6

Division of revenue and spending by provinces and municipalities

In brief

- Over the next three years, after providing for debt-service costs, the contingency reserve and provisional allocations, 48.2 per cent of nationally raised funds are allocated to national government, 43 per cent to provincial government and 8.8 per cent to local government.
- The division of revenue redistributes revenue based on need, with taxes raised mainly in wealthier areas funding poorer provinces and municipalities.
- The budget supports the development of a more capable state at sub-national level. Incentive programmes reward good performance and a range of capacity-building measures are in place. To improve infrastructure delivery, a new approach to project preparation in cities is introduced.
- Where provinces and municipalities fail to meet basic standards, national government is prepared to impose consequences, including by intervening and withholding transfers. These measures have led to a significant increase in the number of municipalities with funded budgets in 2020/21.

Overview

A capable state requires provinces and municipalities that can spend efficiently

Provinces and municipalities account for the majority of public spending in South Africa. Building a capable state that is able to deliver on its developmental mandate therefore requires provinces and municipalities to have the capacity to spend efficiently. It is also important to ensure problems are addressed timeously. Over the past few years, a number of programmes have been implemented to strengthen provincial and municipal capacity.

Government investment can stimulate demand in the economy and create a foundation for future growth, provided that it is well spent. But wasteful spending and corruption undermine the ability of governments to translate budgeted resources into delivery of services. The resulting collapse of basic functions like water reticulation, sewage treatment and safe roads in some parts of the country imposes hardships on communities and increases the cost of doing business. For public spending to achieve value for money, the fundamentals of governance need to be fixed at all levels.

Provinces and municipalities need to become more accountable to residents for how they spend public money

The 2020 Budget protects the transfers that deliver the greatest value, while reducing those spent less effectively. Improving spending efficiency requires greater accountability from provinces and municipalities – especially to the residents who are entitled to these services. Over the period ahead, national government will continue to fund provinces and municipalities, work with them to build capacity, and ensure that underperforming sub-national governments face consequences.

Division of revenue

Over the medium-term expenditure framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.2 per cent of nationally raised funds are allocated to national government, 43 per cent to provinces and 8.8 per cent to local government.

Table 6.1 Division of nationally raised revenue

R billion	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Average annual MTEF growth
		Outcome		Revised estimate		Medium-term estimates		
Division of available funds								
National departments	**555.6**	**592.6**	**634.3**	**739.5**	**757.7**	**768.9**	**797.8**	**2.6%**
of which:								
Indirect transfers to provinces	*3.6*	*3.8*	*3.9*	*3.9*	*4.1*	*4.8*	*5.1*	*8.8%*
Indirect transfers to local government	*8.1*	*7.8*	*7.8*	*7.0*	*7.6*	*7.2*	*8.2*	*5.1%*
Provinces	**500.4**	**538.6**	**572.0**	**612.8**	**649.3**	**692.0**	**730.7**	**6.0%**
Equitable share	410.7	441.3	470.3	505.6	538.5	574.0	607.6	6.3%
Conditional grants	89.7	97.2	101.7	107.3	110.8	118.0	123.1	4.7%
Local government	**102.9**	**111.1**	**118.5**	**125.0**	**132.5**	**142.4**	**151.4**	**6.6%**
Equitable share	50.7	55.6	60.8	67.0	74.7	81.1	87.2	9.2%
Conditional grants	40.9	43.7	45.3	44.9	43.8	46.2	48.1	2.4%
General fuel levy sharing with metros	11.2	11.8	12.5	13.2	14.0	15.2	16.1	6.9%
Provisional allocation not assigned to votes[1]	–	–	–	–	-7.8	-16.1	-34.9	
Non-interest allocations	**1 158.9**	**1 242.3**	**1 324.8**	**1 477.3**	**1 531.7**	**1 587.2**	**1 645.1**	**3.7%**
Percentage increase	*3.9%*	*7.2%*	*6.6%*	*11.5%*	*3.7%*	*3.6%*	*3.6%*	
Debt-service costs	146.5	162.6	181.8	205.0	229.3	258.5	290.1	12.3%
Contingency reserve	–	–	–	–	5.0	5.0	5.0	
Main budget expenditure	**1 305.4**	**1 404.9**	**1 506.6**	**1 682.3**	**1 766.0**	**1 850.7**	**1 940.2**	**4.9%**
Percentage increase	*4.9%*	*7.6%*	*7.2%*	*11.7%*	*5.0%*	*4.8%*	*4.8%*	
Percentage shares								
National departments	*47.9%*	*47.7%*	*47.9%*	*50.1%*	*49.2%*	*48.0%*	*47.5%*	
Provinces	*43.2%*	*43.4%*	*43.2%*	*41.5%*	*42.2%*	*43.2%*	*43.5%*	
Local government	*8.9%*	*8.9%*	*8.9%*	*8.5%*	*8.6%*	*8.9%*	*9.0%*	

