981	63.1%
Gauteng	1 802 607	706 822	39.2%	1 829 044	724 178	39.6%
Kw aZulu-Natal	1 283 813	165 505	12.9%	1 327 485	192 265	14.5%
Limpopo	1 072 824	271 992	25.4%	1 157 388	319 559	27.6%
Mpumalanga	559 499	220 106	39.3%	591 867	234 183	39.6%
Northern Cape	227 033	100 021	44.1%	243 075	107 788	44.3%
North West	579 004	119 919	20.7%	588 298	129 443	22.0%
Western Cape	1 173 637	568 958	48.5%	1 209 566	552 314	45.7%
Total	8 087 160	2 781 043	34.4%	8 421 327	2 952 686	35.1%

Consumer units access to electricity and free basic electricity

Expenditure increased from R15bn in 06/07 to R59bn in 12/13

- Operating revenue grows at above 20% per year in line with increases in the bulk price of electricity
- Expenditure grew at 26.7% per year between 2006/07 and 2009/10
- Budgeted capital expenditure on electricity increases from R4.7bn in 2009/10 to R5.7bn in 2011/12, before declining to R4.9bn in 2012/13
- Compared to 2010/11, municipalities' budgeted capital investment in electricity declines by 14% in 2011/12 and again by 7% in 2012/13

.... but challenges are not confined to electricity generation

Generation challenges

- The government's electricity generation build programme will add 14000 MW by 2020
- The process of increasing the cost of bulk electricity to the long run cost of supplying electricity is placing strain on both customers and municipal finances
- Demand side management and electricity conservation programmes are expected to save 3420 MW per year by 2017

Distribution challenges

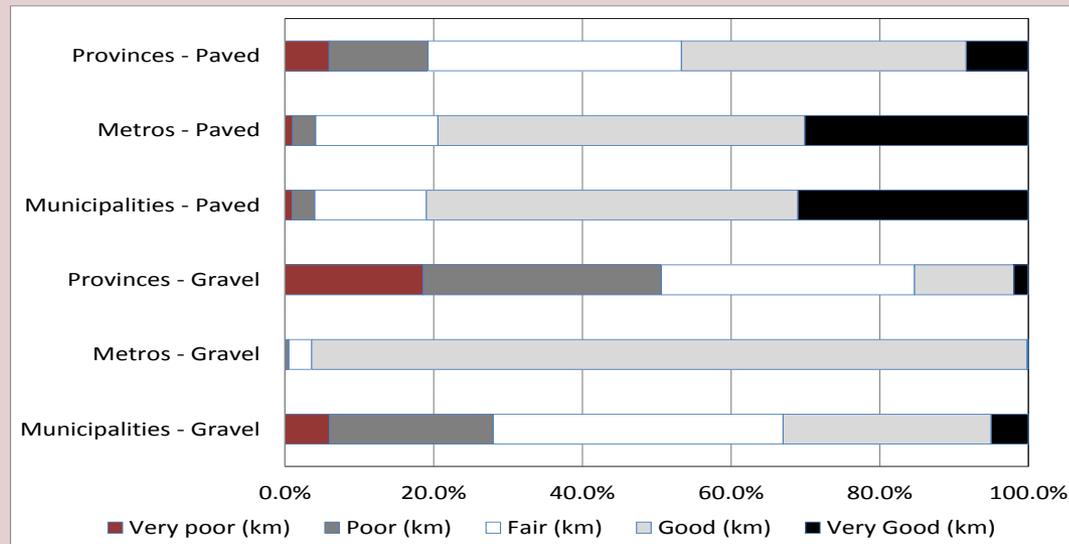
- Government has decided not to create REDs, but there is still a need to address: poor infrastructure maintenance and weak management capacity
- Eskom services 48.6% of domestic customers.
 - This means municipalities lose this source of own revenue, and cannot use electricity cut-offs for credit control
- Increased investment in new and existing electricity infrastructure
- Addressing non-technical electricity losses: international norm is 3.5%
- Municipalities need to ring-fence the finances of electricity departments

Pricing challenges

- Increases in the bulk price of electricity mean electricity will be 4X higher in 2014 than at the start of 2009
- Price of electricity needs to increase to the level of the cost of new generation, so as to finance Eskom's investments and facilitate IPP entrants into sector
- Need to protect poor households from price increases, e.g. through use of inclining block tariffs

