

LOCAL GOVERNMENT INFRASTRUCTURE GRANTS REVIEW: BACKGROUND

National Sector Workshop | 19 March 2014



national treasury

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SALGA
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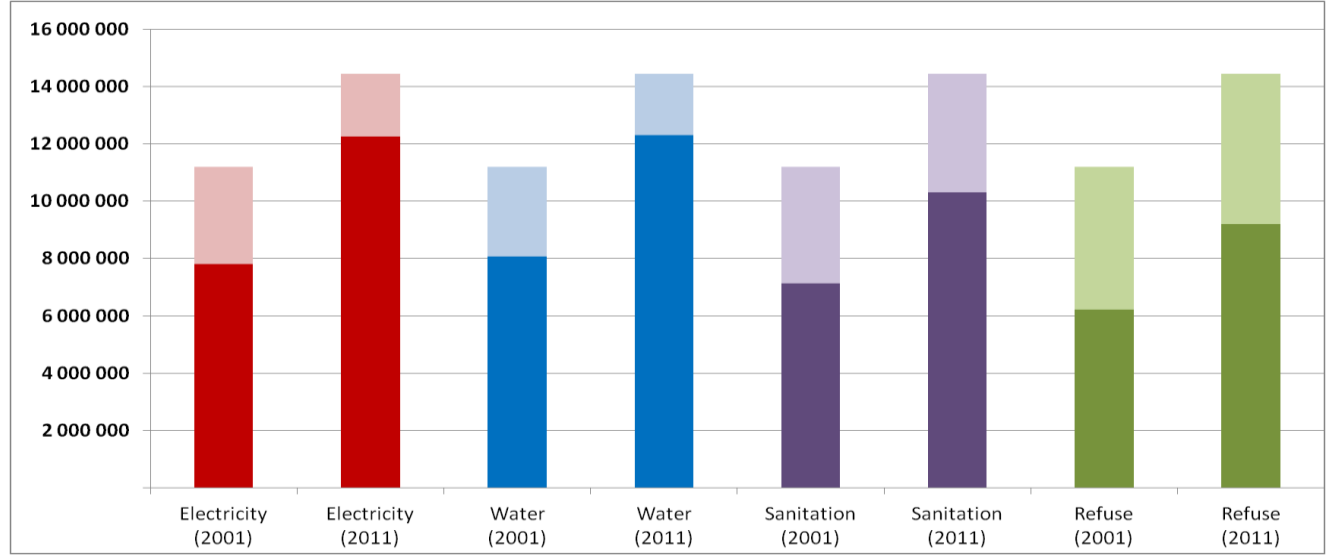
Reasons for the Review

LG Infrastructure Grants review was first announced in 2013 Budget Speech based on the following factors:

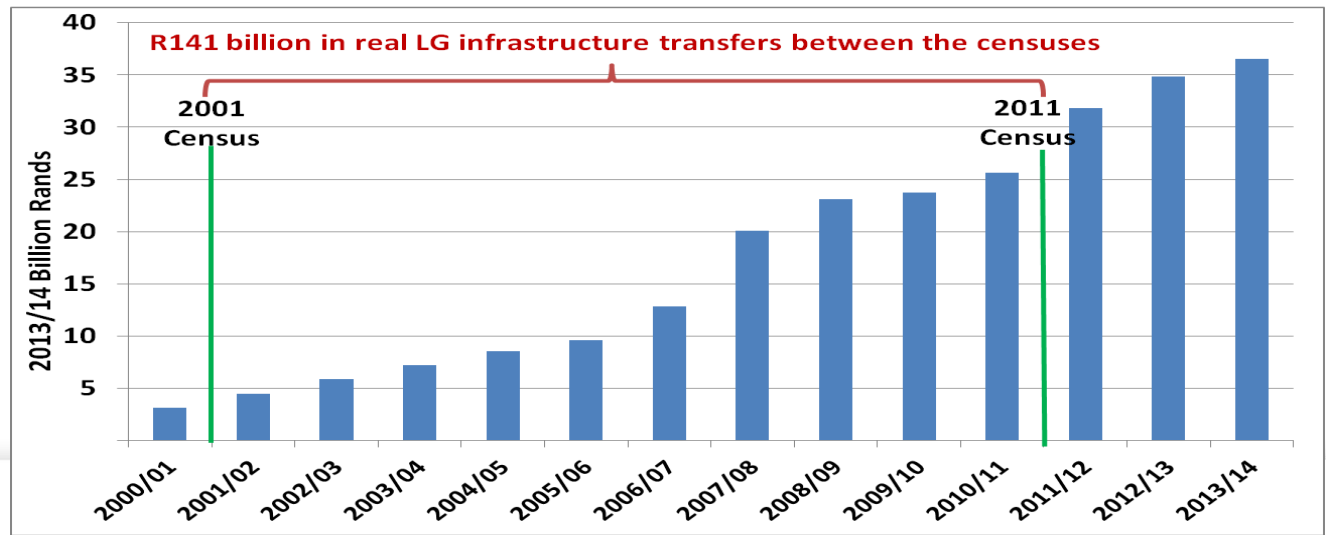
- Proliferation of LG grants and the ad-hoc changes to the grant system (i.e. MWIG) in recent years, as raised by the **FFC**
- Concern over the low spending on many LG infrastructure grants, as raised by **parliamentary committees**
- Gaps in funding, i.e. disaster mitigation – **LMs and Sector Depts**
- Suggestions from the FFC and elsewhere to build **more incentives** into LG infrastructure funding to help improve performance
- Responding to the varying levels of municipal capacity and growth in secondary cities – “improve clarity in a differentiated system” (**NDP**)
- Last wholesale review was 2003/04