1. Includes proposed compensation reductions, support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

Proposed adjustments to wage bill, when effected, will change shares in division of revenue

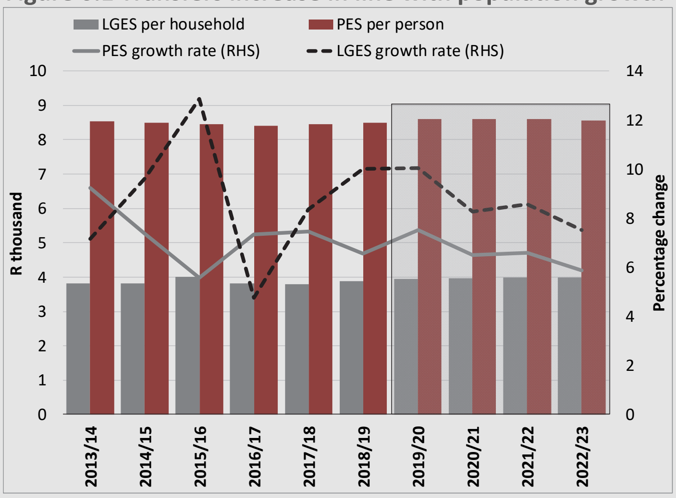
The proposed changes to the wage bill discussed in Chapters 3 and 5 are not yet reflected in the allocations to national and provincial departments shown in Table 6.1, or in the equitable share allocations in the Division of Revenue Bill. Once these changes are agreed in the Public Service Co-ordinating Bargaining Council, they will be implemented in the 2020/21 adjustment budget. This will reduce the national and provincial shares of the division of revenue and increase that of local government in relative terms. Shares in the division of revenue are also sensitive to increased support to public entities, which is provided at national level. This explains national government's somewhat larger share in 2019/20.

The division of revenue is redistributive, based on need. Most tax revenues come from urban centres: for example, per capita revenues from personal income tax are three times higher in Gauteng than in the Eastern Cape. However, the allocations made through the division of revenue are based on the demand for public services in each province and municipality, not its contribution to national revenues. Allocations also consider poverty rates. As a result, transfers per capita to the Eastern Cape are about 40 per cent higher than to Gauteng.

Keeping the equitable share stable in line with population growth and demand for services

South Africa's population grew by just over 1 million people between 2018 and 2019, while the number of households grew by nearly 500 000. Equitable share transfers to provinces and municipalities need to keep pace with population growth and demand for services. After accounting for inflation, the division of revenue has maintained stable allocations over the decade between 2013/14 and 2022/23. This is true on a per person basis through the provincial equitable share (PES), and on a per household basis through the local government equitable share (LGES).

Figure 6.1 Transfers increase in line with population growth



Source: National Treasury

While annual growth rates fluctuate and there have been several rounds of fiscal consolidation over this period, the allocations per person and per household for the provision of basic services are remarkably consistent.

Over the 2020 MTEF period, the provincial equitable share grows by an average of 6.3 per cent a year, while the local government equitable share grows at an average of 9.2 per cent a year. By contrast, transfers to national departments grow at 2.6 per cent a year. Debt-service costs are growing at a much faster rate, averaging 12.3 per cent a year.

