REVIEW OF LOCAL GOVERNMENT INFRASTRUCTURE GRANTS

In collaboration with Sector Departments, Statistics South Africa, municipalities and other stakeholders

TERMS OF REFERENCE

October 2013

1. PURPOSE

The purpose of this review is to assess whether the current local government infrastructure grant system is optimally structured to facilitate the efficient rollout of municipal infrastructure. Rather than limit itself to an impact assessment, the review will use such evidence to structure discussions regarding the reform of the grant system. The review will conclude with recommended implementable changes to improve the functioning of the local government infrastructure grant system.

The assessment of the current system will have two dimensions:

- The first is to articulate the principles behind the municipal infrastructure grant system and assess whether the current system of infrastructure funding **effectively** responds to government's policy goals. For example, the review will assess if a certain sector is underfunded and if the split between targeting backlogs versus economic growth is appropriate given the existing government policies.

- The second dimension is to objectively evaluate how **efficiently** public funds are being used to meet these policy objectives, largely guided by data analysis of the performance of individual infrastructure grants – thereby building on the analysis of the system's effectiveness as a whole. Questions to be answered in this regard include are the grants easy to spend, suitably differentiated between rural and urban areas, and do they come with sufficient non-financial support?

In sum, it will ask: **Does the system fund the right things? Does it fund the things right?**

Both of these dimensions will inform recommendations for changes to improve the structure of the local government infrastructure grant system. All recommendations will be based on sound evidence of how reforms will lead to the more successful achievement of stated policy objectives for municipal infrastructure.

2. BACKGROUND

Cross-government calls for reform

The rationale for the review stems from numerous concerns from across government and other stakeholders regarding the state of municipal infrastructure funding. For example, the Financial and Fiscal Commission's (FFC) annual submissions on the Division of Revenue Bill have often pointed with concern regarding the proliferation of grants, parliamentary committees have issued caution over the frequent underspending on infrastructure grants, and sector departments and municipalities themselves have raised issues of funding-gaps within the grant system. The combination of these concerns, in addition to the release of the 2011 Census results which shed new light on the state of service-delivery in South Africa, motivated the initiation of this review.

2013 Budget commitments

Prompted by those concerns mentioned above, National Treasury made commitments in the 2013 Budget to attempt to address some of the questions raised. In his **2013 Budget Speech** the Minister of Finance raised the issue of underspending on infrastructure projects, which is particularly stark at municipal level:

> *"Of course, we are well aware that there are parts of government that struggle to spend their full infrastructure budgets... Records show that government's ability to spend has been steadily rising from year to year. But it is not yet fast enough."*

By way of addressing this issue, the Minister of Finance continued to discuss the need for differentiated assistance to different municipalities and suggested **"municipal infrastructure grants will be re-aligned."[1]** Annexure W1 of the Budget Review (the explanatory memorandum to the division of revenue) raised the issue of poor infrastructure delivery and stated that, "a thorough review of the local government conditional grant system in the period leading up to the 2014 Budget... will be coordinated by the National Treasury, using a collaborative process that will include national departments, SALGA and the FFC, and extensive consultation with municipalities."[2] Concrete commitments have therefore been made to carry out this review of infrastructure grants.

3. CONTEXT

Service delivery backlogs

In Minister Moosa's foreword to the **1998 White Paper on Local Government** he wrote "Local government is the sphere of government that... is responsible for the services and infrastructure so essential to our people's well-being". Fifteen years later in 2013 it is acknowledged that considerable progress has been made in infrastructure delivery and the related positive impact on well-being via service delivery. However, **backlogs persist** in spite of substantial increases in fiscal commitments. Figure 1 highlights the extent of the backlogs and their slow eradication in four crucial sectors while figure 2 evidences the fiscal expansion in recent years. As such the efficiency with which this infrastructure is delivered is called into question. A paper for the February 2013 Budget Forum elaborated on this disconnect between infrastructure spending and service delivery outcomes. This review will identify and further examine the factors that impact the pace of backlog reductions.