Municipal roads are coming under increasing pressure

State of public roads managed by provinces and municipalities



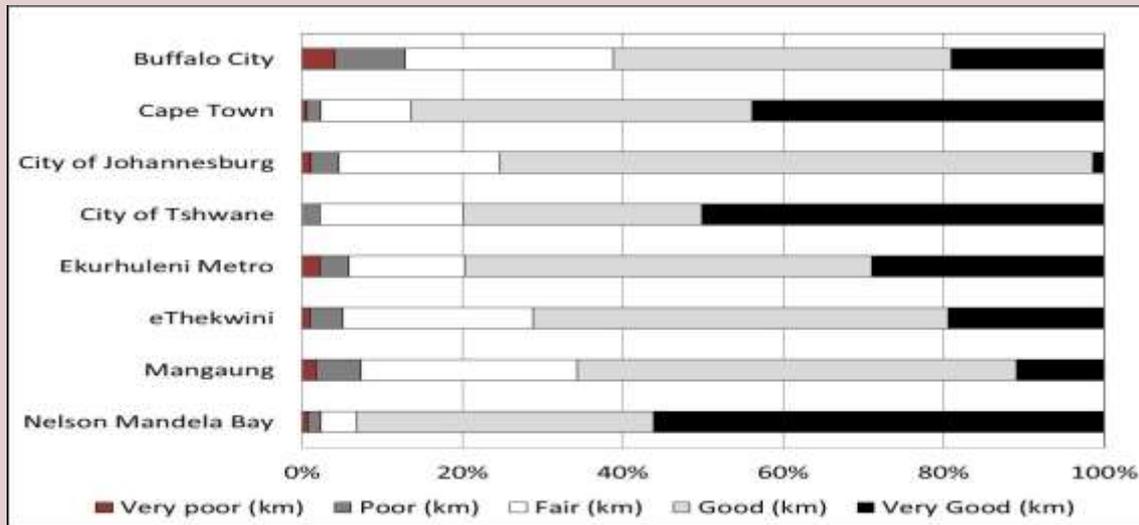
State of paved and gravel roads, 2010

Challenges faced by municipalities

- Focus on new infrastructure at the expense of maintenance
- Maintenance is regarded to be a discretionary expenditure
- Poor integration of housing and transport developments
- Poor co-ordination of road excavations
- Loss of key technical staff
- Lack of asset lifecycle planning
- Co-ordination and strengthening of public transport

Investments in roads increased before the World Cup, but have not been sustained

State of metro roads



Roads are essential for economic activity

Metros capital expenditure on roads

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	% Ave annual growth	
	Outcome			Estimate	Medium-term estimates			2006/07 - 2009/10	2009/10 - 2012/13
R thousands									
City of Cape Town	255 533	385 761	747 859	1 588 087	870 504	1 335 457	779 116	83.9%	-21.1%
City of Johannesburg	298 033	180 100	1 352 672	1 381 806	245 193	1 358 371	994 022	66.7%	-10.4%
City of Tshwane	234 192	438 469	561 732	525 780	485 065	561 621	521 401	30.9%	-0.3%
Ekurhuleni	397 391	389 691	1 003 577	575 628	437 580	399 906	370 766	13.1%	-13.6%
eThekweni	415 389	635 141	822 635	1 405 087	675 502	740 580	692 510	50.1%	-21.0%
Nelson Mandela Bay	207 732	348 280	695 415	875 287	898 856	1 402 190	1 516 143	61.5%	20.1%
Total	1 808 270	2 377 442	5 183 890	6 351 675	3 612 699	5 798 125	4 873 958	52.0%	-8.4%

Jo'burg has budgeted to spend R2.6bn over MTREF, which is less than NMB and Cape Town

There is expanding access to solid waste services ...

