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FFC PRESENTATION TO THE  
INFRASTRUCTURE DEVELOPMENT  
PORTFOLIO COMMITTEE OF THE GAUTENG  
LEGISLATURE

04 MARCH 2016

# PRESENTATION OUTLINE

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- South Africa's Infrastructure Challenges
- Municipal infrastructure investment in Gauteng
  - Municipal Infrastructure Backlogs
  - Municipal Capital Spending
  - Funding for Municipal Infrastructure
  - Repairs and Maintenance
- Conclusion and Recommendations



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# SOUTH AFRICA'S INFRASTRUCTURE CHALLENGES

# RESPONDING TO SOUTH AFRICA'S INFRASTRUCTURE CHALLENGES

- Rapid urbanisation is testing Government's capacity to meet growing demand for services.
  - Government already spends significant amounts of money on public investment, but the outcomes fall short of expectations.
  - Infrastructure is ageing and often badly maintained, while the capacity to implement new infrastructure projects is questionable.
  - Municipalities and SOEs failing to meet service delivery targets or spend budgets.
- Increased infrastructure spending is seen as the solution to unlocking economic growth and reducing poverty and unemployment
  - It is central to NDP and the cornerstone of government's economic policy.
  - Infrastructure investments have large multiplier effects and impact productivity
  - However, although public infrastructure investment can indeed be a powerful lever, certain fiscal and structural challenges are impeding the effectiveness of this lever.

