

# **An assessment of the performance of district municipalities**

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## ***Introduction***

The latest incarnation of district municipalities originated with the municipal demarcation undertaken by the Municipal Demarcation Board in 2000. However districts, in the sense of being a second, wider scale of local government have been in place in parts of South Africa for many decades with their earliest form being the Divisional Councils of the former Cape Province. On the other hand there are some areas, notably the former homelands of the current Eastern Cape and Limpopo provinces where district municipalities have only been in place since 2000.

Acknowledging this history, this paper is intended as a high level assessment of how districts are performing currently. This is important in informing the debate about the future of district municipalities in South Africa: if they have proved themselves to be effective and efficient the arguments for them to remain unchanged will be strong. Therefore, after some introduction to the current functions of district municipalities (DMs) this paper moves to an assessment of effectiveness and efficiency.

## ***Acknowledgement***

Much of the information used in this paper originates from work done with the Department of Provincial and Local Government over the last 4 years. The role of the Department in facilitating the studies referred to here, which contribute to the policy-making process, is acknowledged and appreciated. However, which this paper draws on research supported by the Department the views expressed here are solely those of the author.

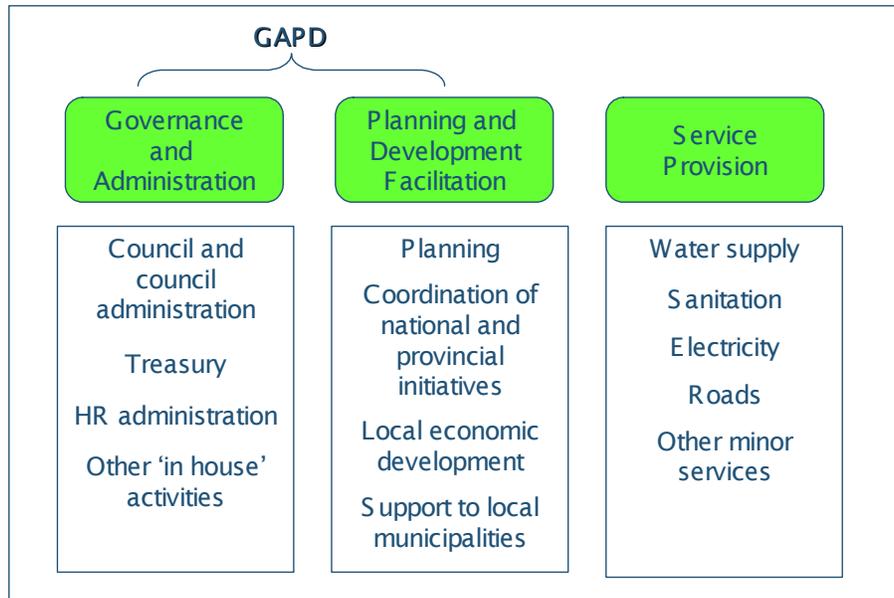
## ***The functions of district municipalities and how this originated***

In order to structure the following discussion the functions of local government are grouped into three categories as shown in the diagram below<sup>2</sup>:

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<sup>1</sup> Although the MDB publication has been completed in 2011, the original paper by PDG was drafted in 2009 and is based primarily in on 2008 data.

<sup>2</sup> The acronym 'GAPD' refers to 'Governance, Administration, Planning and Development Facilitation'.



**Figure 1: Diagram illustrating the grouping of functions used in current policy debates<sup>3</sup>**

The functions of district municipalities are established under the Municipal Structures Act, as amended in 2000. This Act, clause 84, sets up a list of functions to be performed by districts. There was little sector-specific policy which informed the way these functions were divided between local and district municipalities. However, it is evident that the legislators had in mind district municipalities which should perform the major local government service delivery functions: water supply, sanitation, electricity and 'district' roads. In addition they were given certain 'development facilitation' responsibilities.

In reality the situation has worked out somewhat differently. The Structures Act created the facility where functions given to districts in terms of Clause 84 could be devolved to local municipality. There are two ways this can happen:

- The Minister of Provincial and Local Government, acting in the national interest, can authorise local municipalities to undertake the district functions of water supply, sanitation, electricity and municipal health.
- The MEC for Local Government in each province can assign any of the remaining functions to local municipalities, specifically district roads and other minor services identified in Section 84<sup>4</sup>.

In fact both the Minister and the MECs in most of the provinces have exercised these rights and have made major changes to the sharing of functions between district and local municipalities:

- **Water supply and sanitation:** 25 of 47 districts had their LMs authorised, thereby losing the function.
- **Electricity:** Authority remains with LMs in larger urban areas and Eskom supplies most rural areas. DMs have virtually no role.

<sup>3</sup> Note that these functions shown in this diagram are not intended as a full list. This list is given in Schedules 4 and 5 of the Constitution.

<sup>4</sup> Or the MEC can do the reverse: assign LM functions to districts.