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

Reductions to transfers

Most conditional grants have been reduced, taking into account past performance

As outlined in the 2019 *Medium Term Budget Policy Statement* (MTBPS), most conditional grants have been reduced as part of efforts to limit growth in government expenditure and ensure public debt is sustainable. To manage the effect on services, these reductions take into account:

- Past spending and performance
- Whether the grant funds salaries, medicines and food
- Whether there has been significant real growth in allocations in recent years.

Where possible, the National Treasury has reduced transfers that are more likely to go unspent or to be spent less effectively. Accordingly, grants that have persistently underperformed have been reduced by larger amounts. The largest proportional reduction to local government grants in 2020/21 has been made in the *public transport network grant*, because only six of the 13 cities receiving the grant have successfully launched public transport systems. The three cities that have shown the least progress – Buffalo City, Msunduzi and Mbombela – have been suspended from the grant and will not receive allocations in the 2020 MTEF period.

Larger reductions are also made to grants to urban municipalities, which have more capacity to offset cuts by increasing their own-revenue investments.

Proposed changes to the wage bill, once effected, will result in reductions to the provincial equitable share in the 2020/21 adjustment budget. These reductions will be fully offset by the lower compensation spending by provinces as a result of the revised wage agreement.

Building capability for infrastructure delivery

Conditions attached to integrated city development grant funding

The National Treasury continues to expand the tools available for provinces and municipalities to improve spending. Weaknesses in preparing and authorising projects and programmes are one of the main causes of poor performance on infrastructure transfers. The Infrastructure Delivery Management System has helped provinces build infrastructure units with qualified staff and institutionalise best practices. In the 2020 Budget, cities will receive grant funding through the *integrated city development grant* to institutionalise an effective system for preparing programmes and projects. Metros will only be eligible for this funding if they:

- Have not had an adverse or disclaimed audit opinion in the last two financial years
- Have formally adopted the Cities' Infrastructure Delivery and Management System guidelines
- Establish a programme and project approval committee to authorise work
- Commit to co-financing contributions and budget management arrangements.

National government provides a broad range of capacity-support grants and programmes for local government. This system is under review;

reforms to improve its effectiveness are likely to be implemented from 2021/22.

Past performance

Underspending has stabilised across national and provincial government. In 2018/19, national expenditure, excluding direct charges to the National Revenue Fund, amounted to R820.9 billion out of a total adjusted appropriation of R831.6 billion. This amounted to underspending of 1.3 per cent. Provincial government underspent its adjusted budget of R598.6 billion for 2018/19 by R7.7 billion (1.3 per cent), compared with R5.8 billion (1 per cent) in the prior year. Spending on provincial conditional grants declined slightly, from 97.7 per cent in 2017/18 to 96.6 per cent in 2018/19. About 38 per cent (R1.2 billion) of the R3.2 billion in unspent grant funds was returned to the National Revenue Fund because the funds were not committed to identifiable projects.

Underspending has stabilised at just above 1 per cent across national and provincial government

Spending outcomes for 2018/19 varied across the 257 municipalities. Many local governments adopted unrealistic spending plans. As a result, 211 municipalities underspent their operating budgets and 214 municipalities underspent their capital budgets. This was a slight improvement from the previous year.

Spending outcomes varied considerably in local government, with significant underspending

Of the R33.6 billion in specific purpose conditional grants transferred to municipalities in 2018/19, R27.2 billion (80.1 per cent) was spent – down from the 93 per cent spent in 2017/18. This decline was partly due to underspending on drought relief funds allocated in the middle of the financial year.

Spending outcomes also varied across grants. The spending rate among infrastructure grants was highest in the *municipal infrastructure grant*, which spent 92.7 per cent of transferred funds. This was achieved by closely monitoring municipal spending, and stopping transfers and reallocating funds in-year when the Department of Cooperative Governance identified that a municipality was not performing. Municipalities applied to roll over R4.4 billion of the unspent grant funds to 2019/20, but only R1.9 billion was found to meet the requirements.