Expanding access to solid waste services

Category	Total number of households	Consumers receiving services					% of all households
	2007	2005	2006	2007	2008	2009	2007
Metros	4 714 022	3 421 122	4 029 732	4 358 630	4 355 942	4 548 979	92.5%
Secondary cities	2 207 003	1 232 347	1 253 940	1 389 260	1 393 949	1 596 674	62.9%
Large towns	1 095 456	564 322	587 670	628 276	643 503	696 636	57.4%
Small towns	1 637 412	983 981	1 066 597	1 204 108	1 071 349	1 118 202	73.5%
Mostly rural	2 824 259	493 226	413 560	453 061	388 900	408 704	16.0%
Districts*	22 482	6 357	28 906	29 531	27 224	27 379	
Total	12 500 634	6 701 355	7 380 405	8 062 866	7 880 867	8 396 574	64.5%

Access to refuse removal services

1.7m more households getting refuse services

Expenditure is growing strongly

- Operating expenditure has increased from R3.6bn in 2006/07 to R7.3bn in 2009/10
- Operating revenue is 43% less than expenditure in 2009/10 – need to address tariffs
- Capital spending has increased from R118m in 2006/07 to R951m in 2009/10
- The increase in capital spending is over 100% per annum, but is still short of what is required
- Required capital is very lumpy – making it difficult for municipalities to finance, e.g. new dump sites

... but need to take advantage of opportunities in the sector

Waste stream is growing rapidly

- Urbanisation is leading to increasing waste streams
- Waste volumes grew by 79% per year since 2004 in Gauteng
- Estimates suggest waste volumes have increased from 42 million m³ to 68 million m³ between 1997 and 2010

Employment creation

- 10% of municipal workforce or 25 500 employees work in waste management (excludes staff for outsourced services)
- Metros employ 1.5 staff per 1000 customers, compared to 6.5 in rural municipalities
- Potentially labour intensive operations, but the tendency is towards capital intensive approaches to providing service

Waste minimisation, recycling and energy recovery

- 95% of waste goes to land fills
- Only 2.2% of waste collected in Gauteng is recycled
- Only 20% of household waste is recycled – most of it before collection
- Need to look at:
 - *Developing waste management plans for priority waste streams (lighting, tyres, paper and packaging and veterinary products)*
 - *Reducing consumer goods packaging*
 - *Sorting at source and recycling*
 - *Waste to energy schemes – landfill methane plants, and incineration*

Summary of chapters

Introduction and context

- 1. Introduction
- 2. Socio-economic and fiscal context of local government
- 3. Intergovernmental relations and the local government fiscal framework

Financial issues

- 4. Revenue and expenditure trends in local government
- 5. Financial management and MFMA implementation
- 6. Leveraging private finance
- 7. Managing municipal personnel

Service delivery

- 8. Water and sanitation
- 9. Electricity
- 10. Roads
- 11. Solid waste services

Delivery contexts of rural and city municipalities

- 12. Delivering municipal services in rural areas
- 13. Cities and the management of the built environment

Rural municipalities face particular challenges...

Identifying rural municipalities

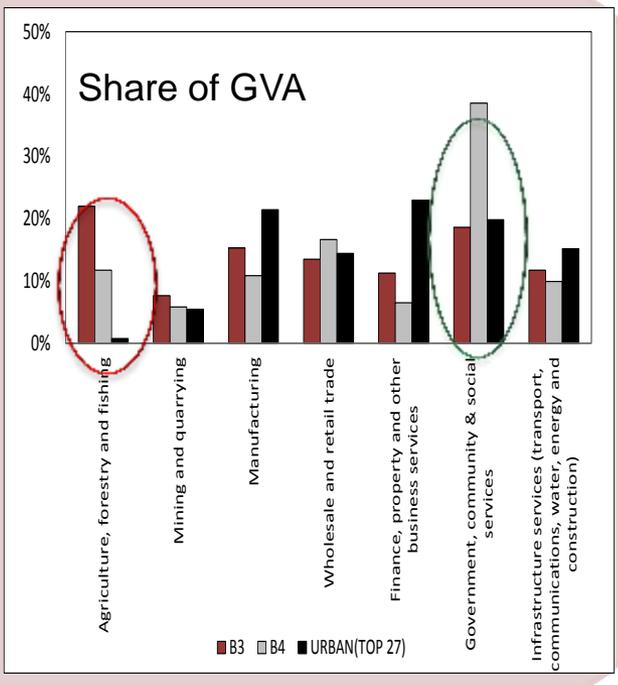
- The classification system used by DCoG categorizes rural municipalities as:
 - B3 - Small towns (111) – municipalities with one or more small towns and rural areas dominated by commercial farming
 - B4 – Mostly rural (70) – municipalities with one or two small towns, communal land tenure and villages or scattered groups of dwellings (typically located in the former homelands)