- **Municipal health:** DMs remain the authority but larger LMs still undertake this function.
- **District roads:** This is a 'patchwork' with some DMs retaining responsibility, some not, and some having a mixed situation within their boundaries.
- **Other minor services:** Variable approach to assignment with a 'patchwork' in most provinces.

The limited information on the process followed in devolving the functions from districts to locals, if is evident that the nationally mediated processes did draw heavily on sector policy. In the case of health and electricity the decision, driven by sector department interests was to retain the 'status quo'. In the case of water and sanitation a comprehensive, multi-criteria assessment was undertaken to inform the Minister's decision. In contrast, in the case to the provincially mediated functions reliance was made largely on a 'capacity' assessment without recourse to sector policy. This is largely why there is the current 'patchwork' of district functions.

However, although there is considerable variability in the functions which districts have retained from the Section 84 list, districts can be grouped broadly into two sub-categories:

- C1: development facilitator: no water services (water supply and sanitation) function and very little other service delivery obligations.
- C2: service provider: but mainly related to water supply and sanitation.

### ***Funding of districts***

The role of districts – and their economic impact - is strongly influenced by the way they are financed: the way finance is applied strongly influences the development impact of an organisation which is allocated a function, whatever the sphere or tier of government. In considering the financing of district municipalities the funding applied to cover operating expenditure and capital expenditure is considered separately.

Looking first at ***operating revenue***, there are three main mechanisms through which districts are – or have been – funded:

- Raising tariffs for services they provide.
- Raising levies from businesses in their area: the former 'RSC levy' which was a levy charged to businesses in the area of the district.
- Receiving transfers from government, primarily the 'Equitable Share' of nationally raised revenue.

In reality only a handful of districts raise revenue through tariffs for services they provide, almost exclusively associated with water and sanitation<sup>5</sup>. Then, in their short life to date, districts have faced a major change as the RSC levy has been removed and replaced with a transfer from the national fiscus of equivalent amount: the RSC levy replacement grant.

The net result is that districts have become largely grant funded bodies, reliant on transfers for about 90% of their revenue, on average, and hence dependent on the National Fiscus. The policy governing these transfers, as they apply to districts, is flimsy and this places district municipalities at considerable risk. There is another consequence to the way funding is arranged: a break in accountability to consumers which has implications for their effectiveness.

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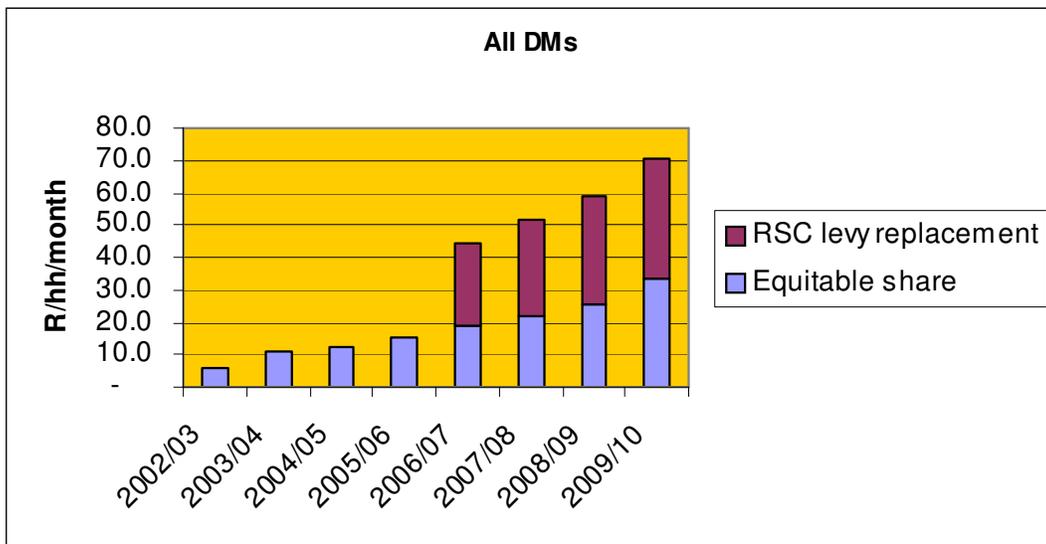
<sup>5</sup> Ugu District being the best example.

In terms of the way they are funded districts are in fact becoming more aligned to provinces, which are also largely funded through transfers, than to local municipalities which still rely to a considerable extent on revenue raised from consumers.