Background (1 of 2): Fiscal expansion vs enduring backlogs

Households' Access to Service (2001 to 2011)

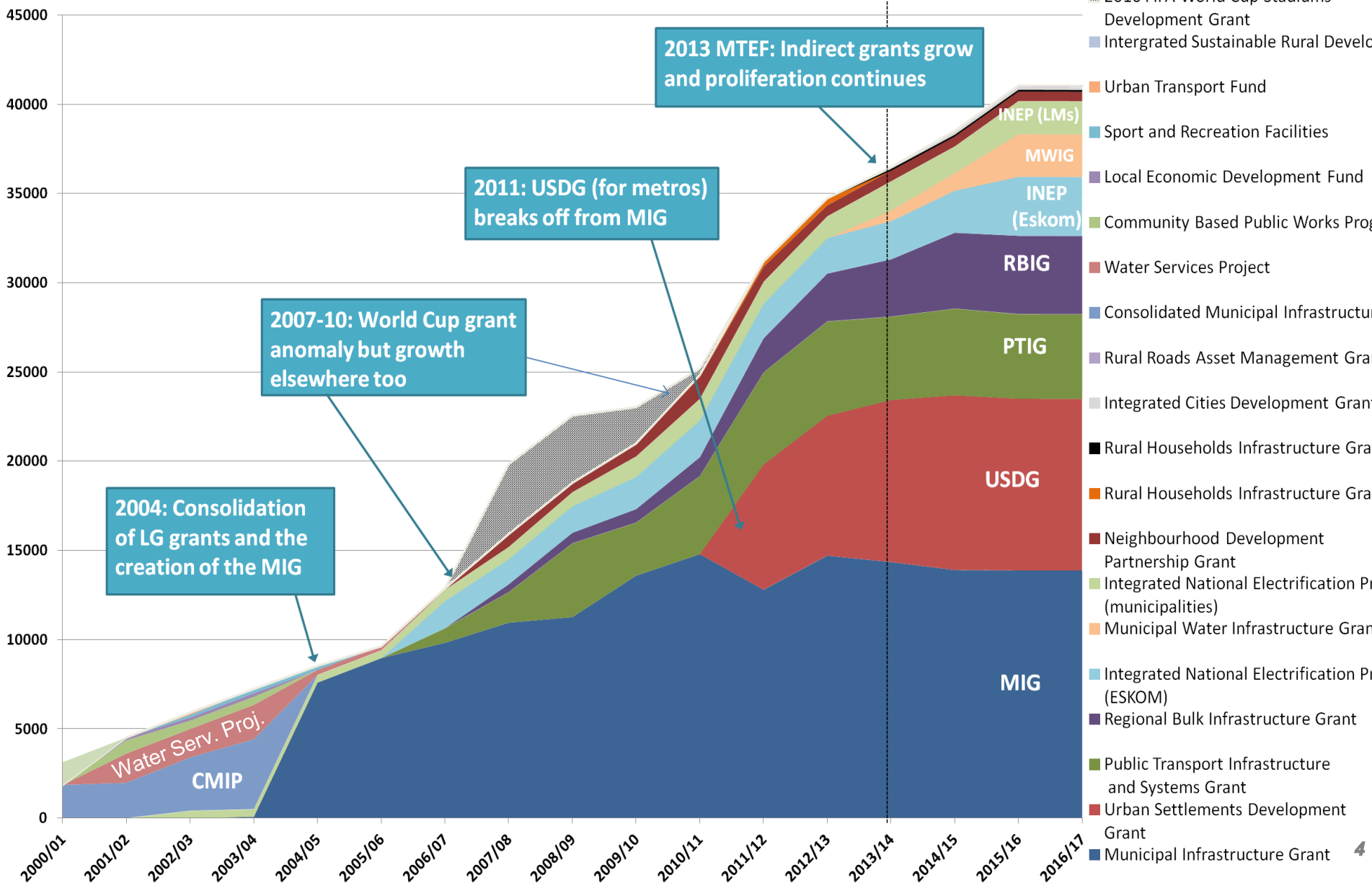


Local Government Infrastructure Grants 2000-2012 (adjusted for inflation)



