**REVIEW OF LOCAL GOVERNMENT INFRASTRUCTURE GRANTS**



*In collaboration with Sector Departments, municipalities and other stakeholders*

**Emerging Options for the Reform of the Local Government Infrastructure Grant System**

**June 2014**

**This document is to assist stakeholders in providing feedback to the *Emerging Options for the Reform of the Local Government Infrastructure Grant System* discussion document. The background to the review and full discussion document is available at:** [**http://mfma.treasury.gov.za/Media\_Releases/ReviewOfLGInfrastructureGrants/Pages/default\_final.aspx**](http://mfma.treasury.gov.za/Media_Releases/ReviewOfLGInfrastructureGrants/Pages/default_final.aspx)**.**

**Stakeholders are invited to submit comments on the different options presented in this discussion paper to working group’s emails by 25 July 2014:** [**grantreview@treasury.gov.za**](mailto:grantreview@treasury.gov.za) **and** [**grantsreview@salga.org.za**](mailto:grantsreview@salga.org.za)**.**

# GRANT ADMINISTRATION

***Options for Reform***

*After each section of this document we present a list of “options for reform” as a way of summarising some of the possible changes that could be made to the grant system. Stakeholders are invited to submit comments on their views regarding these options to* [*grantreview@treasury.gov.za*](mailto:grantreview@treasury.gov.za) *and* [*grantsreview@salga.org.za*](mailto:grantsreview@salga.org.za)*by 25 July 2014.*

*Options to promote improved planning:*

* Include allowance for feasibility, planning and project preparation costs in conditional grant allocations
* Enhance the role of national transferring officers in assessing project plans before funds are transferred
* Introduce incentives to reward municipalities that comply with best practices for planning
* Ensure greater stability and predictability in grant allocations over the three year MTEF period

*Options to improve the effectiveness of the reporting system*

* Reducing the reporting burden where possible by streamlining reporting, simplifying systems and processes, focusing on outcomes rather than outputs, and consolidating where possible.
* Re-evaluate all reporting requirements with the aim of ensuring fewer / more strategic indicators can give a full picture of grant performance that is useful at the relevant level e.g. policy makers, provincial managers, while reducing the reporting burden where possible
* Strictly enforce reporting requirements on the performance agreements of senior leadership (political and official) of municipalities while reducing the reporting burden where possible
* Enhancing the capacity of national departments to analyse and package data for use by policy makers
* Make performance of local, provincial and national departments open, transparent and accessible to all.
* Use grant data for regular briefings and peer reviews in forums such as Community Meetings Council Meetings, SALGA meetings, portfolio and select committee meetings, MuniMECs and MinMECs, Cabinet meetings

*Options to improve national government’s management of the grant system*

* National transferring officers should be more proactive in enforcing compliance with grant conditions.
* Indirect grants should be used to build infrastructure projects that municipalities do not have capacity to implement
* A new type of grant could be introduced through which municipalities only receive transfers after work is completed (rather than in terms of a payment schedule)
* New grants should only be introduced if it fits with the infrastructure grant system as a whole; pending that, departments must demonstrate that they have the capacity to administer the grant and provide technical support to municipalities.
* Funding for grant administration should be ring-fenced in the budgets of national departments to prevent it being diverted to fund other priorities
* All grants should be regularly reviewed to assess if: they are meeting their objective, the need still exists, and whether the grant should continue. This should not disrupt stability so windows for change to be limited, i.e. every 3 years?

# ALLOCATION MECHANISM

***Options for Reform***

* Include components within formula grants that account for existing infrastructure
* Update MIG formula sector split with latest data
* Maintain a mix of both formula based allocations (to ensure equity) and project based allocations (for strategic projects) and evaluate the mechanism on a grant by grant basis
* Consider the use of hybrid allocations for some grants; formulas for a basic allocation and project applications to supplement this with more strategic investment
* Where indirect grants are to be applied, establish planning requirements to be met for national transferring departments.