[1] Minister of Finance, *2013 Budget Speech*, p.14-15

[2] National Treasury, *Annexure W1 - Explanatory memorandum to the division of revenue,* p.50

Figure 1: Number of Households Without Access to Services in 2001 then 2011

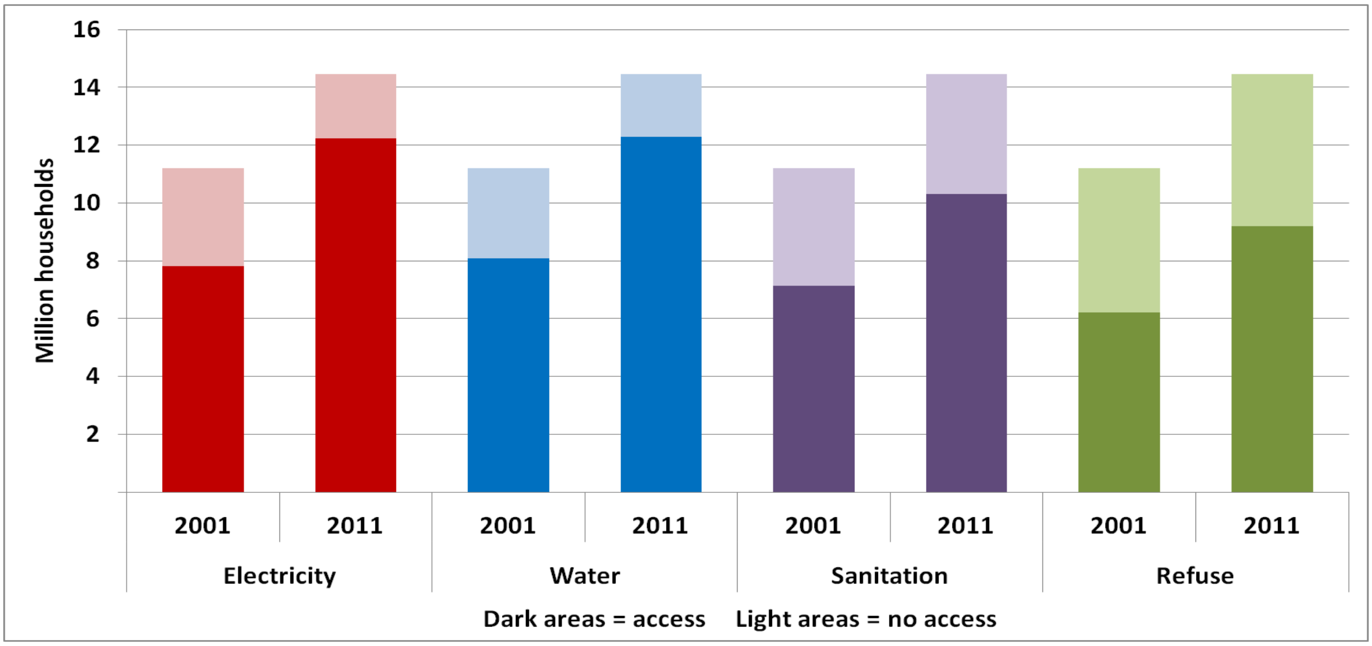
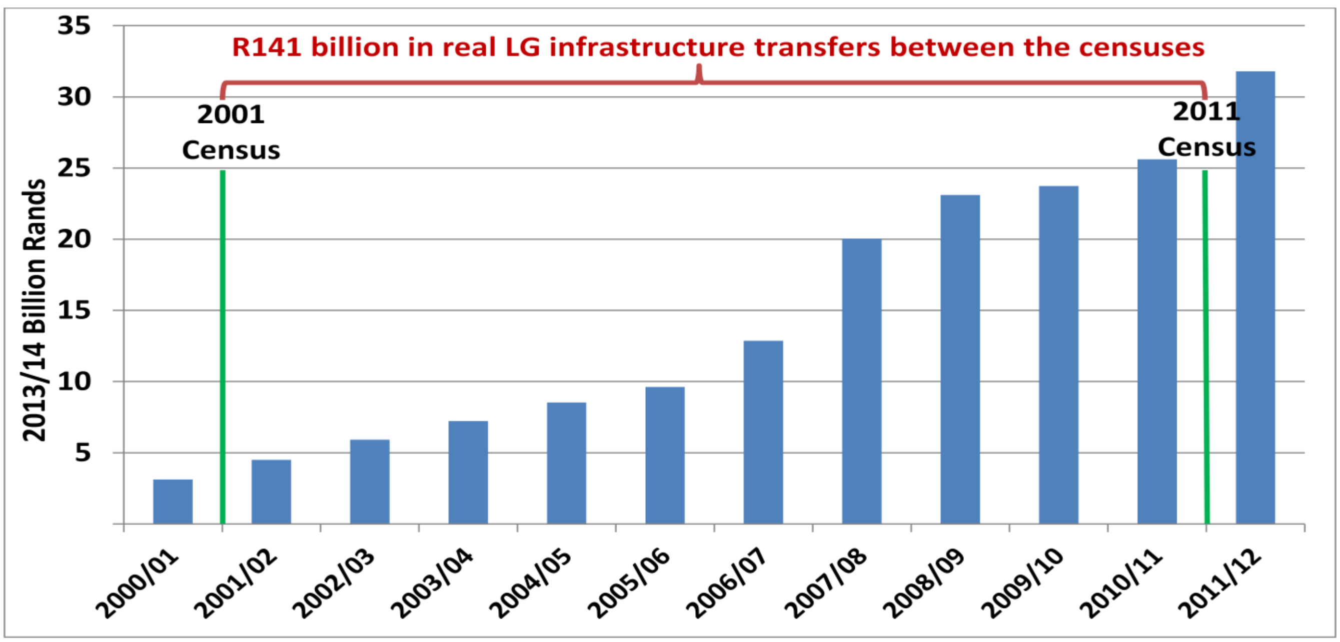