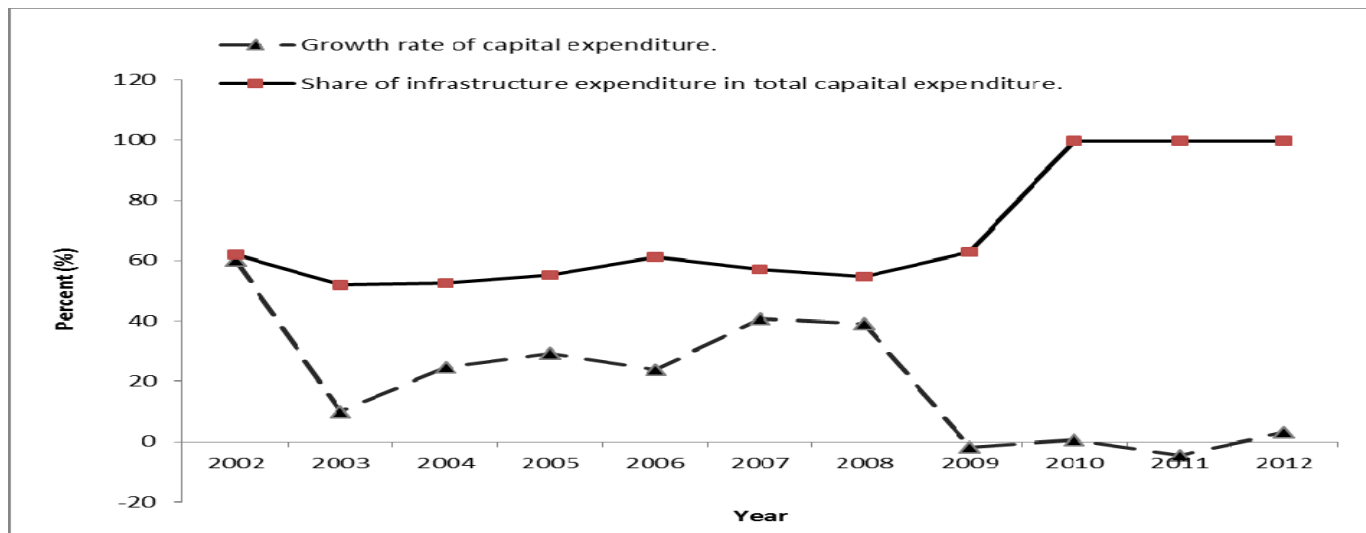
# FFC WORK

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- Main obstacles to infrastructure investments:
  - Insufficient financial resources (to finance and implement municipal investment plans)
  - Large infrastructure projects require specific skills in engineering, productivity improvements, life cycle asset management and complex procurement management that are lacking
  - Infrastructure projects are multi-year commitments, which are difficult when the budget system has insufficient capacity to spend effectively
- FFC has observed that:
  - Increased capital spending on electricity and water and sanitation can spur growth
  - Extending useful life of infrastructure also benefits long-term economic growth
- What is needed to close the country’s “infrastructure gap” is:
  - Good coordination among spheres of government and improved capacities
  - Establishment of the Presidential Infrastructure Coordinating Committee (PICC) is a step in right direction towards an integrated approach to delivery of infrastructure
  - PICC projects should ideally dovetail with infrastructure plans at subnational level

# ECONOMIC GROWTH EFFECTS OF MUNICIPAL CAPITAL SPENDING

- Infrastructure related spending by municipalities a significant component of total local government expenditures, averaging almost 60% since 2006



- In light of service delivery problems facing municipalities, questions remain about effectiveness of capital spending by municipalities
- This chapter examines the growth and productivity effects of mandated municipal capital spending on core socio-economic infrastructure

# KEY FINDINGS

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- The specific function that municipal capital is expended on matters for regional/municipal growth
- Capital spending on electricity plus water and sanitation infrastructure contributes positively to municipal economic growth
- Capital outlays on housing and roads infrastructure have a negative effect on growth in municipal gross value added
- Efforts to maintain current infrastructure important as spending dedicated to repairs and maintenance positively impacts on economic growth