With most of the funding for districts originating as transfers the policy which is applied to making these transfers becomes an important consideration. In brief this can be stated as follows:

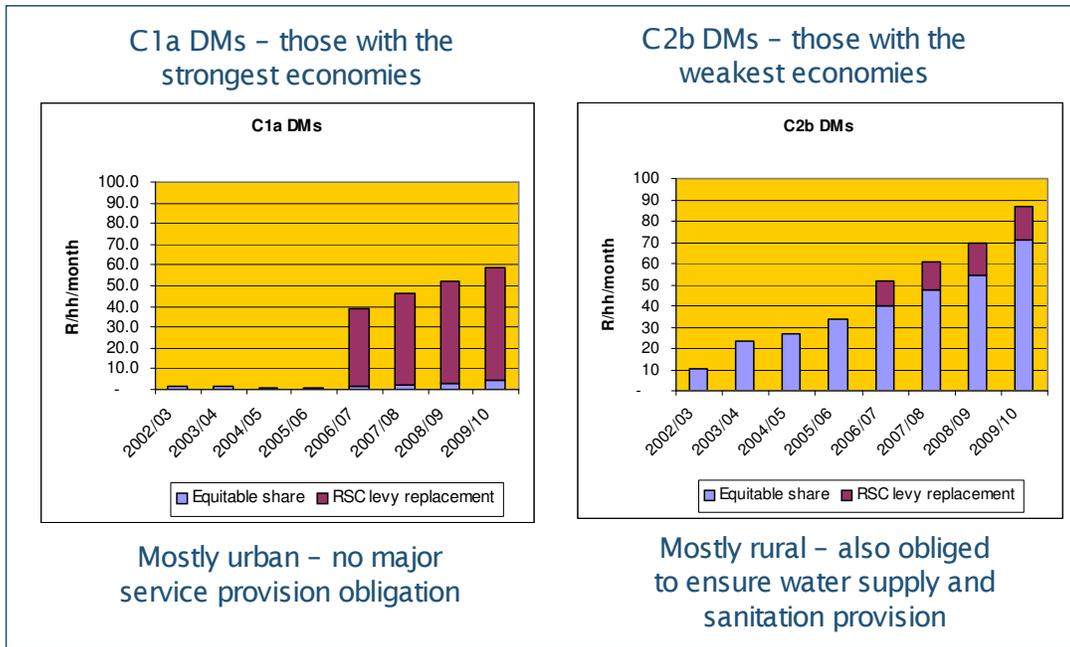
- The equitable Share is allocated based primarily in the number of poor consumers in the area of the district and related to the functions allocated to the district with water services being the dominant.
- The RSC levy replacement grant is allocated at approximately the quantum of levy income each district was raising at the time the RSC levy was removed in 2007.

The total amount transferred is shown in the figure below.



**Figure 2: Transfers from the national fiscus – all DMs (NT, 2008)**

What is more interesting from a policy point of view is the variability of these transfers across different groups of districts. The figure below shows the comparison between a group of the economically strongest district municipalities (C1a) and the economically weakest ones (C2b). In comparing these two positions it is important to note that the C1 districts have very little service delivery obligation while the C2s have substantial obligations.



**Figure 3: Comparison between levels of transfers to district sub-categories**

The result is that the transfer system strongly favours economically strong districts, completely in contradiction to the concept of equity. In stating this it needs to be acknowledged that this RSC levy replacement grant is a relic of a former system. But it has not been changed for several years and still remains in the medium term projections given in the Division of Revenue Act which is promulgated every year to define the way national revenue is to be shared.

Turning to the **funding arrangements for capital works**, the key features are summarised below:

- Some DMs have capital reserves accumulated during the 'RSC levy' years.
- Some use contributions from annual revenue.
- Districts have not borrowed substantial amounts and are unlikely to do so in the medium term.
- The largest contribution to the capital funding requirements is thus through transfers with the MIG grant<sup>6</sup> being by far the most significant.

It is estimated that approximately 80% of funding is from grants<sup>7</sup>.

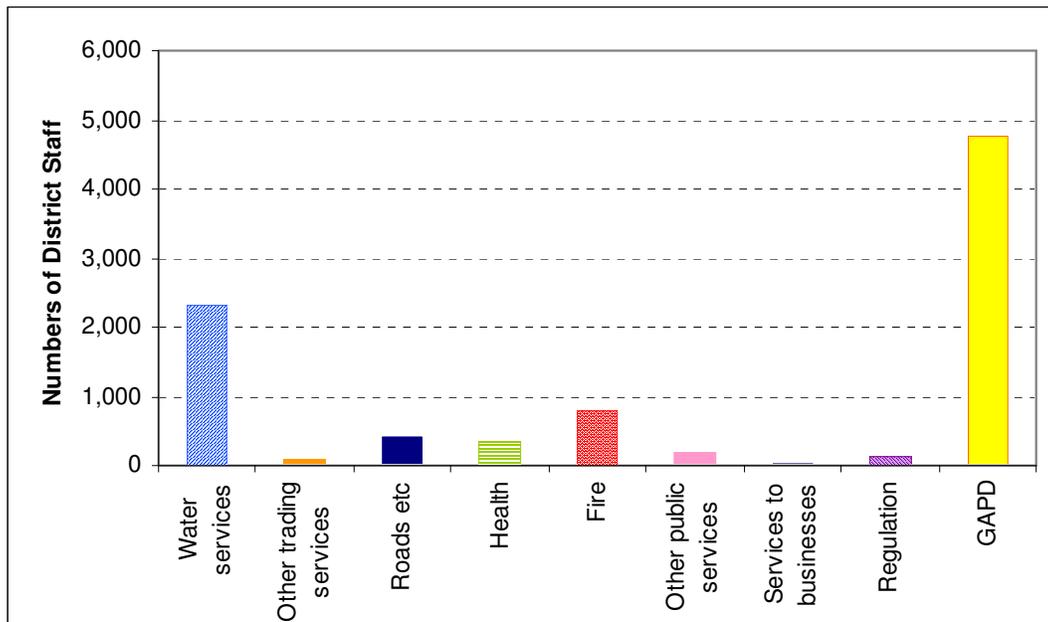
**Staffing profiles for districts and related efficiency considerations**