Figure 2: Local Government Infrastructure Grants 2000-2012 (in 2013/14 Rand billions)



Implementing current policies

There have been several changes to and minor reviews of the grant system in the past few years, resulting in proliferations or rationalisations of infrastructure grants and this review will be careful not go over old ground or try to reinvent the wheel. This approach is **advised by the National Development Plan** (NDP) which raises concern over policy instability – "Government often underestimates the

disruptive effect of major policy adjustments on service delivery"[3] – and accepts this has been a particular issue in the local government sphere – "In response to the problems facing municipalities, the temptation has been to issue more regulations and legislation for local government"[4]. As such this review will not try to reconfigure local government infrastructure policies but focus on improving their coordination to address gaps in service delivery and especially their **ease of implementation**. The review will be cognisant of the arguments that led to the decisions of previous reviews and evaluate their continued justification in light of the latest data and infrastructure needs in 2013.

Political prioritisation

Recognising the significant fall in public infrastructure spending as a percentage of GDP since the 1980s[5], the President's 2012 **State of the Nation Address announced an infrastructure plan** intended "to transform our economic landscape while simultaneously creating significant numbers of new jobs, and to strengthen the delivery of basic services."[6] The Presidential Infrastructure Coordinating Commission (PICC) tasked with implementing the plan set out 18 Strategic Integrated Projects (SIPs), which have since been further endorsed by government. So it is in this context of political prioritisation that this review takes place.

Current grant system

National transfers for infrastructure, including indirect or in-kind allocations to entities executing specific projects in municipalities, amount to **R123 billion over the 2013 MTEF**. The largest of these, the *Municipal Infrastructure Grant* (MIG) is worth R14.4 billion in 2013/14 rising to R15.4 billion by 2015/16. At the other end of the scale is the *Rural Roads Asset Management Systems Grant* (RRAMS) which is allocated R52 million in 2013/14. The other current local government infrastructure grants and MTEF allocations are listed in the table below:

[3] National Development Plan, p.54
[4] Ibid, p.436
[5] National Development Plan, p.44
[6] National Infrastructure Plan, http://www.info.gov.za/issues/national-infrastructure-plan/index.html