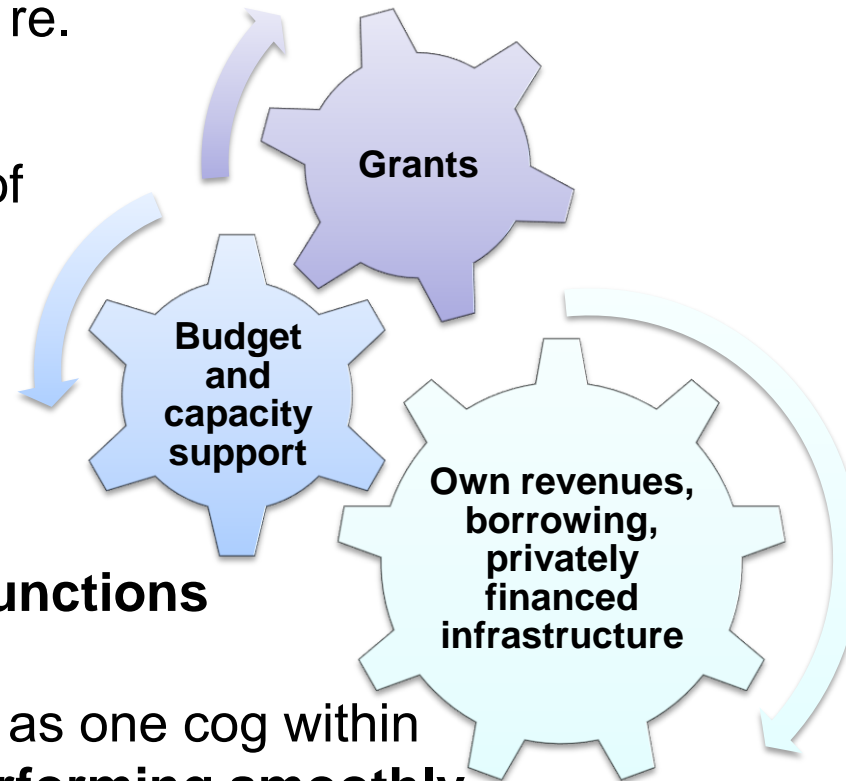
Background (2 of 2): Evolution of grant system

Direct and Indirect Local Government Infrastructure Grants since 2000/01 (in 2013/14 million Rands)

