



Municipal Budgets – A Tool to Serve the People?

"If basic principles of accountability built around a central theme of strong internal control and good governance are in place, municipalities should be well geared to live up to the expectations of the communities that they serve."
Kimi Makwetu, Auditor-General

1. Introduction

In South Africa's constitutional democracy, with its three-tiered system of government, it is the basic unit, municipalities, which are tasked with delivering basic services and ensuring the development of the regions that they control. To fulfil this mandate, municipalities raise their own revenue through property rates and by charging for providing utilities such as water and electricity; they also receive grants from provincial and national government, and raise external loans.

The revenue raised must be used, according to the Municipal Systems Act 32 of 2000, to deliver basic municipal services that are "necessary to ensure an acceptable and reasonable quality of life" and which, if not provided, "would endanger public health, safety, or the environment."

This briefing paper will attempt to unpack what services municipalities are responsible for, how revenue is generated, and how budgets are prioritised.

2. Legislative Framework

The Municipal Systems Act defines what services municipalities are responsible for. The Act "determines specific duties and requirements for all municipalities which include: giving priority to

the needs of the local community; promoting the development of the local community; and ensuring that all members of the local community have access to at least the minimum level of basic services."¹ The Municipal Systems Act, together with the Municipal Structures Act 117 of 1998 and the Constitution,² obliges municipalities to provide at least these basic services. These are:

- Water supply
- Electricity supply
- Sewage collection and disposal
- Refuse removal
- Municipal health services
- Municipal roads and storm water drainage
- Street lighting
- Municipal parks and recreation

To extend these services to communities, municipalities must act reasonably, using an Integrated Development Plan (IDP). The IDP is part of the local government financial management process which is guided by the Municipal Finance Management Act (MFMA) 56 of 2003. The MFMA has five underlying principles which encourage a better managed and more accountable local government. These principles are:³

- promoting sound financial governance by clarifying roles

- a more strategic approach to budgeting and financial management
- modernisation of financial management
- promoting co-operative government
- promoting sustainability

3. Sources of Revenue

Municipalities must ensure that there will be adequate money to cover both their planned expenditure (operating budget), which includes delivery of basic services, and their capital budget, which includes long-term investment in assets like buildings, land, vehicles, etc. The budget can be financed through:

- **Municipal property rates** – owners of fixed property in the municipal area are charged a yearly tax (property rates) based on the value of the property. The revenue generated through property rates is used by the municipality to pay for general services which cannot easily be apportioned to a specific service user as a ‘service charge’. Such general services include roads, pavements, parks, streetlights, and storm-water management.
- **Service charges** – these are the tariffs municipalities charge for specific services that can be directly allocated to a house or business such as the provision of water and electricity or the approval of building plans.
- **Equitable share allocation** – the Constitution stipulates that all revenue that is collected nationally must be divided fairly between the three spheres of government. The ‘equitable share’ that a municipality receives is determined by a number of factors such as the size of its low-income population, the cost of basic services, and its capacity to raise its own revenue.⁴ This allocation is meant to be used for basic services and operational costs.
- **Municipal Infrastructure Grant (MIG)** – this is a conditional grant that is used to maintain or extend the infrastructure for

the provision of basic services such as water, electricity and sanitation.⁵

- **External loans** – municipalities can raise capital through loans from financial institutions.

Both the equitable share allocation and the MIG have weaknesses that are often exploited by municipalities. One of the weaknesses of the equitable share allocation is that it is an unconditional grant, which means that local government can spend the money on things other than basic services. The MIG, on the other hand, is often underspent, or not spent at all, due to lack of capacity and the mismanagement of funds.⁶

4. Budgetary Priorities

Irrespective of how municipalities raise their revenue, the way it is spent should have the needs of the communities at its core. In this regard, the Integrated Development Plan (IDP) is of cardinal importance.

4.1. The IDP

The IDP is a plan that is drawn up every five years, and all municipalities are legally required to do so. It provides citizens with a strategic framework of their municipality’s goals and objectives for the next five years. The IDP includes a plan stating the vision and key priorities of the municipality; how money will be allocated and spent; how it will reflect the council’s development strategies and objectives for the elected term; and a framework that focuses on the development of social, economic, environmental, spatial and infrastructural areas.⁷

Its aim is to co-ordinate the work of local and other spheres of government in a coherent plan so as to improve the quality of life of everyone living in the municipality. The plan should take into account the existing conditions, problems and resources in the area. In this respect it is worth noting that part of the purpose of an IDP is to enable municipalities to correct imbalances created in the apartheid era, such as racially divided residential and business areas, or a lack of affordable modes of transport for poorer communities. Other imbalances left by apartheid, such as the difference in service delivery for rich and poor areas and the increasing population of informal settlements with little access to affordable service delivery, are also addressed by IDPs.⁸

An IDP should also look at economic and social development for a municipal area as a whole. It should put a framework in place that looks at how land should be used, what infrastructure and services are needed, and how the environment should be protected.⁹

The key stakeholders in the IDP are the municipality, councillors, communities, residents, and the national and provincial sector departments.