	Grant name	2013/14 (R'000)	2014/15 (R'000)	2015/16 (R'000)	Relevant National Department
Direct grants	Municipal infrastructure grant	14,352,060	14,683,835	15,448,070	DCOG
	Urban settlement development grant	9,076,906	10,334,684	10,699,773	Human Settlements
	Public transport infrastructure grant	4,668,676	5,126,029	5,278,881	DoT
	Integrated national electrification programme grant	1,634,772	1,564,658	2,056,090	DoE
	Municipal water infrastructure grant	602,965	1,058,976	2,671,934	DWA
	Neighbourhood development partnership grant	598,041	591,179	600,000	National Treasury
	Rural roads asset management grant	52,205	75,223	97,763	DoT
	Rural households infrastructure grant	106,721	113,124	118,328	Human Settlements
	Integrated cities development grant	40,000	150,000	150,000	National Treasury
	Direct grants total	**31,132,346**	**33,697,709**	**37,120,840**	
Indirect Grants	Regional bulk infrastructure grant	3,203,397	4,482,896	4,871,654	DWA
	Integrated national electrification programme (Eskom) grant	2,141,027	2,488,037	3,680,043	DoE
	Neighbourhood development partnership grant	55,000	58,300	65,000	National Treasury
	Indirect grants total	**5,399,424**	**7,029,233**	**8,616,696**	***2013 MTEF TOTAL***
GRAND TOTAL		**36,531,770**	**40,726,942**	**45,737,536**	***R 123 Billion***

Allocations for the Human Settlements Development Grant (R54.6 billion over the 2013 MTEF) are not included here, though a portion of these funds are spent on connecting housing developments to municipal services. As the housing function is devolved to cities they will also begin to receive allocations from this grant in future. How these transfers should be structured should also be considered by the review.

As a review of the infrastructure conditional grant *system*, this review may propose extensive changes to these grants, the creation of new grants and the consolidation or closing of existing grants.

4. RESEARCH AREAS

Differentiation

These needs of course will differ substantially across the country and especially between **rural and urban areas**. The necessity for differentiation is already widely discussed and incorporated in government policy and reflected in grants. For example, in metropolitan municipalities correcting historically inefficient and inequitable spatial patterns is a priority, while in rural municipalities the provision of basic household infrastructure across sparsely populated areas is the main concern. These areas will have very different needs from the infrastructure grant system. This review must recognise the **diversity of South Africa's municipalities** and reflect this diversity in recommendations that – rather than offering one-size-fits-all, blanket policies – enhance the current policy of differentiation, and based on the NDP's calls for "improved clarity in a differentiated system"[7], formalise it too.

Consolidation and proliferation

While the infrastructure grant system must provide for differentiation, it must do so efficiently. The FFC have frequently raised concerns over the number of grants and complexity of the system: "**grant proliferation** is a problem primarily because it often leads to a confusing array of overlapping programmes with variously competing or duplicated objectives and conditions, and complex implementation and reporting requirements"[8]. It was such arguments that led first to the establishment of the Consolidated Municipal Infrastructure Programme (CMIP) in 1998 and subsequently the MIG in 2004 so those policy decisions must be revisited to assess how they fit into the 2013 reality. Regardless, such proliferation and any other identifiable sources of **inefficiency in the current system** will be central targets for reform in the infrastructure grants review.

Departmental oversight

Consolidating municipal grants has been a recurring theme ever since the CMIP's inception mentioned above. However, alongside discussions encouraging simple funding mechanisms and **devolved decision making** – fundamental to MIG's creation – have been equally fervent calls for sectoral oversight and a greater national role in service delivery given the capacity and institutional related challenges municipalities face to plan and implement projects appropriately. Unpacking these competing concepts will be a key task for this review and one that requires a revisiting of the role that transferring departments have played, or should play, in the **oversight of grants** and the delivery of municipal infrastructure that relates to their sector. Equally, issues of economies of scale and the **sequencing of bulk and reticulation services** are crucial to these arguments and will be explored further.

The allocation criteria used to determine each municipality's share of a grant – be it via a formula or project-based approach – will also be analysed to identify how credible and transparent the data used in the criteria is and whether there are best-practices to be shared across different transferring departments.

