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Decaying municipal assets place service delivery in peril

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Opening a tap to get water or flicking a switch to light up a room may seem far removed from local government decisions concerning the upkeep of infrastructure. Yet years of neglect in adequately caring for the infrastructure networks that enable the delivery of water, sanitation, electricity and refuse removal has placed many local municipalities on the precipice of a breakdown in service delivery.

This will affect not only those households which have access to basic services such as water and electricity, but especially those which do not. After almost two decades of democracy, the focus should ideally have shifted to the next generation of issues related to quality and innovation, and to the green delivery of services, rather than averting a service delivery crisis in certain municipalities due to decaying infrastructure.

This has prompted the Financial and Fiscal Commission (FFC) to reiterate calls to the government to urgently address the low priority attached to asset-care needs at local government level. According to research contained in the commission's recently tabled submission for the division of revenue for 2014-2015, municipalities are responsible for managing and caring for infrastructure valued at R1.156-trillion, based on its current replacement cost.

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Municipalities are constitutionally mandated to provide critical basic services such as water and sanitation, electricity and refuse removal, but inadequate budgeting and spending on maintenance and refurbishment threatens service delivery.

The long-term deferral of routine maintenance means that the integrity of infrastructure assets may decline to such an extent that more costly renewal is needed – or even outright replacement.

Interventions

The FFC's annual submission indicates that during 2011-2012, municipalities under-budgeted and underspent on maintenance by R5.27-billion and R8.94-billion respectively. According to international best practice, municipalities should ideally be spending, on aggregate, in the region of R21.66-billion a year on maintenance. This calls into question whether additional funding would have any meaningful impact. The commission is of the view that despite the need, increasing the funding for asset care will, on its own, have limited value in the current environment.

Increased renewal and maintenance funding will have to be accompanied by other interventions to ensure effective spending on, and implementation of, maintenance.

The municipal infrastructure renewals backlog poses a similar, if not more severe, picture. The FFC estimates the size of the backlog at between R19-billion and R39-billion in the case of water and sanitation, and between R25-billion and R41-billion in the case of electricity.

To address these backlogs, it would require municipalities to spend at least an additional R4-billion per sector every year for five years in the case of water and sanitation, and for just under seven years in the case of electricity. This investment would be in addition to annual municipal expenditure on renewals.

The commission's overarching finding in its research on maintenance and renewals in municipalities is the glaring gap in comprehensive legislation that adequately encompasses the full scope of asset management (which ranges from planning to acquire an asset to its use, safeguarding and disposal) in terms of international best practice.

Whereas the national and provincial spheres of government are guided by the Government Immovable Asset Management Act of 2007, there is no uniform, comprehensive legislated framework setting out standards for municipalities.

Infrastructure investment

As a result, asset management practice is poor across the majority of municipalities because they have no road-map for planning, budgeting and spending on infrastructure maintenance and renewal.

In its 2014-2015 submission, the commission also raised concern about the current system of intergovernmental funding for capital versus maintenance expenditure, where conditional grants are created to fund capital projects with limited proportional increases to fund the operating expenses associated with infrastructure investment.

The commission is pleased to note that the revised equitable share allocation for local government now makes explicit provision for funding the maintenance needs associated with the delivery of basic services.

However, given that expenditure of equitable share funding is at the discretion of recipient municipalities, this may not necessarily actually translate into increased allocations by municipalities to their maintenance and renewals budgets, nor increased expenditure on asset care.

The commission hopes that aspects of this challenge can be addressed as part of the government's pending review of local government conditional grants, scheduled to begin this year.

The tremendous amount of taxpayers' money that is allocated to fund new infrastructure cannot be allowed to co-exist alongside rapidly decaying existing infrastructure. This is neither efficient nor effective, and is certainly not a model of accountable governance or infrastructure-led national development.

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