A useful indication of the efficiency of an organisation is the ratio of 'productive' staff involved in the delivery of services to 'support' staff who run the organisation internally. This ratio can be obtained from the Municipal Demarcation Board capacity surveys although it should be noted that this survey does not assess GAPD functions separately. So to get an indication of this the staff numbers identified as working on specific functions are deducted from the total staff, using the assumption that the

<sup>6</sup> The Municipal Infrastructure Grant (MIG) is a formula-based grant which is aimed at funding basic services to the poor. From the point of view of districts the portion of the grant earmarked for water services is the most significant.

<sup>7</sup> Based on figures taken from the National Treasury municipal budget database.

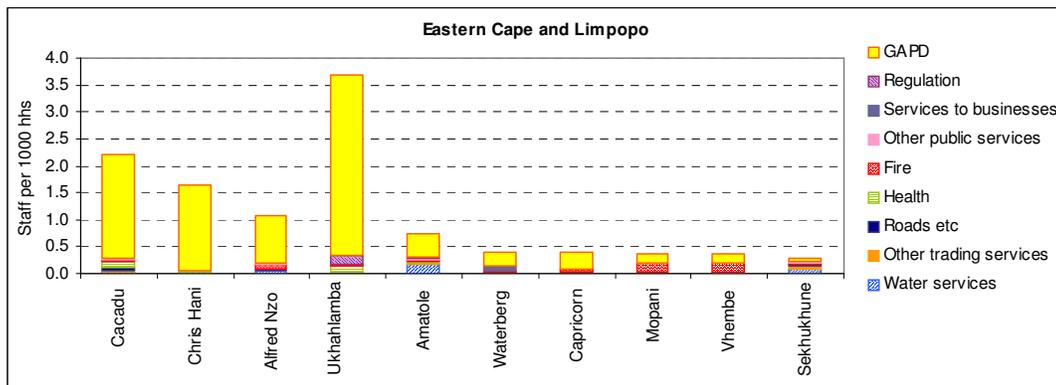
remaining staff would be working on 'support' activities. The result for all districts in the country is shown below.