Provincial revenue and spending

Provinces are responsible for providing social services. This includes public basic education for 12.5 million learners and healthcare for 49.1 million South Africans who do not have private insurance. Most recipients access these services free of charge or for low fees. Provinces do not have significant taxation powers, so the division of revenue compensates them for the cost of the services they provide through transfers. These account for an average of 95 per cent of provincial revenues.

Transfers to cover the cost of providing social services account for 95 per cent of provincial revenues

More than 80 per cent of transfers to provinces are allocated through the equitable share, which is based on a formula incorporating the demographic factors that affect demand for services, such as the school-age population and the population without medical aid. These factors are updated annually. Further improvements to the formula are expected to be announced in the 2020 MTBPS. Provinces are responsible for drawing up their own budgets and prioritising the use of these funds to meet their mandates.

Table 6.2 Provincial equitable share

R million	2019/20	2020/21	2021/22	2022/23	Average annual MTEF growth
			Medium-term estimates		
Eastern Cape	68 824	71 415	75 306	78 841	4.6%
Free State	28 187	30 017	31 897	33 657	6.1%
Gauteng	102 448	112 118	121 121	129 908	8.2%
KwaZulu-Natal	106 014	111 442	117 755	123 544	5.2%
Limpopo	58 965	62 329	66 256	69 935	5.9%
Mpumalanga	41 428	44 105	46 996	49 724	6.3%
Northern Cape	13 424	14 290	15 207	16 068	6.2%
North West	34 973	37 548	40 174	42 682	6.9%
Western Cape	51 291	55 208	59 276	63 194	7.2%
Total	**505 554**	**538 472**	**573 990**	**607 554**	**6.3%**

Source: National Treasury

Although wages account for a growing share of provincial budgets, provinces generally manage to remain within their planned spending for compensation. Over the past three financial years, provinces have on aggregate spent less than they budgeted to on wages, and in 2018/19 only one province exceeded its compensation budget.

Without changes to the provincial wage bill, however, slower growth in transfers implies that spending on compensation of employees is likely to rise from 60 per cent of provincial budgets in 2019/20 to 63 per cent by the end of the 2020 MTEF period. To limit the effect of this compositional change on services, provinces are finding ways to reduce costs. These include merging provincial public entities, improving integrated planning to avoid duplication of services, enhancing contract management to avoid overpricing of projects, centralising the approval process for appointing new employees, curbing overtime and exploring new revenue sources.

Some provinces have found ways to achieve cost savings and reduce pressure in core social functions

The guidelines for the budget process this year included a call for all departments to identify savings of between 5 and 7 per cent of their budgets in each year of the MTEF period. Some provinces struggled to achieve these savings. Others used the opportunity to make reductions and reprioritise savings for other priorities. Some provinces set aside unallocated amounts to reduce pressure in functions like health, roads and scholar transport; to settle unpaid bills and medico-legal claims; and to respond to disasters.

Despite the constrained fiscal environment, government continues to increase funding for early education. An additional R1.4 billion is allocated to the *early childhood development grant* over the medium term. Provinces have also prioritised early-grade reading. Their budgets for the 2020 MTEF period are expected to provide funds for upskilling teachers and subject advisors, assessing students’ reading ability and providing additional reading material.

Progress in turning around financial management in North West province

In April 2018, following extensive protests by residents over the poor quality of public services in North West, national government placed the provincial government under intervention, as authorised by the Constitution.

National departments are responsible for managing the interventions in their provincial counterparts. Five national departments took responsibility for delivering the mandates of their North West counterparts. Another five departments, including the National Treasury, issued directives to their provincial counterparts, which outlined the provincial department's failure to meet its obligations and the corrective steps required.

The National Treasury's intervention in the provincial treasury involves three phases. The first phase, to stabilise provincial finances, has been completed, with 72 per cent of the National Treasury's directives implemented. These included a financial and governance review of the North West Development Corporation, which revealed serious maladministration after oversight of this entity was shifted to the Office of the Premier. To improve governance, oversight responsibility has been returned to the Department of Economic Development, Environment, Conservation and Tourism. Irregular contracts across a wide range of activities, from project management offices to scholar transport, have been identified and terminated. The provincial treasury has initiated a project to develop contract registers and identify irregular expenditure in municipalities.

