The national budget and what this means for smaller municipalities

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The budget presented by Finance Minister Pravin Gordhan has, for the most part, found favour with commentators. It gives specific prominence to spending on infrastructure, with over 800 billion allocated over the next 3 years to 'new power stations, road networks, dams and water supply pipelines, rail and ports facilities, schools, hospitals and government buildings'. But what the information presented in the budget does not tell us is how this impacts on municipalities which are responsible for a large proportion of infrastructure in the country, particularly the infrastructure required for the those services which impact on our daily lives and the daily running of businesses: electricity distribution, water supply, sanitation, solid waste management, roads and the public spaces and public services which are so important in creating livable urban spaces.

In thinking about the capital financing of municipal infrastructure it is important to sub-divide municipalities into groups as there is such a range of socio-geographic circumstances occurring in South Africa. There have been many attempts at categorising municipalities with the one applied in the Municipal Infrastructure Investment Framework (MIIF) being most widely applied currently. This has a 5 way subdivision which, for the purpose this article, is narrowed to three groups: the 8 metros (now including Buffalo City, centred on East London and Mangaung, centred on Bloemfontein), smaller cities and townswith a strong urban core, and mostly rural municipalities which are typically associated with former homelands.

Returning to the budget, of the R800 billion allocated over the next 3 years, R98 billion goes to municipal infrastructure. Even without more in-depth analysis (which does exist) this 12% comes across as a small amount. Unpacking this further, 40% of the municipal allocation – R39 billion - goes to the 8 metros. At first glance this seems fair, considering that the metros serve 39% of the country's population and provide the platform for 63% of the economy. But having this level of economic activity within their boundaries also gives metros much greater opportunity to raise their own operating revenue and their own capital finance. In fact the metros are really favoured in this budget considering firstly that their allocation of infrastructure-related transfers from the national fiscus has increased from 33% of the municipal total when compared with 2010/11 and considering that, in addition, they get a share of the fuel levy. This levy is not, strictly speaking, for infrastructure, but is used for this purpose, quite rightly, by some metros. Looking at the overall financial situation of metros it is not intended to argue here that the metros get too much funding, in fact they don't get enough and there is sufficient supporting analysis which demonstrates this.

The argument here relates primarily to the smaller municipalities to which R59 billion in infrastructure finance has been allocated in this budget. They have weaker economies and therefore less ability to raise their own finance, typically have higher services backlogs and do not receive a share of fuel levies. The Municipal Infrastructure Investment Framework, which is a comprehensive analysis of the finances, carried out for the Development Bank of Southern Africa and the Department of Cooperative Governance, and last updated in 2010, shows that the capital funding gap in these municipalities is of the order of R23 billion a year, far larger than that in the metros. This amounts to R69 billion over a three year period, a figure which takes the currently planned transfers into consideration. Yet their proportion of infrastructure-related transfers has declined in this budget, primarily due to substantial new allocations to the metros. Over the period from 2010/11 to 2013/14 the projected increases in infrastructure-related allocations from the fiscus to smaller municipalities is 10% a year, on average (compared to the metro figure of 22%).

What this means for smaller municipalities is that they are going backwards in terms of their ability to finance their infrastructure programmes.

In understanding this it is helpful to look at the three main components of infrastructure. Firstly, with regard to ***social infrastructure**,* aimed at providing services to the poor who are currently un-served or under-served, municipalities do get grant allocations for this. And there have been major gains in providing services – reducing the backlog – over the last 18 years, which are well publicised. However, many, particularly more rural municipalities, still struggle to meet their obligations in this regard.

Secondly, with regard to ***economic infrastructure***, required to provide services to non-poor households and to businesses, smaller municipalities have limited capacity to raise finance for this purpose as their credit ratings are low and their ability to manage other forms of finance is limited.

Thirdly, the ***rehabilitation of existing infrastructure*** needs to be considered and this is where the problem is most severe. Assets have to be replaced as they reach the end of their useful lives and this is not happening which is leading, *inter alia*, to the well documented failures in water and wastewater systems in smaller urban centres. In rural areas this failure is, unfortunately, less well documented as rural communities are less able to express their frustrations. Nevertheless, it is there. The problem with rehabilitation is that if you do not keep up with it, the cost of doing the work, when this eventually becomes possible, just escalates. So in the great majority of our smaller municipalities they continue to fall further behind in terms of being able to finance the rehabilitation of increasingly rickety infrastructure.

Returning to the matter of infrastructure transfers, it may be possible to reduce the gap in funding through reducing the level of service provided to poorer households who rely on such transfers. But this only applies to social infrastructure and the gains in terms of reducing capital expenditure through applying lower service levels arelimited. Other ways of raising finance also need to be considered, particularly to increase debt finance. But, ultimately, a rapid increase in transfers is the only way this can be resolved in the medium term. Why is this not happening? Certainly there are limits on the capacity of the national fiscus to cope with a multitude of financial demands. But we are only talking here about increasing what is currently 7% of the total national infrastructure budget.

Another argument, often made, is that smaller municipalities cannot spend the funding that is allocated to them and this is certainly true in many cases. The conclusion in this case can only be that they need more support. Infrastructure is the business of engineers and there are way too few of them in smaller municipalities as well as in provincial and national government which are tasked with supporting these smaller municipalities. We also know that there is also a shortage of engineers in South Africa as a whole. But it is really not that bad: we have just proven ourselves able to manage some very large scale projects: stadiums, Gautrain, mega power stations and the Guateng freeway improvement programme. Why can't we deliver on small scale infrastructure which is dispersed throughout the country? It is harder but it also brings big benefits per Rand spent in the form of employment benefits and the empowerment of local communities. The main reason why we fail, in my opinion, is that we are unable to build good partnerships between government (primarily, in this context, local government), the private sector (consultants, contractors and financiers) and civil society (NGOs and community based organisations). This boils down to a failure in procurement systems which is, all too often, left to people who are not sufficiently experienced and who have little insight to the big picture of what is required to get infrastructure projects moving. We can only hope that new initiatives planned by Government to radically improve support to these municipalities will succeed. This will allow smaller municipalities to handle the higher rate of infrastructure delivery and rehabilitation required, with the necessarily large increases in access to finance.

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