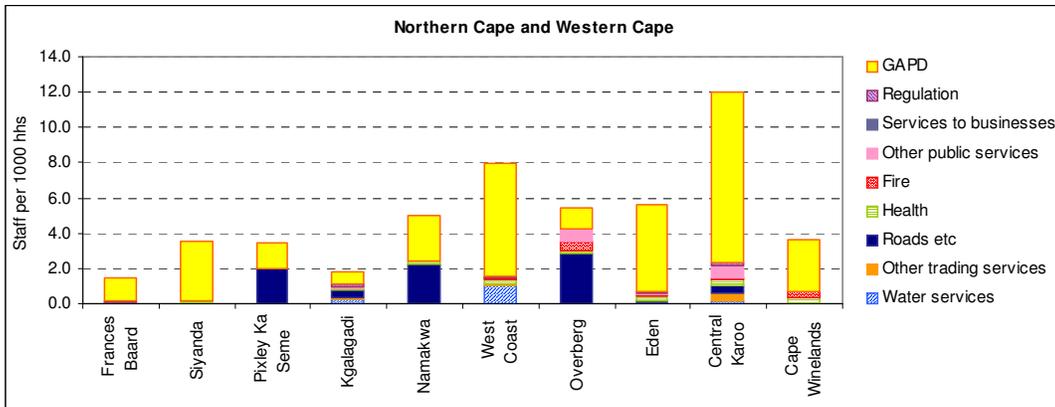
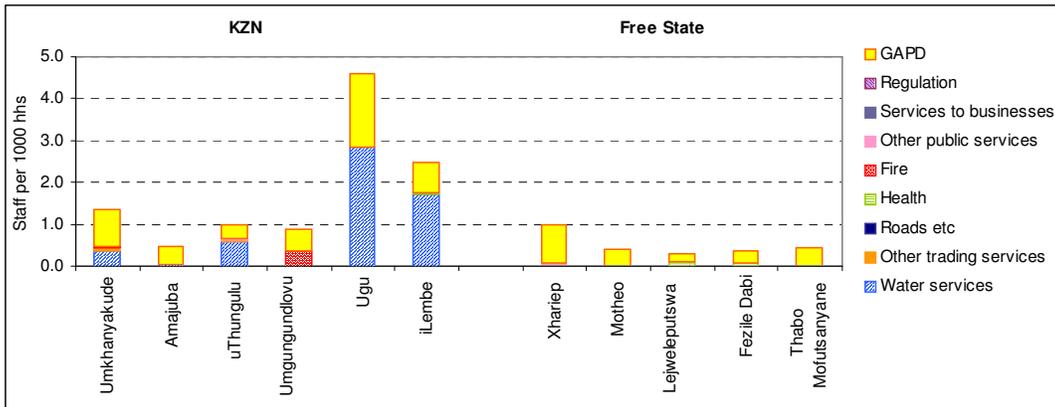
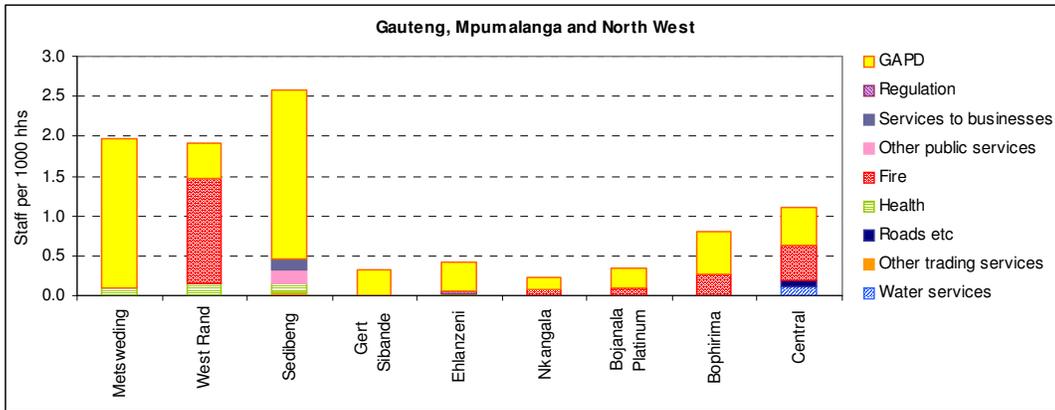


**Figure 4: Staffing profile for all districts (MDB capacity survey, 2005)**

This staffing profile gives a useful picture of what districts actually do and shows the dominance of GAPD activities and a poor ratio between 'productive' and 'support' staff.

It is interesting to compare the staff profiles for districts normalised on the basis of the number of households in the district. These figures are given below for the majority of districts and show a pattern which exists in different provinces.





**Figure 5: Staffing profiles for individual districts (MDG capacity survey, 2005)**

It is evident that, with the exception of some districts in KwaZulu/Natal province which have substantial water services responsibilities, and some in Gauteng and North-West province which have relatively large number of staff providing a fire service, there are relatively few staff engaged in service delivery. This implies that even C2 districts are acting largely as 'development facilitators'.

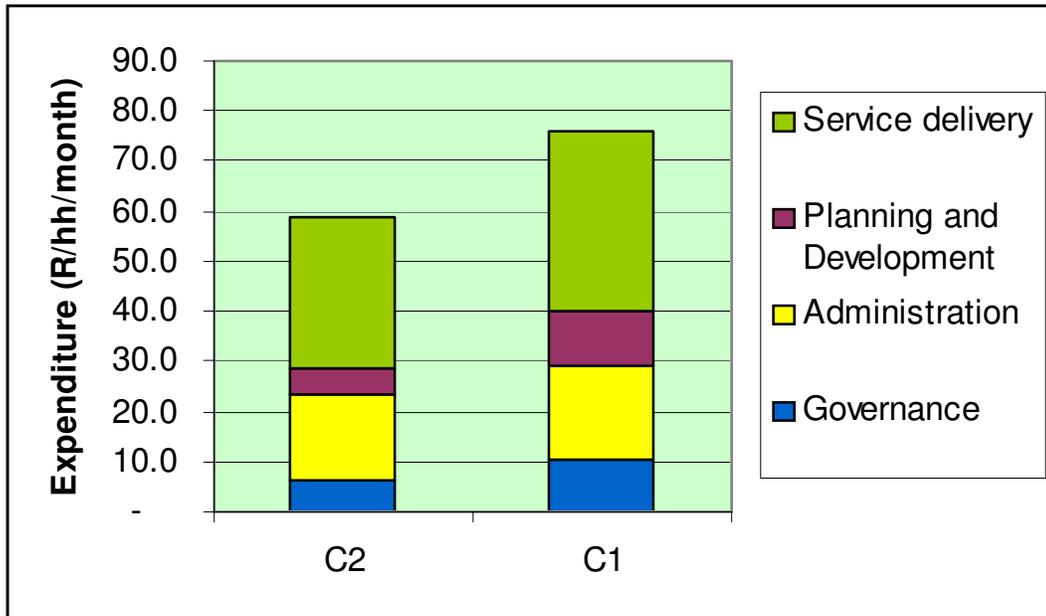
Of course it is not only the numbers of staff which are important but the qualifications and experience of staff members. In this regard a useful survey has been undertaken under the auspices of the South African Institute of Civil engineers which shows that:

In 2007, there were only 43 professional engineers in all 47 districts. (Lawless, 2008)

It is probable that some of these are concentrated in the C1a districts, which are centred on secondary cities and have large budgets, and that there is therefore a situation where there are many districts, even C2 districts, where there are no professional engineers at all. Yet districts have a major role to play in providing infrastructure or supporting LMs with infrastructure provision. This is the task of civil engineers.

***Expenditure profiles for districts and related efficiency implications***

An analysis of operating expenditure can also provide a useful measure of efficiency of an organisation. In assessing this for districts it should be noted that a significant portion of operating expenditure is in fact a payment to others, mostly Local Municipalities, for services that they provide. This makes interpretation of the results difficult but the figures are reported below, nevertheless.

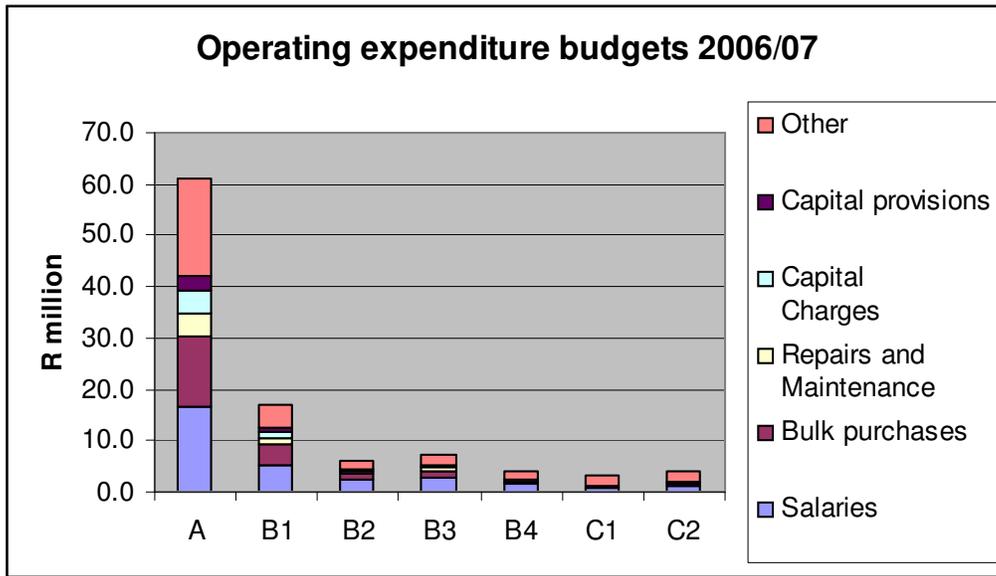


***Figure 6: Expenditure profiles for district sub-categories – 2007/08 (DPLG, 2008)***

It is evident that for both C1 and C2 districts about half of the expenditure is on GAPD activities. Another interesting observation is that C1s spend more per household than C2s even though the latter group has much greater service delivery obligations. This is caused largely by the large amount of funding the C1 districts receive through the RSC levy grant. These funds are not aligned with any service delivery obligation and the C1 districts therefore apply the funds in a variety of ways based on what they perceive is most beneficial.

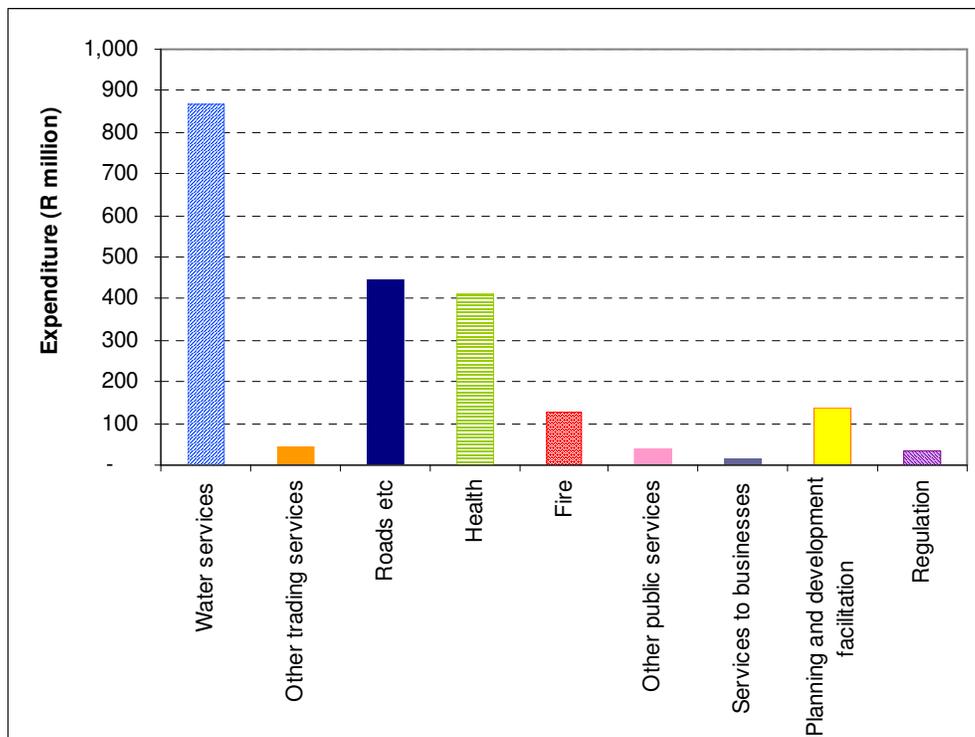
Using the numbers above it is estimated that, in 2006/07, districts spent about R7 billion, most of it funded through transfers. Of this about R3 billion was for ***governance and administration***. In order to put this into perspective the