The North West treasury was tasked with ensuring that all the province's departments are appropriately funded for the services they have to deliver. Health has been a particular focus. As a result, the budget of the provincial health department was increased by 10.5 per cent between 2018/19 and 2019/20. Between March 2016 and December 2019, the province filled 235 critical positions for medical practitioners and specialists, and 1 064 nursing posts.

The second phase of the intervention, from September 2019 to August 2020, aims to strengthen supply chain management. It will focus on improving audit outcomes, investigating irregular and wasteful expenditure, and intensifying forensic investigations. The third phase, beginning in September 2020, will monitor ongoing implementation.

Changes in conditional grants

Grant to be expanded to develop specialist health services in underserviced areas

Changes are made to the structure of conditional grants to better align them with government's evolving policy objectives. In 2020, the National Treasury will work with the Department of Health to develop a strategy to align changes to health conditional grants with national health insurance reforms. These changes include accelerating the delivery of improved infrastructure for hospitals and clinics. In 2020/21 a development component will be reintroduced in the *national tertiary services grant*. This component will fund the development of specialised services in historically underserved provinces. Grants funding the training and development of health professionals have also been merged to form a new *statutory human resources, training and development grant*.

A shift from building costly subsidised housing to providing serviced sites where people can build and invest

Government has shifted the emphasis of housing policy from building costly subsidised units to providing serviced sites where residents can invest in improvements. Funding for this purpose is ring-fenced in the informal settlements upgrading components of the *human settlements development grant* and the *urban settlements development grant.*

Other changes aim to improve the effectiveness of conditional grant spending. The 2020 Division of Revenue Bill will enhance requirements for information sharing where provincial conditional grants are transferred to public entities or municipalities to implement projects. These measures will improve coordination between different parts of government working on projects in the same area, in line with the district development model being led by the Department of Cooperative Governance.

If a municipality or province does not adhere to grant conditions or is not spending its allocated funds, then further transfers can be withheld or reallocated to another recipient. The bill will require grant recipients to report the reasons why funds were withheld or reallocated in their annual financial statements, and the measures they are taking to avoid this occurring in future.

Table 6.3 Conditional grants to provinces

R million	2019/20 Adjusted budget	2020/21	2021/22	2022/23	MTEF total
		Medium-term estimates			
Direct conditional grants					
Comprehensive agricultural support programme	1 538	1 522	1 620	1 672	4 814
Ilima/Letsema projects	538	549	614	632	1 795
Community library services	1 501	1 479	1 584	1 667	4 730
Education infrastructure	10 514	11 008	11 710	12 255	34 973
National school nutrition programme	7 186	7 666	8 125	8 516	24 308
HIV, TB, malaria and community outreach	22 039	24 387	27 931	29 405	81 723
Health facility revitalisation	6 007	6 368	6 658	7 034	20 060
Statutory human resources, training and development	3 846	4 155	4 333	4 494	12 982
National tertiary services	13 186	14 069	14 694	15 294	44 057
Human settlements development	18 780	16 621	13 414	13 871	43 905
Informal settlements upgrading partnership	–	–	3 890	4 121	8 011
Provincial roads maintenance	11 442	11 593	11 938	12 507	36 037
Public transport operations	6 326	6 750	7 121	7 090	20 961
Other direct grants	4 360	4 619	4 330	4 580	13 529
Total direct conditional grants	**107 263**	**110 785**	**117 962**	**123 137**	**351 883**
Indirect transfers	**3 941**	**4 060**	**4 824**	**5 076**	**13 961**
School infrastructure backlogs	1 987	1 736	2 295	2 424	6 456
National health insurance indirect	1 909	2 288	2 529	2 652	7 469
Ilima/Letsema projects	45	36	–	–	36

Source: National Treasury

Municipal revenue and spending

Unlike provinces, municipalities have significant revenue-raising powers. Municipal property rate collections, for example, amount to more than 1 per cent of GDP, roughly equivalent to national customs duties. Most municipal revenue is generated from the sale of services such as water and electricity, so collecting fees owed for these services is foundational to sustainable municipal services.