# ROLE OF INCENTIVES

***Options for Reform***

* Use a gradual and differentiated approach to the introduction of incentives. Firstly the system must aim to avoid the perverse incentives listed above with the following reforms:

*- Introduce* matched-funding (especially for economic-related infrastructure) to avoid grant dependency

*-* Increased accountability and analysis of data (e.g. unit costs) to avoid reliance on % spend as the main performance indicator, which can lead to inflated costs at the expense of service delivery

*-* Grants not restricted to ‘new’ infrastructure, to avoid current perverse incentive to persistently build new infrastructure rather than sustainably manage existing infrastructure

*-* Aim to integrate planning between different spheres and arms of government to avoid grants not being aligned with each other

* Secondly the system can positively incentivise the establishment of capacity, systems and good planning:

*-* Application and planning processes like those introduced to the health and education grants distributed to provinces

*-* Accessing funds for renewal conditional on municipalities demonstrating ability to manage and maintain infrastructure e.g. through creating credible asset registers and spending appropriately on maintenance

* Thirdly, once capacity is in place to appropriately respond to incentive systems and data availability on non-financial performance is improved, introduce outcome orientated performance-based grants (this may take several years):

*-* Establish incentive grant for local municipalities, like the current *integrated cities development grant* does for metropolitan municipalities,which rewards performance as measured against a set of predetermined and context-specific outcomes (note this is after sufficient capacity building has been completed to ensure municipalities can comply with best-practices)

*­-* Introduce incentive elements into the allocation mechanisms of current grants so good performance – as determined by a range of financial and non-financial indicators – in one year is rewarded with higher allocations in the next year

# RENEWAL AND MAINTENANCE

## Maintenance

***Options for Reform***

* Emphasise the monitoring of maintenance funds within municipal budgets – together with the use of tariffs and equitable share funds used to fund maintenance – to provide more information on the need
* Promote full life-cycle costing as a condition in grant frameworks to ensure municipal investment decisions are sustainable ones
* Provide more guidance and funding from national government to improve the systems surrounding the management of maintenance – such as the creation of credible asset registers