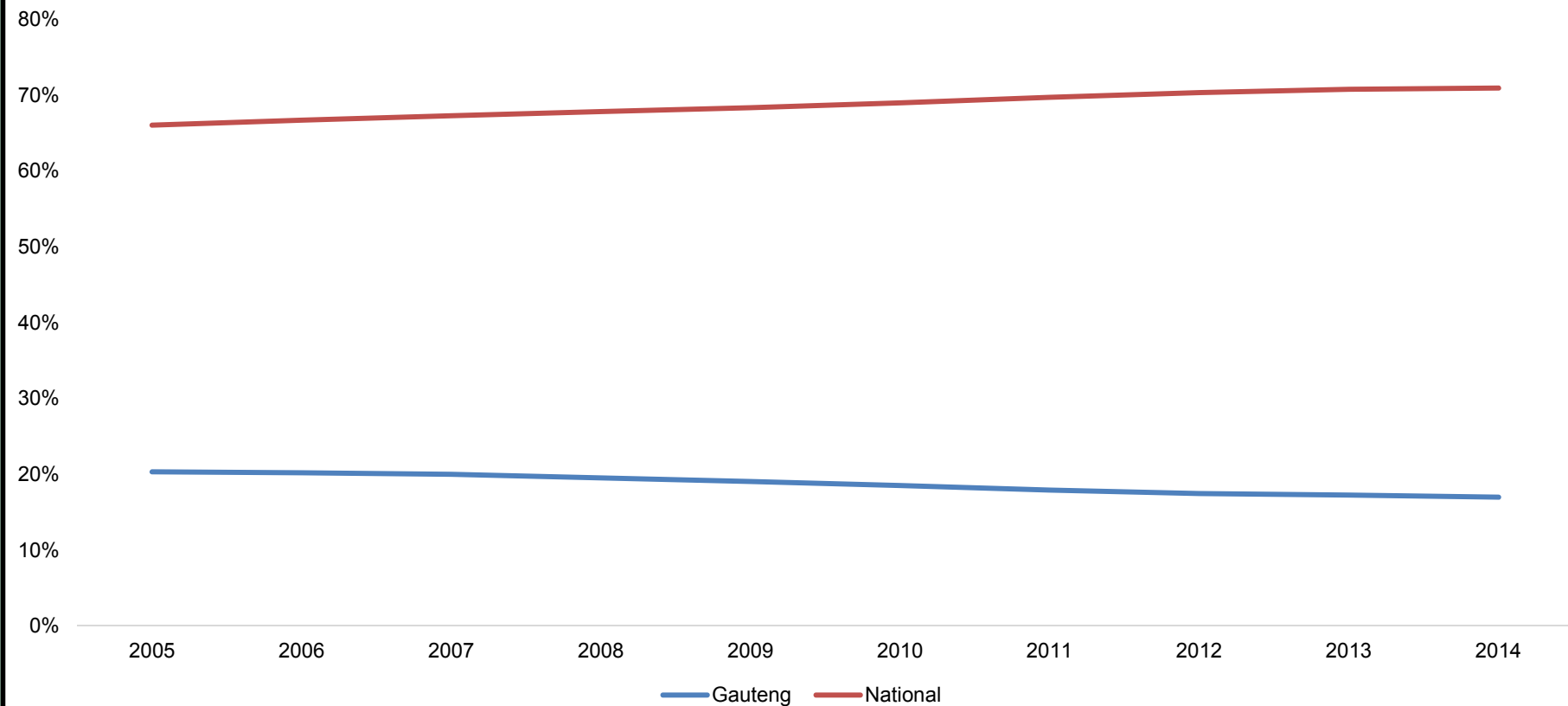


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