Rural areas have very different characteristics

Human settlements characteristics:
 B3 – 52% in towns, 29% farms, 10% tribal land
 B4 – 7% in towns, 7% farms, 83% tribal land

Demographic profile of urban and rural municipalities

	B4	B3	Urban (Top 27)	South Africa
Population / population SA	27.0%	13.0%	52.0%	
Male Population / population SA	46.0%	48.0%	49.0%	48.0%
Female population / population SA	54.0%	52.0%	51.0%	52.0%
Population 0 - 19 yrs / population SA	52.0%	43.0%	36.0%	42.0%
Population 20 - 64 yrs / population SA	41.0%	51.0%	60.0%	53.0%
Population 65 yrs and older / population SA	6.0%	6.0%	5.0%	5.0%
Population aged 20 yrs and older with no school qualification	10.0%	8.0%	3.0%	6.0%
Population aged 20 yrs and older with at least matric	7.0%	23.0%	22.0%	16.0%

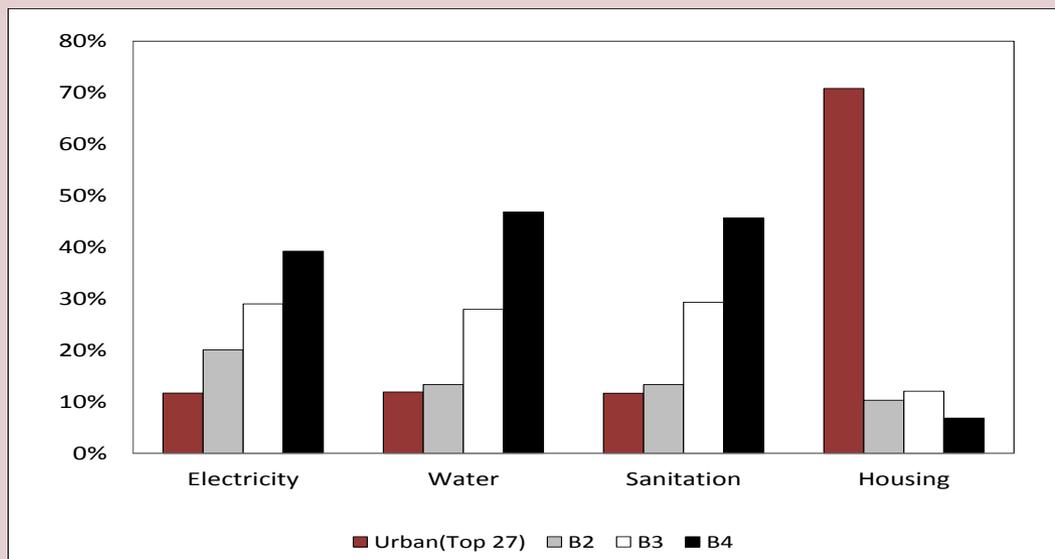


Which requires rural development efforts to be strengthened

Rural development strategy

- Focuses on
 - agrarian transformation and land reform
 - strengthening infrastructure
 - provision of basic services

Access to basic services is improving, but backlogs remain concentrated in rural areas



Distribution of service delivery backlogs, 2007

Extending and sustaining access to basic services:

- Agree with communities on the use of appropriate technologies
- Innovation in the deployment of appropriate technologies
- Addressing technical skills and leveraging local capacity

Local Economic Development

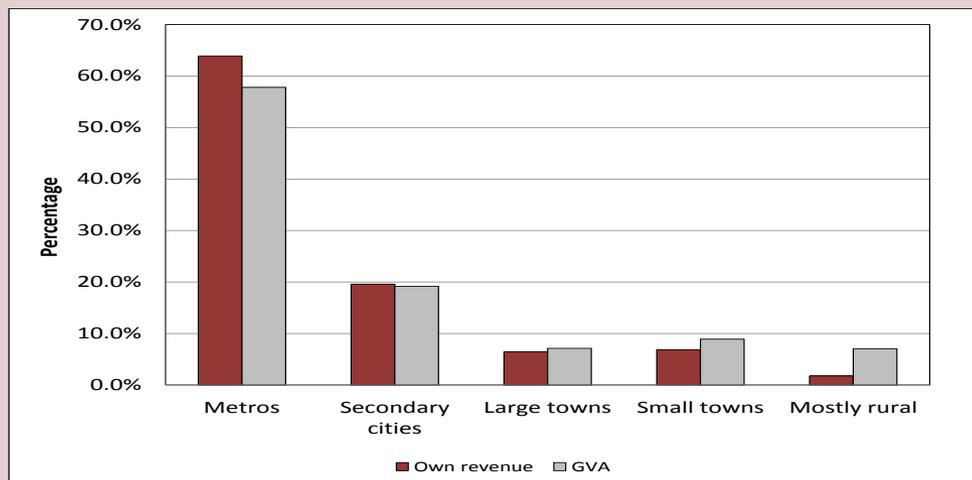
- LED needs to support rural people participate in the local economy
 - Provision of municipal infrastructure – particularly access roads
 - Ensuring a user-friendly regulatory environment that supports development and new investment
 - Work with other institutions in catalytic partnerships – departments, private sectors, intermediaries and communities