The IDP process plan is drawn up to ensure proper management of the planning process. This process plan should outline:¹⁰

- The structures that will manage the planning process
- How the public can participate, and structures that will be created to ensure this participation
- A time schedule of the planning process
- Who is responsible for what
- How the process will be monitored

The process involves five phases:

- Analysis - information is collected on the existing conditions in the municipality and problems are identified. These problems are then prioritised in terms of their urgency.
- Strategies - this phase allows the municipality to develop the necessary responses or solutions to the identified problems.
- Projects - in this phase the municipality works on the design and content of projects identified during the strategizing phase.
- Integration - projects are checked against the objectives set out in the strategizing phase and are then integrated, as part of the development plans, with the overall IDP.
- Approval - the IDP is presented to the council for consideration and adoption.

4.2. The IDP fault lines

While the IDP can be a wonderful tool to prioritise the services that are needed communities, it is not without its problems. Chief among these is the fact that the process can be highly politicised and disengaged from the community. Political parties

may prioritise services or projects that are not necessarily what a community needs. For example, the agreement between the Democratic Alliance (DA) and the Economic Freedom Fighters (EFF) in the Johannesburg metro meant that the parties had to find a delicate balance between their respective (political) priorities and the delivery of services to their constituents. The EFF, for example, insisted that it would use the budget process to ensure that elements of its pro-poor policy, such as quality housing, are prioritised. They also insisted, before the finalisation of the current budget, that vacant municipal land should be expropriated for housing purposes.¹¹ When the final budget was tabled, the EFF criticised it for not addressing the issue 'correctly'. In addition, the EFF was unhappy with the City of Johannesburg's plans "to remove the 6kl of free water to all residents, and to give free water only to indigent people."¹²

4.3. Other weaknesses

In his latest municipal audit report,¹³ the Auditor-General has highlighted some of the problem areas municipalities need to remedy in order to serve their communities well. These are:

- Leadership creating a culture of honesty, ethical business practices and good governance.
- Proper record-keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reports.
- Instilling basic controls to ensure the processing of transactions in an accurate, complete and timely manner.
- Monitoring of compliance with legislation.
- Filling of vacancies in critical areas such as municipal managers, chief financial officers, heads of supply chain management and chief information officers, and generally ensuring an appropriate level of financial management capacity in a municipality.
- Instilling appropriate information technology controls, with emphasis on security management, user access management and business continuity.

5. Conclusion

Local government, which is the tier closest to the people, has a great responsibility to ensure that the spirit of the Constitution is realised. In order to do this, it must act with responsibility and integrity, and above all, rise above political affiliation to ensure that basic services are delivered to the communities it serves.

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¹ Statistics South Africa (2016): *The State of basic service delivery in South Africa: an in-depth analysis of the Community Survey 2016 data*.

² Act 108 of 1996. Section 156(1) refers to Part B of Schedule 4 and Part B of Schedule 5, which list a number of municipal services.

³ National Treasury (2004): *Modernising Finance Governance: Implementing the Municipal Finance Management Act, 2003*

⁴ http://localgovernmentaction.org/dedi6.cpt3.host-h.net/activists-guide/key-processes/municipal_budget

⁵ See endnote 4

⁶ See endnote 4

⁷ Cape Town's Integrated Development Plan (IDP) 2017-2022:

<http://www.capetown.gov.za/Family%20and%20home/meet-the-city/our-vision-for-the-city/cape-towns-integrated-development-plan>

⁸ Integrated Development Plan: <http://www.etu.org.za/toolbox/docs/localgov/webidp.html>

⁹ Local Government Action: What is an Integrated Development Plan?

<http://www.localgovernmentaction.org/xh/content/integrated-development-plan>

¹⁰ See endnote i

¹¹ Dineo Bendile (2017): *New coalition governments to be out to the test*. Mail and Guardia Online, 19 January 2017.

¹² Claudi Mailovich(2017): *EFF and ANC voice their unhappiness over Joburg budget*. Business Day Live, 25 May 2017

¹³ Auditor-General South Africa (2017): *General Report on the Local Government Audit Outcomes 2015-16*