

FINANCIAL AND FISCAL COMMISSION
POLICY BRIEF

Environmental Sustainability and Climate Change in the Local Government Sector

EXECUTIVE SUMMARY

National government needs to support local initiatives by providing clear policy guidelines and financial assistance.

Climate change is one of the leading threats to global economic development in the 21st century. It is important to understand the impacts of climate change not only on people's livelihoods but also on local (and national) government infrastructure required to provide basic commodities such as water and energy. A recent study by the Financial and Fiscal Commission found that climate change will increase water and electricity spending at local level. Therefore, local governments need to be proactively involved in local, national and global efforts to adapt to and lessen (mitigate) the impacts of climate change. These efforts might include water and electricity saving measures, 'greening' their budgets and encouraging 'green' procurement.



INTRODUCTION

Climate change is one of the major challenges of the 21st century, but how important is it for South Africa, a country facing many pressing developmental challenges? Is climate change something that municipalities in South Africa should pay attention to? These are just two of the questions being asked by the Financial and Fiscal Commission (the Commission) in a new, long-term research programme into the financial implications of climate change.

Every economy is vulnerable to the hazards of climate change, but the vulnerability is unequal and disproportionately distributed across continents and regions. Although the developed world is responsible for most of the negative impacts, the poorest global populations are most affected by climate change. The effects of climate change are also most severe and tangible in cities, which are drivers of sustainable development.



The effects of climate change will undermine development and growth and impose costs on society and governments in terms of ameliorative expenditures (spending to reduce the undesirable effects of climate change). A study¹ by the Commission also found that climate change will increase water and electricity expenditures at local government level. The Commission is specifically concerned about the strain that the effects of climate change will put on public finances and the resulting undermining of any gains in intergovernmental fiscal relations, which the Commission is constitutionally mandated to promote.

**Effective policy options
can help achieve
environmental
sustainability in the
context of climate change.**

WHAT CAN MUNICIPALITIES DO?

Municipalities need to be proactive and prepare for the effects of climate change, which will be felt most at local level. Some of the initiatives include:

1. Save water and electricity.

Climate change will magnify the problems of water and electricity provision already facing South African municipalities. Problems include illegal connections, inappropriate pricing, poor water quality and aging infrastructure that leads to water and electricity losses. As water and energy resources are central drivers of local economic growth and development, they must be used efficiently. Individual municipalities need to introduce water-saving and energy-efficiency programmes and increase spending on aging infrastructure. These measures should be coupled with efficiency and asset audits, and asset registers should be made GRAP (Generally Recognised Accounting Practice) compliant.

2. Green their budgets.

Municipal revenue and expenditure policies can also take into account environmental and climate change management objectives by:

- Pricing services appropriately, so that consumers pay the full cost of resources used, and wasteful resource use is discouraged. A good example is the rising block tariff used in the water sector, where increased consumer usage leads to higher unit costs. Careful analysis is required to determine appropriate tariff policies, consumption blocks and unit costs.



1. FFC. 2011. 2012/13 Submission for the Division of Revenue, Midrand, South Africa.

- Allocating expenditure appropriately. For example, providing enough funds for maintaining, refurbishing and replacing assets, budgeting for infrastructure investments that will become necessary as climate patterns change (such as storm water drainage systems, or coastal protection barrages), and investing in new, environment-friendly technologies and service delivery systems (such as alternative and renewable energy, and solid waste segregation and recycling systems). Municipalities can also support the research and development of new technologies and service delivery systems.
- Offering subsidies and incentives to consumers who adopt new technologies or change behaviour patterns. Similar to tariff-based incentives, these could include voucher schemes or tariff reductions associated with the installation of new technologies, or rewards for reducing consumption of specific services. However, such approaches must not create market inefficiencies by distorting prices, being too expensive or complicated, or protecting an inefficient green industry.

3. Encourage green public procurement.

As municipalities are the main buyers of goods and services in their areas, making environmental concerns part of their procurement policies can go a long way in promoting a clean environment. Procurement decisions have the potential to turn cities into environmentally friendly zones by helping develop and sustain environmentally sensitive markets. In green procurement, (also known as sustainable procurement or green tendering), public authorities deliberately and strategically procure environment-friendly goods and services from a selection of environment-conscious suppliers or contractors. Public officials can also include environmental and sustainable targets or requirements as part of procurement contracts.



WHAT CAN NATIONAL GOVERNMENT DO?

National government can support municipalities in managing and adapting to climate change through a number of instruments. These include:

1. Clear policies, guidelines and toolkits.

The government needs to provide clear policies, guidelines and toolkits on how municipalities should adapt to and alleviate (mitigate) the effects of climate change.

2. Transfers.

The government should consider establishing a separate special purpose conditional environmental grant² that will seek to achieve the following:

- Reward and encourage environment-friendly actions in the local government sphere.
- Provide for repair and maintenance, and rehabilitation of water and energy infrastructure.
- Build capacity to address climate change management in local governments.
- Fund research into best adaptation and mitigation practices, and new environment-friendly technologies, especially water and energy efficient technologies, waste management and green building.

3. Access to global funds.

Globally, funding is available to assist municipalities to adapt to and alleviate the effects of climate change. The government should therefore help municipalities to identify and apply for funding.

2. Like subsidies, transfers or grants are costly to the Treasury and can distort market signals to the detriment of the economy as a whole. However, on the positive side, grants are target precise.

RECOMMENDATIONS

A number of policy options can help achieve environmental sustainability in the context of climate change. In light of the above discussion, the following recommendations are made:

1. Prioritise the use of grants.
2. Integrate environmental concerns into procurement policies.
3. Develop appropriate, municipal-specific adaptation and mitigation policies.
4. Only as a last resort should the government consider using subsidies and taxes.

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