[7] National Development Plan, p.431
[8] FFC, *Response to the Division of Revenue Bill 2013,* p.4

Evolution of the grant system to maximise returns

An efficient grant system should also make provision to flexibly adjust to changing municipal needs in future years. The system has to some extent done this already; **historical backlogs** were initially the primary target of the local government infrastructure grant system. Discrepancies in economic growth and the speed of service delivery across the country led to new kinds of backlogs, those caused by inequitable growth. Targeting more recent infrastructure backlogs is now also a key priority but provision for **future economic growth** is less well provided for in the current local government grant system. The *neighbourhood development partnership grant* (NDPG) is the main exception, aiming to "catalyse commercial and social upliftment" via "nodal and linkage development"[9]. The *public transport infrastructure grant* (PTIG) also has a transformative element to it by building bus-rapid transport systems to reduce transport related inefficiencies in South African cities.

While the focus on delivering the constitutional right of access to basic services must be maintained, an infrastructure grant system that also acts as a catalyst for local **economic development** through government transfers will have a significant multiplier effect and improve the long-term financial sustainability of municipal infrastructure. Whether the current and future grant system should continue to target backlogs, and what type of backlogs, or whether there is scope for greater economic rationale to the grants, and how this would take shape, will be the subject of research and analysis during the review process.

Periodic reviews

To ensure the prolonged relevance of municipal infrastructure funding and its adaptability over coming years, and acknowledging the pace of change in South Africa, work will be done to ensure this review and its evidence-based analysis does not come to an abrupt stop when its recommendations are considered for the 2015 Budget. The **viability of a regular review** will be assessed that could, for example, meet every three years to evaluate the success of the recommendations but also make updates to **ensure the newly structured infrastructure grant system continues** and does not fade into a complex portfolio of ad-hoc grants again.

Funding

The White Paper recognised the need for multiple sources of investment and envisaged municipal infrastructure being funded through a combination of:

(a) capital grants from national government;

(b) local cross-subsidisation; and

(c) the mobilisation of private investment.

This review will primarily concern itself with the analysis of (a), which was designed to fund poor communities or households. However there are clear overlaps with (b) and (c), which are supposed to supplement (a) and ensure suitable service delivery to all citizens, poor or otherwise. However, discussion on the **appropriate split between funding sources** – (a), (b) and (c) – that a municipality should employ is paramount, especially with regards to large one-off infrastructure projects that might serve both poor and non-poor communities.

[9] As published in the NDPG Framework in the 2013 Division of Revenue Bill

Sustainability

Maintenance costs can prove problematic at municipal level and insufficient funding – be it via grants or own revenues – can lead to the rapid deterioration of infrastructure, adding an extra layer of inefficiency to the fixed costs involved with large infrastructure projects. Linked to this is the environmental impact of leakages and wasted water or electricity. These tie in with the FFC's *Submission for the Division of Revenue 2013/14* in May 2012, which included **environmental sustainability** as a key theme for the local government fiscal framework to consider. Accounting for **depreciation of grant-funded assets** is another pressing funding issue that needs to be addressed for municipal infrastructure funding to be sustainable in years to come. This review aims to provide guidance to municipalities and sector departments alike regarding the appropriate depreciation provisions.*Planning and performance indicators*

The White Paper expected municipalities to develop local infrastructure investment plans on the basis of their **integrated development plans** (IDPs). The mobilisation of own revenues and private investment, in combination with the IDPs, remains part of the current system. This requires clear long-term planning and commitments for infrastructure spending, which often requires commitments over **longer timeframes** than the three-year MTEF guidelines provided by the grant system. Planning also requires suitable performance indicators to allow evaluation of current plans. Bringing these two facets together gives rise to, the as yet relatively unexplored, option of **performance-based grants**. The *Integrated cities development grant* introduced aspects of these incentives in the 2013 MTEF and some grants to provincial government use different forms of incentives. The *Expanded Public Works Programme Grant* has also been structured as an incentive grant. Using these experiences among others, this review will analyse further the potential of a grant system that incentivises better performance and allows for longer-term infrastructure planning. Ultimately the goal is a more dynamic grant system that can respond over time to the evolving requirements of municipalities.