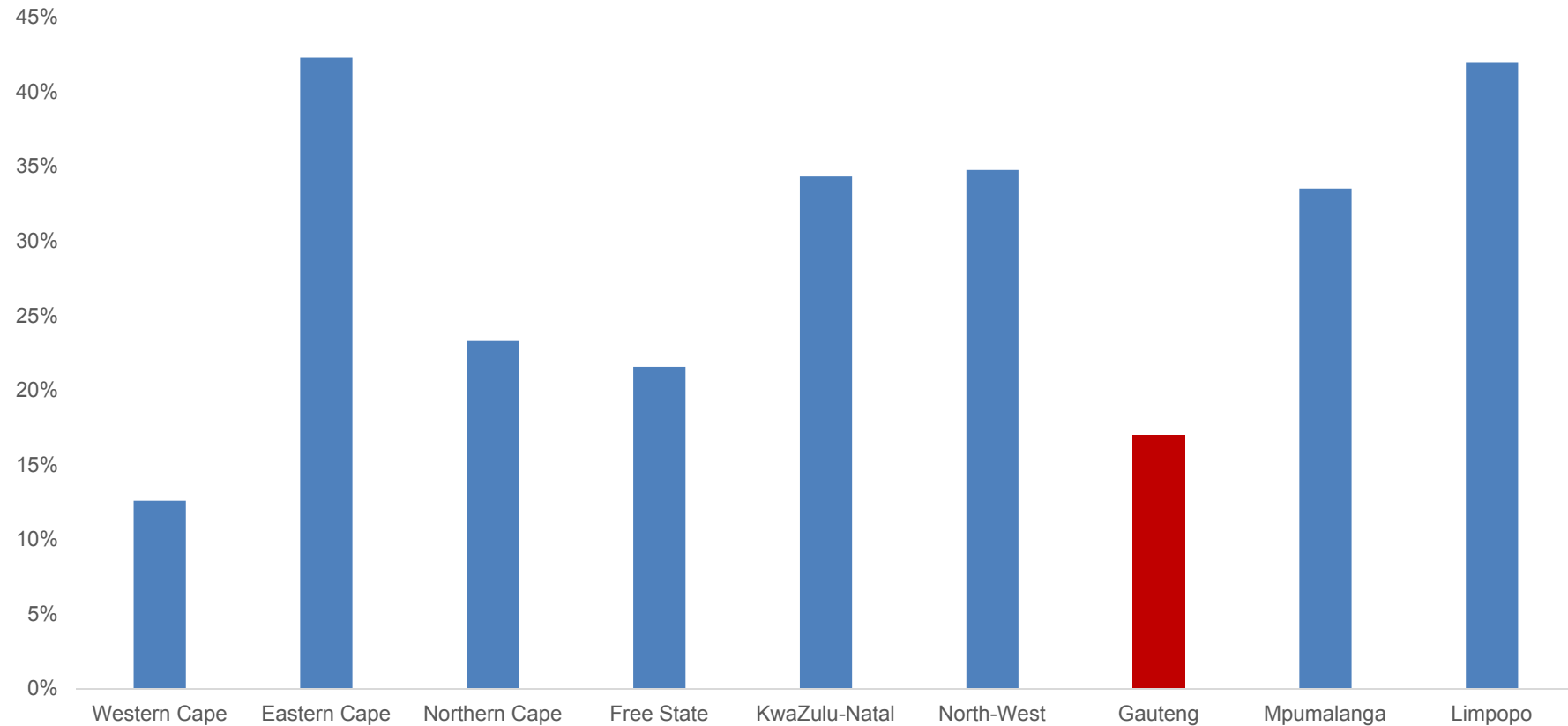
# INFRASTRUCTURE INVESTMENT: GAUTENG PROVINCE