## Renewal

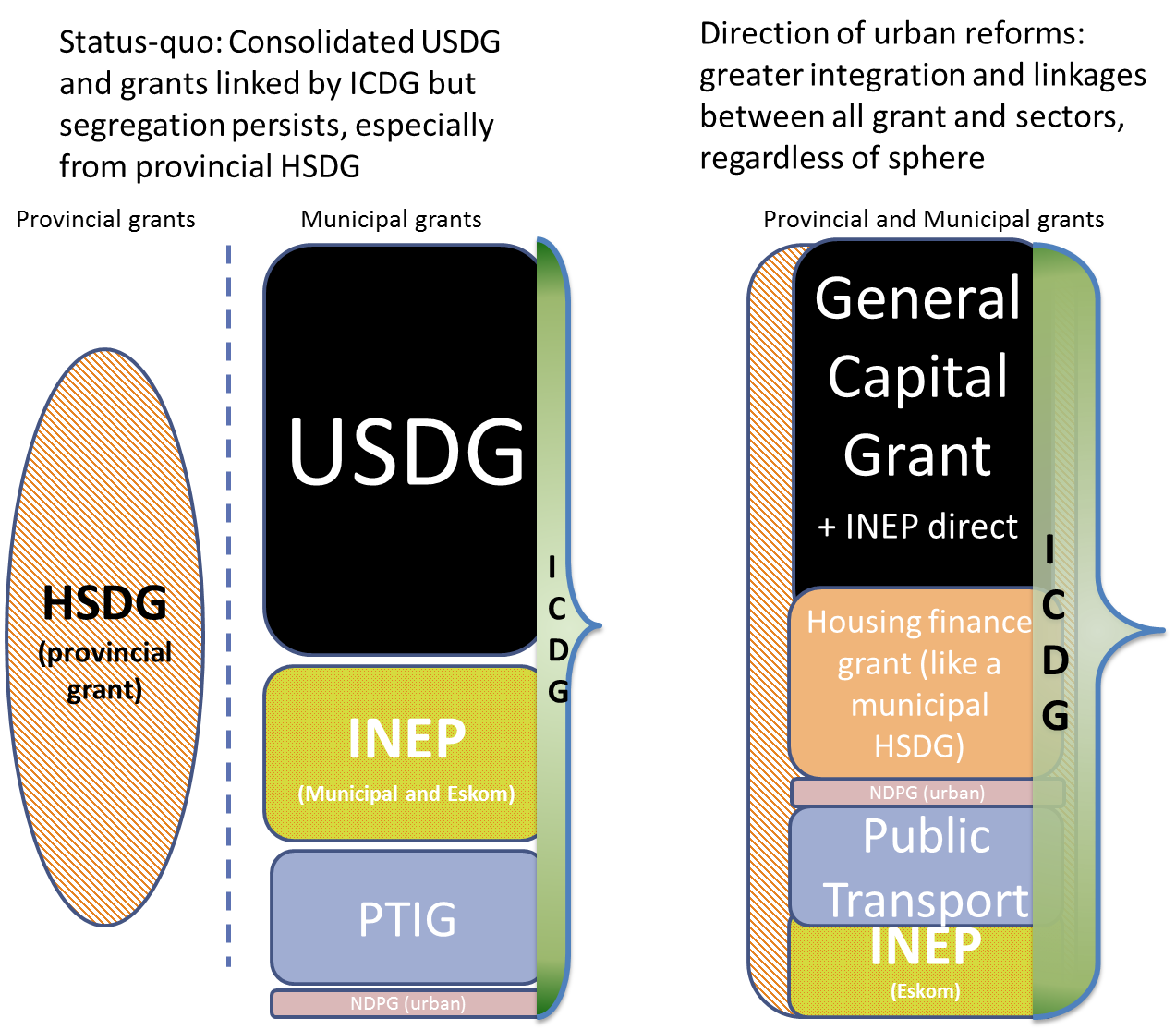
***Options for Reform***

* Include windows within existing grants explicitly for the renewal of social (grant-funded) infrastructure
* Update grant formulas to not only allocate for the need of existing infrastructure but also allocate based on the need for renewal of existing ‘social infrastructure’ (that serves the poor)
* Conditionalise funding on the municipality having a credible asset register which they prove they use to prioritise spending
* Renewal funding only for infrastructure that serves the poor and has been properly maintained by the municipality – to avoid perverse incentives

# GRANT ARCHITECTURE

## Metropolitan municipalities

The following diagram describes this general direction of reform:



Proposals therefore involve:

***Options for Reform***

* The integration of the *integrated national electrification programme* (INEP) grant into a consolidated urban grant package
* Enlarging the ICDG to further incentivise integrated planning of a city’s whole capital budget
* Ensuring the PTIG is more closely aligned to other infrastructure and spatial transformation programmes in municipalities while remaining a specific-purpose capital grant
* Make the PTIG a formula-based general transport grant that could also be integrated in a consolidated urban grant package
* Accreditation of the housing function would mean parts of the *human settlements development grant* would need to be transferred directly to metropolitan municipalities

## Emerging Cities

***Options for Reform***

* Is there a need for a separate funding mechanism for emerging cities?
* If so, how should this category of municipality be defined and what objective criteria can be used to identify suitable recipients?
* The establishment of a consolidated funding packages – like the former *MIG Cities* – could help establish an intermediate step between the urban grant packages and the more rural focused grants
* Integrated planning that can unlock growth potential and overcome built environment challenges would be key to such a grant, what else is needed to meet the needs of emerging cities?
* Can the grant system adapt to better support growth investment? Via bulk infrastructure investment for example