5. SCOPE AND LIMITATIONS

This review takes place alongside several other reviews and reform initiatives including the recently completed review of the local government equitable share formula, on-going reviews of municipal own revenues, reviews of the functions of some municipalities and reforms to municipal budgets including the introduction of a standard chart of accounts, among others. The scope of this review therefore does not need to attempt to address all of the different challenges in the local government system but must focus on grant issues and ensure that this part of the system is functioning correctly. Shedding light on other parts of the system and those areas outside this scope will be a welcome by-product of the review and future work may build upon this research with a broader scope.

Scope:

a) The review will limit itself to reviewing ways to maximise *existing* resources rather than seeking solutions that require fiscal expansion – an important point given the cautious macroeconomic context outlined in the 2013 Budget Review
b) The review will not go beyond local government infrastructure grants. Obvious overlaps exist with provincial or national infrastructure projects but analysis will be limited to infrastructure grants in current or recent existence with policy research that acknowledges the performance of former infrastructure funding mechanisms local government

c) The review will be cognisant of the important role that infrastructure funded by borrowing, own revenues or the private sector has on service delivery at the municipal level. While, this is a review of the grants system, not municipal financing, the review will examine areas where grant and loan financing intersect (such as grant pledging). Equally, analysis should address the appropriate balance of funding a municipality should seek between infrastructure grants, own revenues and borrowing in order to encourage longer-term financial sustainability of municipal infrastructure
d) The policy of municipal differentiation shall be continued and outcomes will likely discriminate between metropolitan and more rural municipalities, or via the use of different or new classification systems
e) Changes to sector policies will not be sought, instead the review will look to adjust the system to better meet the policy objectives of national government
f) To improve the long-term viability of the municipal infrastructure grants, opportunities will be explored to introduce performance based grants and a flexibility in the system to respond to evolving infrastructure demands
g) A broad scope will be retained in terms of possible outcomes; be it new grants, new grant structures, consolidation, phasing-out of old grants, or even no-changes. The first phase however has a far more limited scope; generating an evidence-base from which to make recommendations
h) Challenges such as capacity limitations, assignment of powers and functions, or municipal-level relationships – that are acknowledged to have a significant bearing on service delivery – cannot be targeted explicitly within this review. But efforts will be made to align existing work and projects underway within departments with the workstreams and efforts of this review, thereby avoiding duplication of work and ensuring coordination of outputs.

Through this strict limiting of the scope it is hoped the review will have sufficient focus to achieve its primary aim of making evidence-based recommendations regarding infrastructure grants. However, as is clear above, this does not mean the review is denying the huge role and impact that many of these issues have on the delivery of municipal infrastructure. It is acknowledged many of the limitations that municipalities face in the delivery infrastructure may not arise from the grant system at all yet this does not diminish the importance of this review. Indeed, by focusing with concerted effort on one cog – that of infrastructure grants – of the municipal infrastructure system, this review hopes to shed further light on some issues that fall outside its scope.

Limitations:

a) Data availability; both in terms of service delivery outcomes and municipal budget analysis of actual spending
b) The complex logistics of working with such a diverse range of national departments and stakeholders could stall the process
c) A natural inclination to focus on one’s own immediate priorities as opposed to broader government policy may mean stakeholders are resistant to change

6. STAKEHOLDERS AND CONSULTATION

The review of infrastructure grants will have an impact on several transferring departments and all 278 municipalities. Therefore these stakeholders must have a role in the review, although for practical reasons transferring departments will be able to participate more actively than most municipalities. The Department for Cooperative Governance (DCoG) is a key partner in the review and will be present at every level and stage of participation while sector departments (Department for Water Affairs, Department of Energy etc) will be invited when workstreams are relevant to their sector.