Diverse range of municipalities includes cities that can raise substantial revenue and poor rural municipalities

Yet South Africa's 257 municipalities are also diverse, ranging from cities with large revenue-raising potential from property rates and the sale of services, to rural municipalities where most residents are very poor and the municipal budget is primarily funded from transfers.

While own revenues account for the majority of municipal resources, transfers through the division of revenue make up about 30 per cent of aggregate municipal budgets and can account for more than 80 per cent of budgets in rural municipalities. The largest of these transfers is the local government equitable share, which is allocated through a formula that incorporates the number of poor households in each municipality and the cost of free basic services. The formula provides additional support to municipalities with lower revenue-raising capacity and includes R5.4 billion for maintenance.

Municipalities also earn revenue from levying charges on developers to connect new developments to municipal services. The draft Municipal Fiscal Powers and Functions Amendment Bill proposes new, uniform regulations for these development charges, strengthening the revenue-raising framework for municipalities. This bill, which was published for public comment in January 2020, can be found on the National Treasury website.

Improving regulation of development charges will increase municipal revenue

The 2020 Budget includes funding to support pilot initiatives to improve municipal revenue collection. The National Treasury will work with selected municipalities that have large outstanding debts to bulk suppliers, including Eskom, as a result of customer non-payment. Smart meters will be retrofitted in these municipalities to test whether revenue collections increase sufficiently to pay for the meters and recover associated costs. If so, further rollout of smart meters may be funded by borrowing against future revenue increases. The Department of Cooperative Governance has also been funded to run a payment culture campaign.

Table 6.4 Transfers to local government

R million	2019/20 Adjusted budget	2020/21	2021/22	2022/23	MTEF total
		Medium-term estimates			
Equitable share and related	**68 973**	**74 683**	**81 062**	**87 213**	**242 958**
General fuel levy sharing with metros	**13 167**	**14 027**	**15 182**	**16 085**	**45 294**
Direct conditional grants	**45 068**	**43 819**	**46 198**	**48 147**	**138 163**
Municipal infrastructure	14 816	14 671	15 937	16 852	47 460
Integrated urban development	857	948	1 015	1 075	3 038
Urban settlements development	12 045	11 282	7 405	7 352	26 039
Informal settlements upgrading partnership	–	–	3 945	4 181	8 126
Integrated national electrification programme (municipal)	1 863	1 859	2 003	2 119	5 981
Public transport network	6 468	6 446	6 797	7 119	20 362
Water services infrastructure	3 669	3 445	3 620	3 701	10 767
Regional bulk infrastructure	2 066	2 006	2 156	2 281	6 442
Other direct grants	3 283	3 162	3 320	3 467	9 949
Total direct transfers	**127 209**	**132 529**	**142 442**	**151 445**	**426 416**
Indirect transfers	**7 024**	**7 628**	**7 229**	**8 161**	**23 017**
Integrated national electrification programme (Eskom)	3 124	3 001	2 994	3 688	9 684
Regional bulk infrastructure	3 094	3 857	3 275	3 455	10 587
Other indirect grants	806	770	959	1 017	2 747

Source: National Treasury

Government continues to reform the system of conditional grant transfers to local government based on the principles set out in the 2019 *Budget Review*. In 2020, the scope of the *municipal infrastructure grant* will be expanded to allow the purchase of specialised waste management vehicles and broaden waste collection services to more poor households.