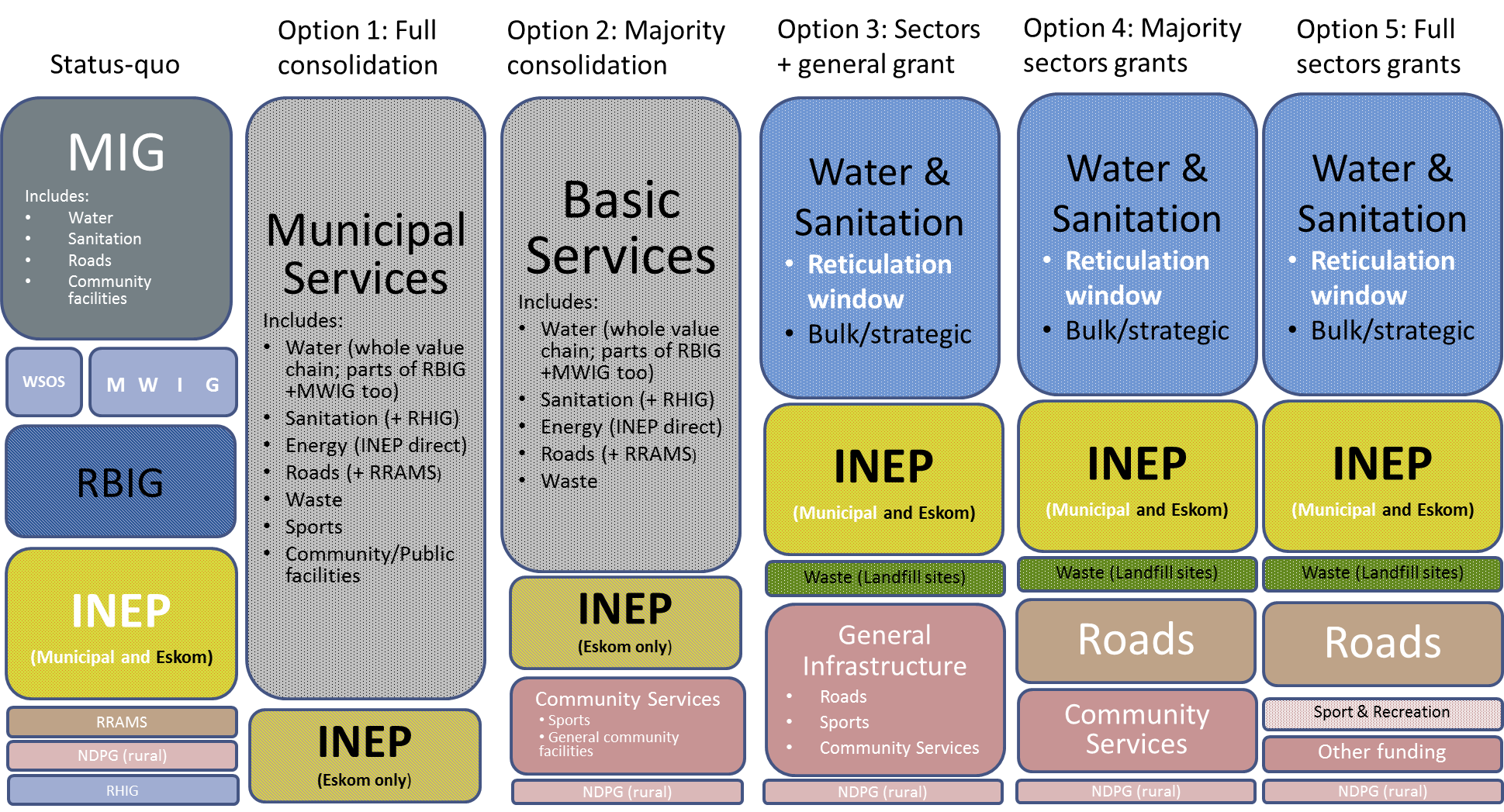
## Towns and Rural Municipalities

***Options for Reform***

* Five scenarios are presented in the diagram below
* Option 1: Full consolidation
* Full consolidation of all infrastructure funding into one grant
* Windows would allow space for indirect portions and/or more direct sector involvement in projects of strategic or national importance, otherwise the basic reticulation remains a municipal responsibility funded by a direct grant
* INEP Eskom grant remains separate in each option due to licencing (some municipal areas cannot supply electricity so rely on Eskom)
* Option 2: Majority consolidation (into two basic services and community services grants)
* Two consolidated grants split based on whether the funds are for basic services (water, sanitation, electricity, waste and roads) or more general community services (sports, street lighting, LED etc)
* Taking sports out of the basic services package should allow better and fairer investment choices without the need for ringfencing
* Would see INEP direct and the water grants incorporated into one fund, along with most of MIG
* Would need renewed interaction of the sector departments with the administering department
* Windows would allow space for indirect portions and/or more direct sector involvement in projects of strategic or national importance, otherwise the basic reticulation remains a municipal responsibility funded by a direct grant
* Option 3: Sector grants with a general fund (including roads)
* Join the funding for water and sanitation currently in the MIG with other grants focusing on water and sanitation (RBIG, MWIG, WSOS, RHIG) to create a large sector specific grant
* As before this would be a largely direct grant with windows for potential indirect allocations if projects meet certain criteria (focusing on bulk issues beyond municipal boundaries for example)
* Leave the electricity grant as unchanged with a direct and indirect component
* Create a waste grant from the funds within MIG that is project-based and bulk focused
* The remaining MIG funds (for roads, sports, micro-enterprises and more) will remain in a consolidated fund that allows some municipal discretion over investment choices despite the largely sectoral nature of other grants
* Option 4: Sector grants with a community services grant (excluding roads)
* As above but with roads as a separate stand-alone grant
* Full emphasis on sector grants with only a small community services grant that consolidates funds for more general municipal infrastructure (sports, street lighting)

* Option 5: Full sectoralisation of grants
* As above but with sports and recreation also as a separate stand-alone grant
* Full emphasis on sector grants with little or zero general funds to assist municipalities in investing in municipal priorities

**Note the below applies only to the ‘Towns and Rural Municipalities’ category**



**KEY: White text = exclusively direct grant. Black text = direct grant with potential for indirect** windows.