As every municipality will be impacted by the review's recommendations it is important that they are consulted as thoroughly as possible and encouraged to participate in the review. SALGA can play an important role representing the interests of its member municipalities in regular discussions and deliberations at national level but municipalities themselves will also be made aware of the process and invited to share their inputs via letters, a short online questionnaire or workshops. While the technical aspects of maximising the infrastructure impact per rand spent may prove inaccessible to some stakeholders, there should be an understanding of the principles behind the infrastructure grant system and how well stakeholders feel these are adhered to.

The Financial and Fiscal Commission (FFC) have offered recommendations over the years via their Submission for the Division of Revenue and their insight into relevant policy issues and their capacity to assist with objective research makes them a useful partner in the review.

The Department of Performance Monitoring and Evaluation (DPME) in the Presidency are useful partners for this review as custodians of the outcomes approach, specifically outcome 9 which targets a responsive, accountable, effective and efficient local government system. Equally their leading role in the Medium Term Strategic Framework (MTSF) which aims to implement the NDP will offer the review guidance as to how the review can help meet some of the longer-term strategic goals of government.

Provincial departments of local government and provincial treasuries have extensive experience and knowledge of assisting and monitoring municipalities and they will be asked to contribute their insights to the review.

Representatives from DCoG (including MISA[10]), FFC, SALGA and National Treasury will form the review's main working group – with sector departments represented whenever possible and relevant. Similar stakeholders, with the addition of DPME, will form the steering committee so their input and consultation will be requested throughout the process.

Other bodies such as the Institute of Municipal Finance Officers and Statistics South Africa can also play productive roles in the process. Their guidance and technical support on implementation or provision of official data will be sought when the opportunity arises. Additionally there will be extensive internal consultation within National Treasury where staff can offer: sectoral knowledge; datasets and data-analysis; and contacts, relationships and introductions to stakeholders.

[10] Part of the Department for Cooperative Governance, Municipal Infrastructure Support Agency (MISA) receives R820 million to provide technical assistance to rural and low-capacity municipalities.

Ultimately, consulting stakeholders at various levels will complement the data analysis to help differentiate between the *de jure* process of municipal infrastructure funding and the *de facto* reality.

Following the endorsement of the terms of reference, formal communication will be made to all stakeholders – building on the provisional engagements to date – including national departments and municipalities to make them fully aware of the review process and also indicate how their engagement will be structured. Substantive engagements will then follow as part of the review process outlined above.

7. TIMEFRAMES AND PROJECT PLAN

Rather than restricting the research, limiting consultation and rushing the implementation, this review will be conducted over 12 months leading up to October 2014 and will therefore target the **2015 Budget** for the realisation of its recommendations. This extended period, it is hoped, will make consensus easier to reach via prolonged research and consultation processes. A detailed timeline is set out below:

Phase 1, August – October 2013

This first phase will be dedicated to the collation and analysis of available data on the performance of individual grants and the system as a whole. This data will include but is not limited to:

a) analysis of service-delivery outcomes as reported by the 2011 Census and other nationally available and officially authorised datasets, such as StatsSA's non-financial census or living conditions survey
b) allocation and spending data as reported in municipal budgets and analysed by National Treasury's local government budget analysis unit
c) the performance data as stipulated in grant frameworks and provided by, or provided to, the national transferring officer

In addition, this phase will involve an assessment of the policy principles behind the local government infrastructure grant system to accompany the data analysis. The working group and steering committee will need to be convened to direct this data and policy analysis and offer comments on the paper that will accompany the terms of reference to the October Budget Forum. The submission to Budget Forum must also offer a progress report on the project as a whole.

Phase 2, November 2013 – February 2014

This phase will continue the data analysis from phase 1 but primarily concentrate on the necessary consultative processes. Engaging with the transferring national departments and recipient local governments for their take on the phase 1 results will be paramount. Consulting national departments will be easier logistically at this stage of stakeholder engagement, however consultation with municipalities will take place during this period too. This can take the form of written feedback – ideally in the form of written questionnaires in order to allow easy collation and analysis – but with SALGA's cooperation the first municipal workshops may be held in late 2013 to help craft the analysis going forward and inform future workshops. Should any immediate policy conclusions be fully consulted on in time, the 2014 Budget in February could include announcements on the phasing-out of certain grants.