relationship between district expenditure to that of other municipal sub-categories is show below.



**Figure 7: Comparative operating expenditure budgets: districts in comparison with other sub-categories on municipality (DBSA and DPLG, 2008)**

The total expenditure of all districts on services, planning and development facilitation is shown below.



**Figure 8: Expenditure by all districts on specific functions - governance and administration excluded (MDB, 2007)**

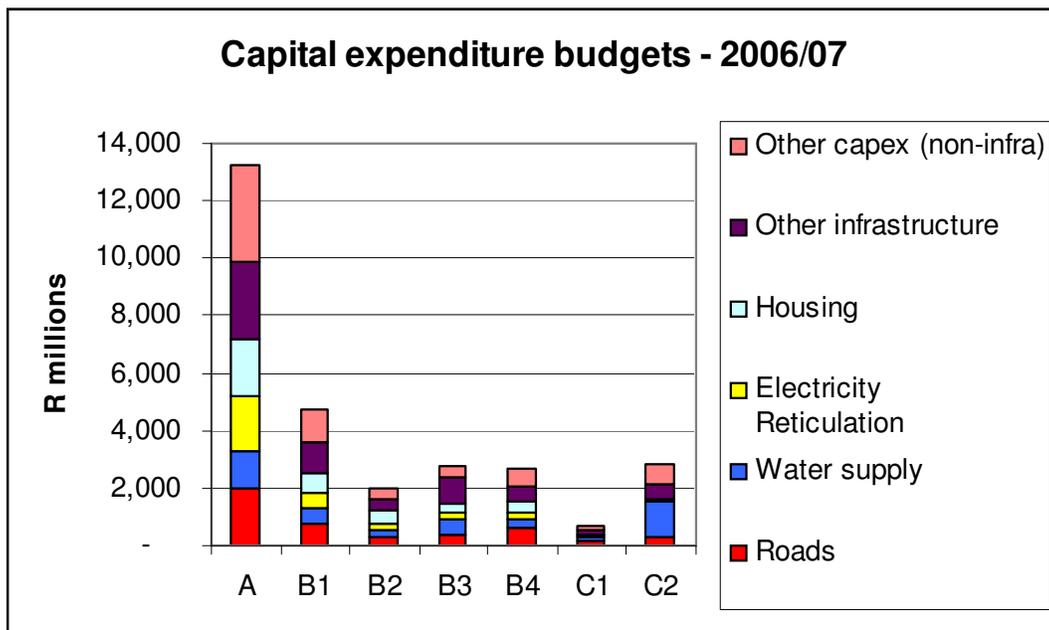
For comparison purposes, total expenditure by all municipalities on specific services is:

- Water services: R21 billion
- Roads: R7 billion

The overall indication from these operating expenditure figures is that districts are small players in the field of local government and their spending efficiency, measured as a ratio on expenditure on 'productive' functions in relation to governance, and administration is not good.