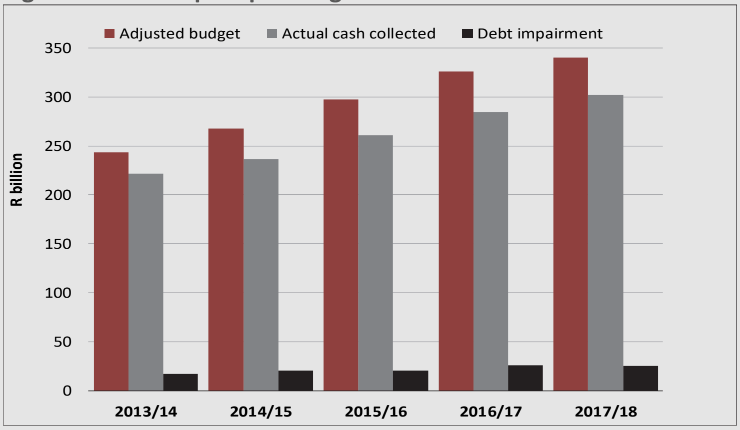
The structure of the fiscal framework for local government is refined in each budget. In 2020, the Minister of Finance will host a special lekgotla of the Budget Forum – the intergovernmental structure established to facilitate formal consultation on local government finances – to review the

Minister of Finance to host special Budget Forum in 2020 to review municipal funding model municipal funding model broadly. The National Treasury is working with the Department of Cooperative Governance, the South African Local Government Association, the Financial and Fiscal Commission and provinces to prepare for this lekgotla.

Trends in municipal revenues

Municipal revenues from service charges and property rates continue to grow rapidly, averaging about 8 per cent per year in nominal terms over the period 2013/14 to 2017/18. Cost increases for services such as electricity, water, sanitation and refuse collection are largely driven by growth in bulk costs, which municipalities must pass on to their consumers. Growth in property rates has been slightly faster, averaging about 9 per cent a year over this period.

Figure 6.2 Municipal operating revenue



Source: National Treasury

There is a noticeable difference between budgeted revenue and actual cash collected by municipalities. Over the five-year period shown in Figure 6.2, cash collections average about 11 per cent less than the expected revenue in municipalities' adjusted budgets. Most of this difference is because of write-offs – in 2017/18, for example, municipalities wrote off R24.9 billion in unrecoverable debts.

Municipalities use accrual accounting, which recognises revenues, taxes, fees and charges when bills are issued, not when payments are received. If revenues are billed but not paid, this will lead to cash-flow problems, and the municipality may be unable to meet its obligations. To avoid this, municipalities should budget for expected revenues as the amount that will likely be collected, taking into account historical experience with revenue and write-offs. This is part of the test that is applied when the National Treasury determines whether a municipality's budget is funded or not.

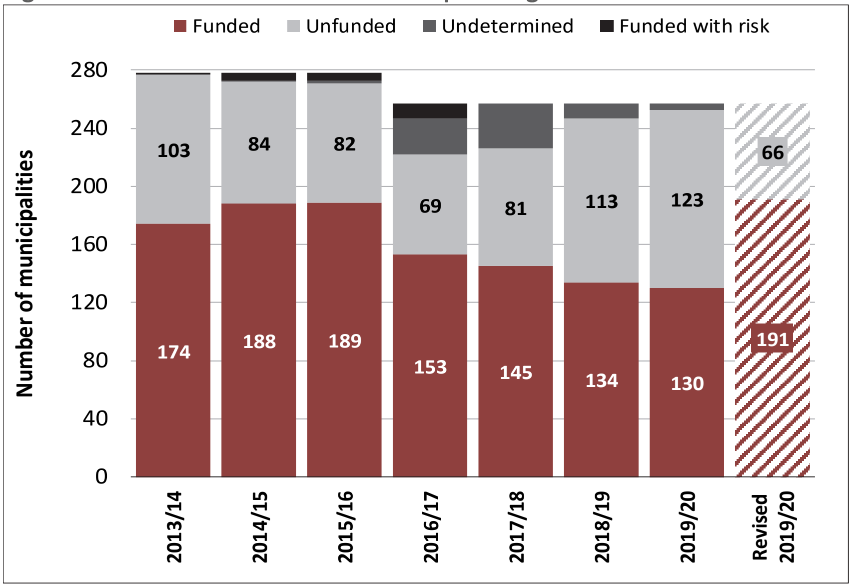
Progress in addressing unfunded budgets

Over the past several years, a growing number of municipal councils have adopted unfunded budgets, in which realistically anticipated revenue is insufficient to meet planned spending sustainably. The National Treasury engages with these municipalities and is implementing more serious consequences for councils that continue to adopt unfunded budgets.