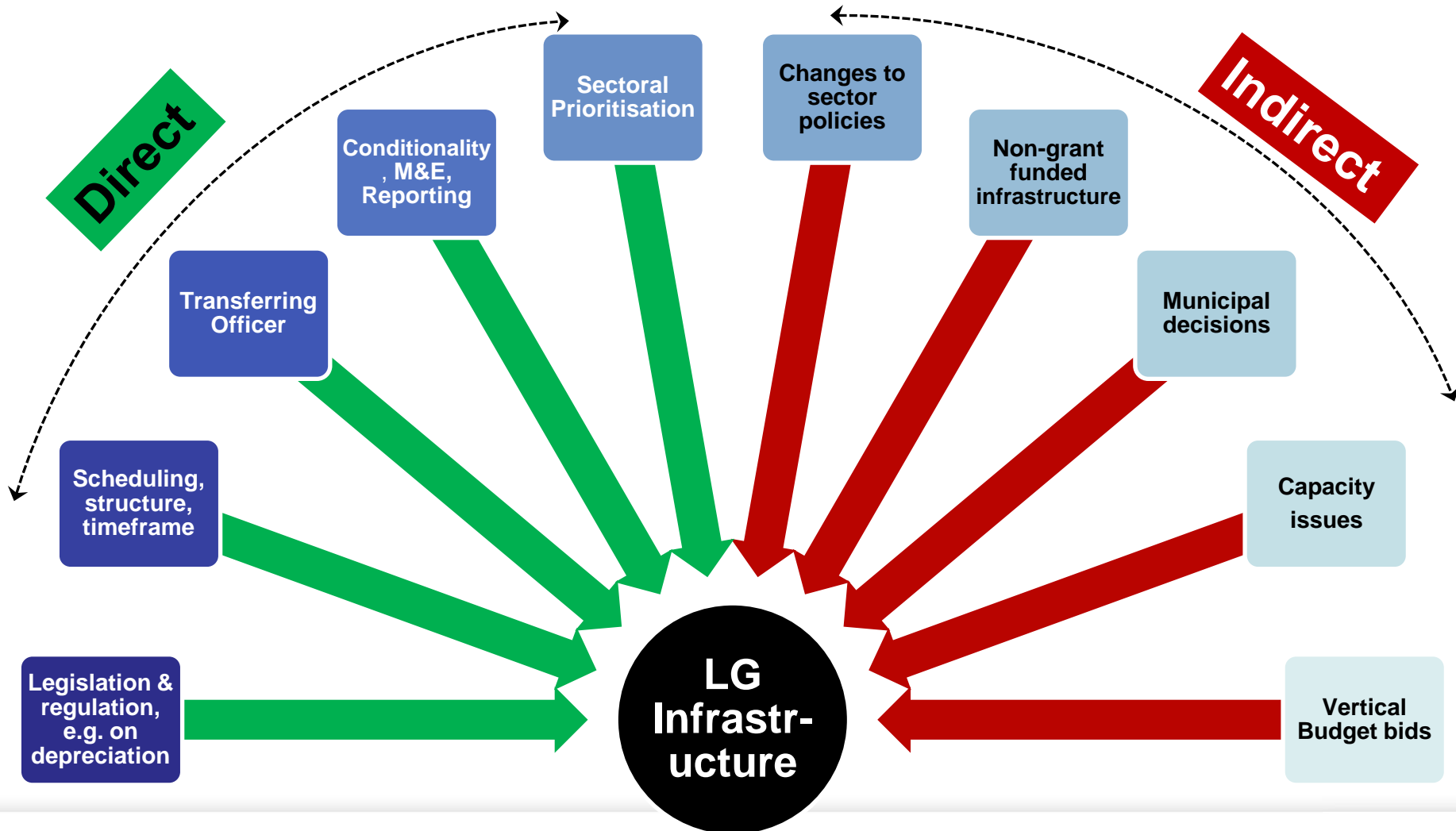


Alignment with ongoing work

- This review will **not aim to be a panacea** to all problems of LG infrastructure
 - Ongoing research from **SALGA and FFC** re. costing estimates for example
 - Other NT work includes **LGES**, a review of own revenue instruments and the SCOA budgeting reforms
 - Support: from **MISA** and capacity-building grants
 - DCOG's work surrounding **powers and functions**
- Therefore, the review's role must be seen as one cog within a system, and the aim is to get that **cog performing smoothly**



Scope: Endogenous vs Exogenous variables



Method – based on LG equitable share review

Collaborative and consultative cooperation at every stage:

Stage 1 – Preliminary (objective) identification of issues

- Extensive data analysis
- Literature and policy review to identify principles of the grant system
- Working group established that includes DCOG, SALGA and FFC
- Similar representation , plus DPME, on a Steering Committee

Stage 2 – Verify and discuss problems (stakeholder engagement)

- Extensive consultation and listening exercises
 - Workshops with municipalities and affected national departments
 - Ongoing collaboration with SALGA, FFC, MISA and other stakeholders