**Capital expenditure profiles**

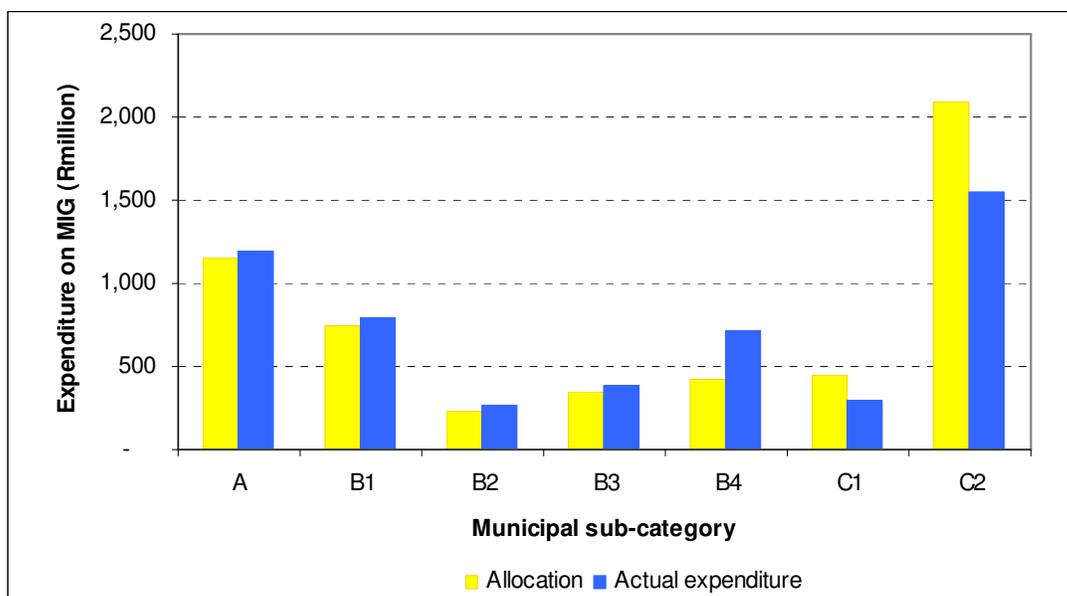
The figure below gives an indication of the relative role played by districts in relation to other municipalities in terms of capital expenditure.



**Figure 9: Capital expenditure budgets: districts in relation to other sub-categories of municipality (National Treasury data as reported in DBSA and DPLG, 2008)**

It is notable that C2 districts spend substantial amounts of capital, largely relating to their water services function.

It is difficult to assess how effective districts are in spending capital. However, this is an important indicator, particularly in the case of C2 districts, as the delivery of services to the poor in these mostly-rural areas is a vital part of what they do. At this stage the best indication of 'ability to spend' comes from the MIG database which tracks the actual spending of the MIG grant allocated to a municipality. Comparative figures are shown below.



**Figure 10: Expenditure of MIG allocations: districts compared with other municipal sub-categories (DPLG, 2007)**

These figures show that the district municipalities have been under-spending their MIG allocations which has been a concern. There has not been sufficient research on the reasons for this but the likelihood is that it is lack of project management capacity in some districts<sup>8</sup>.

### ***District municipalities and redistribution***

At the time they were established one of the objectives of district municipalities was redistribution of resources. Are they serving this purpose? Probably not, for the following reasons:

- Taking a national picture, DMs are poor institutions for redistributing from urban to rural areas as the poorest rural areas typically do not have major cities in their midst. Put another way: poorer areas of the country typically have relatively 'poor' districts.
- Taking a local picture, if funding is coming from the State then it could just as well be allocated to LMs to get the same redistribution impact.
- Finally, as mentioned earlier in this paper, the current funding arrangement with the RSC levy replacement grant represents the worst situation with respect to redistribution: the economically strongest areas get the largest transfers!

### ***Some conclusions on the development impact of districts***

Although they are relatively small players on the field of municipal services, district municipalities are, nevertheless, costing the State a considerable amount of money. The question then arises: is sufficient benefit being achieved to justify this expense?

#### *Have they been efficient?*

The answer again is: probably not. As mentioned above, in 2006/07 they spent an estimated R3.0 billion on governance and administration out of a total expenditure of

<sup>8</sup> Note that the ability of districts to spend their MIG allocations has improved markedly since 2007.

R7 billion. Could the net impact not have been achieved better with a single tier of local government?

Another important point relating to efficiency is the 'span' of districts in relation to local municipalities. There are some circumstances where there are only two or three local municipalities within a district. If districts are expected to build up high level expertise to support local municipalities then this 'span' is too small to be efficient.

*Have they been effective in service delivery at regional scale*

This aspect needs more research but there are some pointers:

- *Water services*: Only a handful of DMs have built capacity to provide water services and fulfill the promise of being *regional scale water service providers*.
- *Roads*: DMs have been largely ineffective with respect to roads primarily due to:
  - The poor performance of national and provincial government in setting up a roads classification system with clarity relating to institutional responsibility.
  - The splitting of the district roads function between DMs and LMs without a consistent policy.
  - The inability of the capital grant system to respond in this situation with the result that DMs do not get access to capital for roads.

***Way forward: what changes are to be made?***

This is a big issue which is currently being addressed in the local government policy process. Some conclusions, based largely on the analysis summarised in this paper are:

- a) Districts are not needed where there is a strong and effective LM in place.
- b) There should be rationalisation to improve the 'span of control' (more LMs per DM).
- c) Functions must be rationalised based on sound sector-based policy.
- d) Governance and administration structures must be cut (this also means much fewer councilors).
- e) In the role of 'development facilitator', focus must be on being responsive to LMs (bottom up).
- f) Where the 'regional service provider' approach is being taken, it must be done properly with a major injection of high level expertise.

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