And appropriate financing for rural municipalities

Equitable share and grants

- Equitable share finances the provision of basic services and institutional capacity, while conditional grants address infrastructure for service delivery
- Grant dependence of rural municipalities is high, due to limited fiscal capacity
- Problems with the allocation of functions and ensuring funds reach the municipality responsible for actual service delivery

Scope to improve fiscal effort, even though fiscal capacity is limited



GVA vs municipal own revenue, 2008/09

Small town municipalities

- 8.9% of GVA
- 6.8% of own revenue

Mostly rural municipalities

- 5.6% of GVA
- 1.9% of own revenue

Own revenue challenges

- Many rural municipalities (B4) do not charge non-poor households property rates and service charges
- Property rates regime faces challenges in traditional land tenure areas due to:
 - *Unclear powers between government and traditional leaders*
 - *A weak social contract between the municipality and communities*
 - *A poor understanding of value-based property taxes*

Cities face particular challenges...

Urbanisation trends

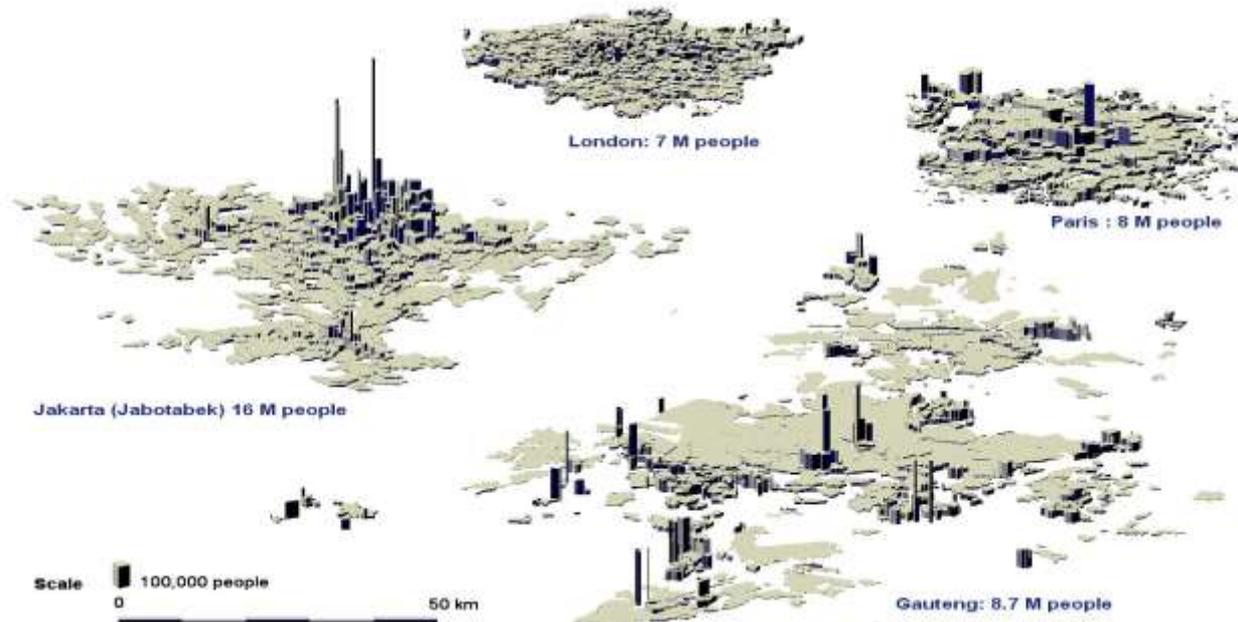
- Driven by both rural-urban migration and organic growth
- By 2030, an estimated 71% of South Africans will live in cities
- This is an increase of 7.8 million people compared to 2007