Stage 3 – Build consensus around solutions

- Higher level consultation and decisions led by Steering Committee (DDG level)
- Ongoing consultation with all stakeholders in preparation for cabinet

Timelines

A medium-term review aiming for 2015 Budget implementation

- **October 2013 – February 2014:**
 - Confirmation of TORS; Working Group & Steering Committee convened
 - Early engagements with stakeholders to make aware of process
 - Data analysis of grants, literature and policy reviews
- **February – March 2014:** First municipal and sector department engagements and workshops to build on evidence base
- **March – May 2014:** Consolidation of data analysis and literature reviews, and formation of draft proposals based on evidence and engagements
- **May 2014:** Second round of municipal engagements to test early draft proposals
- **June – September 2014:** Proposals finalised with further sector engagements
- **October 2014:** Changes announced Budget Forum & MTBPS – then to Cabinet
- **February 2015:** Full implementation of recommendations in 2015 Budget

Summary




Aim

- Review the **effectiveness** (do we fund the right things?) and then the **efficiency** (do we fund the things right?) of the LG infrastructure grants system. Make **evidence-based recommendations** to improve the above.

Method

- Extensive **data analysis** to reveal where the system structure can be improved, coupled with **stakeholder consultation** to hear how **implementation** can be improved (similar to LGES review)

Proposed Outcome

- System meets current municipal infrastructure needs –  Effectiveness
- System does so without additional cost to fiscus –  Efficiency
- System is sufficiently differentiated, dynamic and responsive to change in short- and long-term –  Sustainability

LIST OF DRAFT PRINCIPLES

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Background to the Seven Principles

- A discussion paper reviewing grants from 1994-2013 outlined some common principles that were identified throughout that period
- Working group to make the list of principles not just retrospective but principles that might help define changes to the current grant system
- Draft list of ideas at present but soon to be finalised

Draft Principles: 1 and 2

1. Respect The Constitutional Mandate

- The principle of **subsidiarity** means municipalities are responsible for the provision of certain infrastructure, such as water and roads; **funds must follow this function**
- Fiscal, capacity and coordination related economies of scale may exist at district, provincial or national level; these should be harnessed where viable but only in consultation with the affected municipalities so as to maintain subsidiarity
- The Bill of Rights means providing access to a **basic level of service** is a priority, but broader socio-economic development must also be targeted

2. Provide For Predictability and Stability

- Encourage **sound financial management** and planning processes
- Very important for infrastructure funding due to medium-term returns and frequent '**lumpy**' and **multi-year** nature of infrastructure investment

Draft Principles: 3 and 4

3. Encourage Transparency, Simplicity and Accountability

- Grants must be **simply motivated** towards recognisable **outcomes** to encourage accountability to **citizens and other spheres of government**
- Funding criteria will vary across grants but these criteria must be known; especially if municipalities need apply

4. Integrate A Variety Of Funding Sources and Aims

- Grants cannot meet all municipal infrastructure needs; **a mix of funding sources** from own revenues and private investment should be encouraged
- Infrastructure investment must **not solely target indigent or economic** customers; grants fund basic infrastructure for those who cannot pay but must also **catalyse investment** that is recoverable via tariffs from those can pay
- Grants must also integrate with broader government aims to ensure holistic **spatial development** outcomes occur over individual sector-based outputs

Draft Principles: 5 and 6

5. Be Sustainable

- Infrastructure choices (by whoever the implementing agent) must consider **longer-term** operating, maintenance and renewal costs of the municipality
- Recognising the **multiplier effect** of economic infrastructure investment is crucial in ensuring the longer-term **fiscal viability** of a municipality and its infrastructure assets

6. Involve Supportive National Departments

- National transferring officers (at national departments) must be geared towards the administration and monitoring of conditional grants at municipal level
- Clear **information and support** must be given to municipalities to allow them to meet the conditions of the grant and implement national policy
- National government – along with other spheres and entities of government – must lead in ensuring local government is **suitably capacitated to implement grants**

Draft Principles: 7

7. Reflect The Policy Of Differentiation

- Municipal infrastructure needs change over time and are different across the country: grants must **avoid a 'one size fits all'** policy
- Funding mechanisms will need to change with future realities too; grants should therefore be **regularly re-evaluated**

THANK YOU

Working Group (DCoG, MISA
SALGA, NT, FFC)