After National Treasury intervention, nearly three-quarters of municipalities now have funded budgets

At the time of the 2019 MTBPS, the National Treasury had written to 127 municipalities that had adopted unfunded budgets for 2019/20 and advised them to table adjusted budgets to balance planned expenditure with credible revenue projections. Sixty-one municipalities were able to do this. As a result, nearly three-quarters of all municipalities now have funded budgets – the highest proportion since the National Treasury began assessing the sustainability of all municipal budgets in 2013/14.

Figure 6.3 Funded and unfunded municipal budgets



Source: National Treasury

Equitable shares withheld from municipalities until they fulfil budgetary responsibilities

The remaining 66 municipalities were unable to revise their budgets despite support from national and provincial treasuries, mainly due to their large arrear obligations to creditors such as Eskom and water boards. These municipalities were then asked to revise their budgets to ensure adequate cash flows to cover their commitments in this financial year. When 36 municipalities did not comply with this and other requirements, the National Treasury withheld their equitable share payments. Funds were released as municipalities met the revised conditions. The National Treasury and provincial treasuries will closely monitor these municipalities, which are expected to continue improving their budget management and move towards fully funded budgets in future.

Promoting local accountability

Residents need to hold municipalities accountable for their full range of functions

While national and provincial treasuries can monitor the financial health of local government, only local residents can hold municipalities accountable for their full range of functions. Frustration with the decline in services has led community organisations in several towns to approach the courts to require municipalities to be placed under intervention by the provincial government and for municipal councils to be dissolved – a measure of last resort included in the Constitution.

Municipal administrations are the sphere of government closest to communities, and should be the most responsive to their day-to-day needs. The use of courts to compel municipalities to meet their mandates reflects a profound breakdown in this relationship and in governance. Rebuilding trust in these municipalities will require greater accountability among councillors and officials.

In addition to supporting capacity building in sub-national government, the National Treasury publishes extensive municipal financial data that can assist residents to engage with their local council. Recent efforts have focused on making this data more user-friendly to members of the public by improving the portal, www.municipalmoney.gov.za.

Collaborations to promote local economic development

Although local economic development projects often focus on small areas, they usually require collaboration among stakeholders across government, the private sector and community organisations to succeed. Several examples of recent collaborative initiatives are highlighted below.

- Purpose-built coalitions that serve to build partnerships can bring different stakeholders together to drive local projects. In Nelson Mandela Bay, the Real Baakens Group was formed in 2017 by social activists, business people, municipal officials and spatial development experts to restore a river valley running through the city. The group engaged with the municipality to unblock stalled projects and mobilise resources to clean sewage spills and stormwater litter traps, and fix water leaks. The renewed Baakens Valley has the potential to be a well-used park, event space and tourist attraction.
- The Department of Trade, Industry and Competition is implementing the Industrial Park Revitalisation Programme, which aims to attract investment by improving infrastructure in existing industrial parks, many of which are located in low-income areas. The department is working with municipalities that are responsible for many of the services needed. The National Treasury's Cities Support Programme is also supporting Ekurhuleni, eThekwini, Tshwane and Mangaung to revitalise targeted parks, some of which are not operating optimally because of erratic electricity supply or protests by local residents. Cities will be supported to resolve these constraints.
- Although township economic development initiatives have helped to improve quality of life through investment in public infrastructure and privately owned shopping centres, they have been insufficient to address the broader legacy of dislocation. The Cities Support Programme is promoting an approach to township economic development that recognises that many factors affect township economies, and that more participatory and collaborative approaches are required. Taking lessons from Gauteng's Tshepo 1 Million Programme, a three-year programme to pilot this approach was launched in five metros in December 2019.

Conclusion

National government continues to support provinces and municipalities to deliver their mandates, but will impose consequences where local governments violate public finance laws.