Concentration of economic activity

- 80% of economic activity occurs in the country's 27 largest cities
- Economic growth is more rapid in cities, than the national average

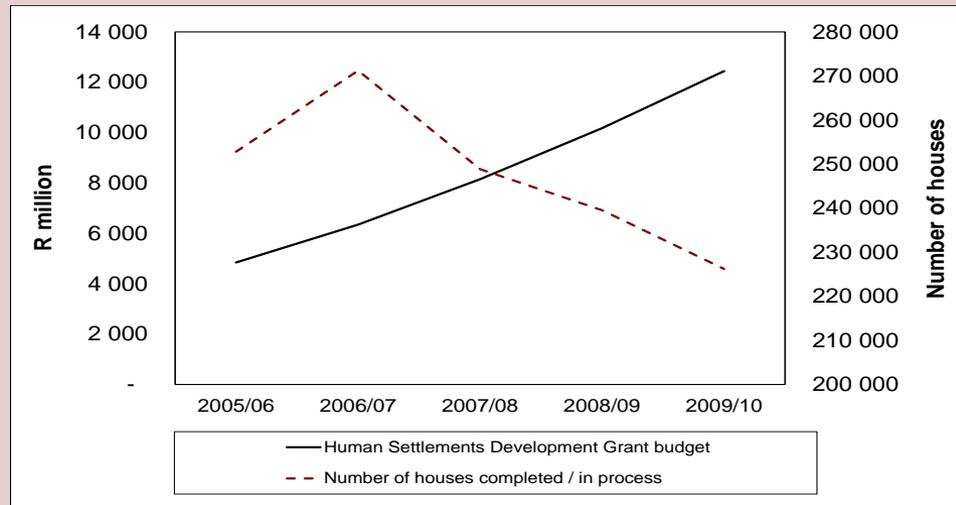
Apartheid spatial patterns persist

Spatial distribution of population in Gauteng (2001 census) compared to Jakarta, London and Paris



Which expenditure on the built environment seeks to address

Human settlements



Expenditure on housing and housing delivery, 2005-2009

Lack of certainty in funding limits cities' ability to plan and co-ordinate development

In 2009/10:

- *Metros - R1.2bn*
- *Secondary cities – R250m*

Public transport

- Public transport subsidies in 2008/09 were R6.8bn
- In 2009/10 cities spent:
 - *R2.4bn on integrated rapid public transport networks*
 - *R1.9bn on the public transport infrastructure and systems grant*
- **Challenges include:**
 - *Trips distances are three times those in denser cities*
 - *Bus services are losing market share to minibuses reducing efficiency*
 - *Industry not responsive to off-peak travel needs*
 - *Safety and security concerns of public transport remain*

And which is also being addressed through policy

Spatial planning and land use management

- The Development Facilitation Act has been declared unconstitutional
- Constitutional court confirmed that re-zoning of land and the establishment of townships are exclusive municipal functions
- Review of land use management legislation is underway

Devolution of housing and transport functions

- Municipalities are the logical authority to plan and provide human settlement development
- Accreditation of municipalities to deliver the housing function needs to be fast-tracked
- Devolution of public transport function to cities will allow for better planning and integration with human settlements
- Both require the fiscal framework to respond to changes in responsibilities for the functions

Strengthening own revenue potential and effort

- Cities have significant, but under-utilised own revenue potential
- Need to improve revenue management
- Explore additional avenues to raise revenues, e.g. development charges
- Re-evaluate the approach to free basic services and the range of free services

Outline of presentation

Key findings of the review

Summary of chapters

Conclusion

Uses of this *Review*

Contains extensive data and analysis

- Treasury has dramatically increased the availability of raw data on municipal finances
- Treasury welcomes alternative and / or additional analysis of issues

Provides a starting point for legislative oversight

- Range of data provided on national programmes and municipal performance
- Aggregate and average figures should be compared with individual municipal performances

National and local policy needs to respond

- Significant policy challenges ahead, in almost all sectors, at both municipal and national level
- Analysis and debate must deepen to ensure effective response

Thank you