Phase 3, March – October 2014

The working group will be finalising the analysis and consultation and then switch focus to policy making. This phase will rationalise the various potential alterations to the infrastructure grant system into a few succinct evidence-based and implementable policy proposals. The working group must attempt to find consensus as far as possible but it is a process that will require guidance from the steering committee to negotiate consensual outcomes. The results of phases 1-3 should be presented alongside these policy proposals at the October Budget Forum and be announced in the Medium Term Budget Policy Statement (MTBPS). Following approval in these forums and at cabinet, the review's final recommendations will be ready for implementation in the 2015 Budget.

Phase 4, November 2014 – February 2015

The review team will respond to departmental and stakeholder queries on the announced amendments to infrastructure grants and the grant system as a whole. In doing so, full preparations should be in place for the roll-out in the 2015/16 financial year as announced in the 2015 Budget.

8. STRUCTURE OF THE REVIEW TEAM

The review will have two core groups: the first, the working group, will meet regularly to drive forward the work, write up its outputs and agree on submissions to the steering committee; the second, the steering committee, will meet less regularly but whenever necessary to oversee the working group's progress and ensure outputs are on course and in a manner conducive to the review's ultimate goals of recommending implementable changes to the infrastructure grant system.

Stakeholders working group

Although the work is initiated by officials in the Intergovernmental Relations (IGR) division of National Treasury (who will act as a secretariat and aid interaction between the working group and steering committee), the stakeholders working group will consist of relevant representatives from stakeholder groups that will assist with:

a) the collection and analysis of data;
b) the review of policies and principles;
c) their input of progress reports;
d) and provisionally highlight potential conflicting stakeholder interests.

The envisaged members include:

a) IGR, National Treasury
b) DCoG (and MISA) representatives
c) FFC representative(s)
d) SALGA representative(s)

e) Relevant representatives from sector departments when necessary

The working group will establish different workstreams to carry out the tasks of the review and other stakeholders will be invited to form part of these workstreams.

The working group as a whole will be updated and consider all inputs from the different workstreams that will be formed as part of the process. The working group will then make recommendations to the steering committee on any proposals emanating from these workstreams, will update the steering committee about all progress with the review, and will elevate any issues that cannot be resolved in the working group to the steering committee.

Steering committee

The steering committee made up of more senior members of the relevant stakeholders will meet far less often than the working group but will oversee their work, offering guidance and feedback on progress. They will be of particular importance towards the end of the review and will have to approve all decisions needed regarding the review's recommendations. Members will include Deputy Director-Generals (or equivalent) from the following:

a) IGR, National Treasury
b) DCoG
c) DPME
d) SALGA
e) FFC

Decision making on the review outcomes

This review is a collaboration between a wide range of stakeholders and as such requires the review team to respect and be mindful of the decision making processes and structures within each organisation. It is the responsibility of each organisation's representatives on the working group and steering committee to keep their organisation's decision making structures informed of the progress and decisions of the review.

The outcomes of the review are intended to be presented to the Budget Forum in October 2014 for their consideration and support. Proposals for any changes to the conditional grant structure will have to be approved by Cabinet before they can be included in the MTBPS. Parliament will then be asked to consider the recommendations as part of their deliberation on the MTBPS and the 2015 Division of Revenue Bill, when the recommendations begin to be phased in.

9. KEY RISKS FOR THE PROCESS

This is a complex review that is being conducted in very tight timeframes. It will require a great deal of cooperation and honest inputs from all stakeholders to be successful. The following major risk areas have been identified and will have to be managed:

a) Unavailability of reliable data on aspects of the grant system
b) A lack of sufficient and objective input from stakeholders, especially from national departments

c) The above risk will intensify if the review is not seen by these stakeholders as truly collaborative
d) Disagreement over a desired set of principles behind an infrastructure grant system; particularly with regard to the significant differentiation needed between metros and rural municipalities
e) Failure to agree on conclusive recommendations within the stated timelines. Although provisions can be made for extending the time and scope, should the need arise, the danger exists that institutional involvement – from all sides – may wane