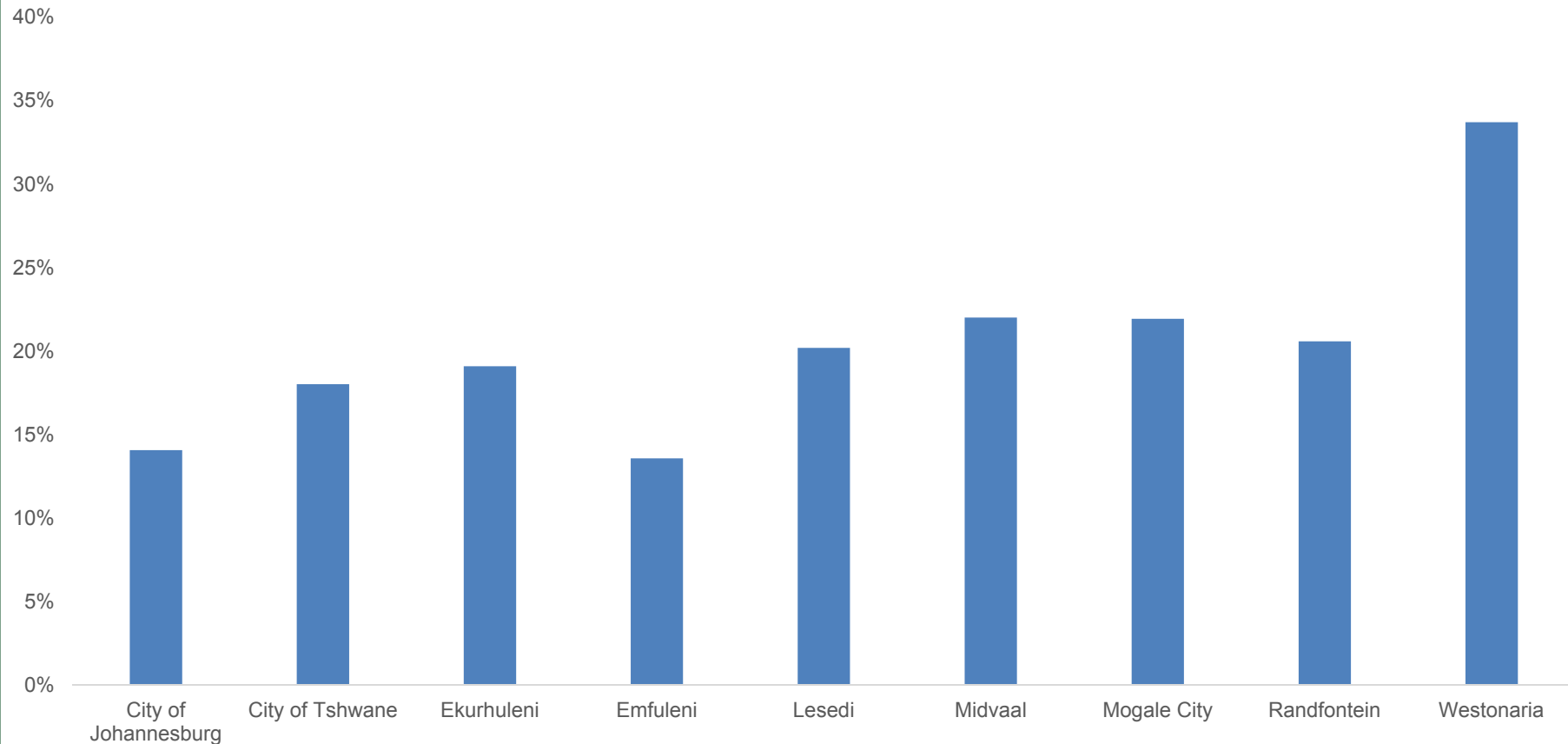
# MUNICIPAL INFRASTRUCTURE BACKLOGS; GAUTENG VS NATIONAL



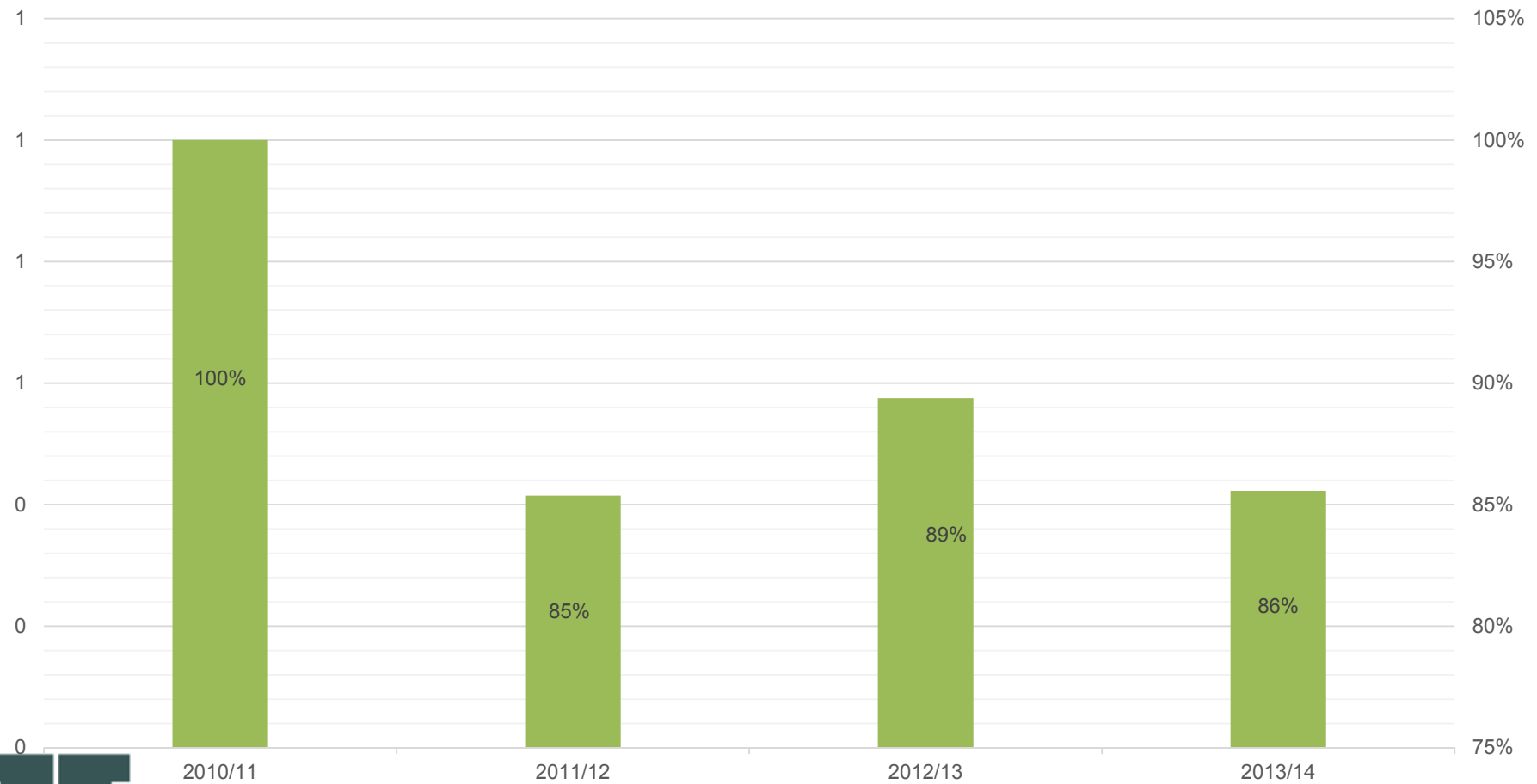
# INFRASTRUCTURE BACKLOGS BY PROVINCE



# MUNICIPAL INFRASTRUCTURE BACKLOGS BY MUNICIPALITY; GAUTENG



# CAPITAL SPENDING AS A % OF CAPITAL REVENUE: GAUTENG

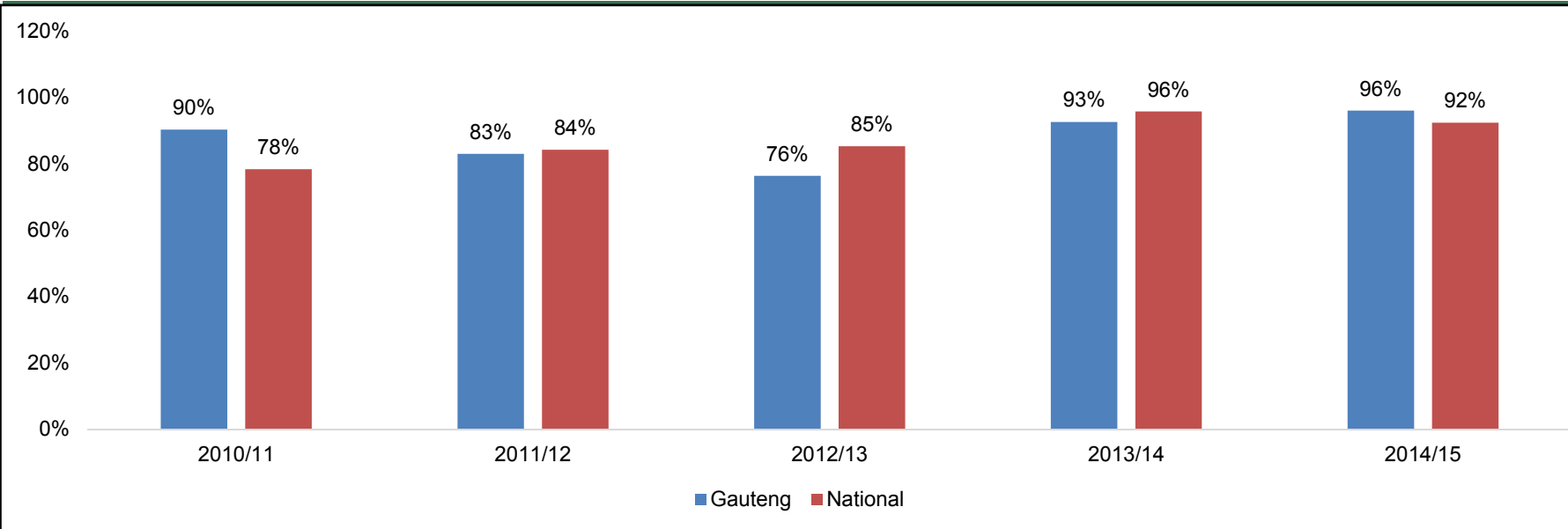


# CONDITIONAL GRANTS: GAUTENG

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- Major municipal infrastructure related grants in Gauteng include:
  - Municipal infrastructure grant
  - Urban Settlement Development Grant
  - Integrated National Electrification Programme

# PERFORMANCE OF THE MIG : NATIONAL VS GAUTENG



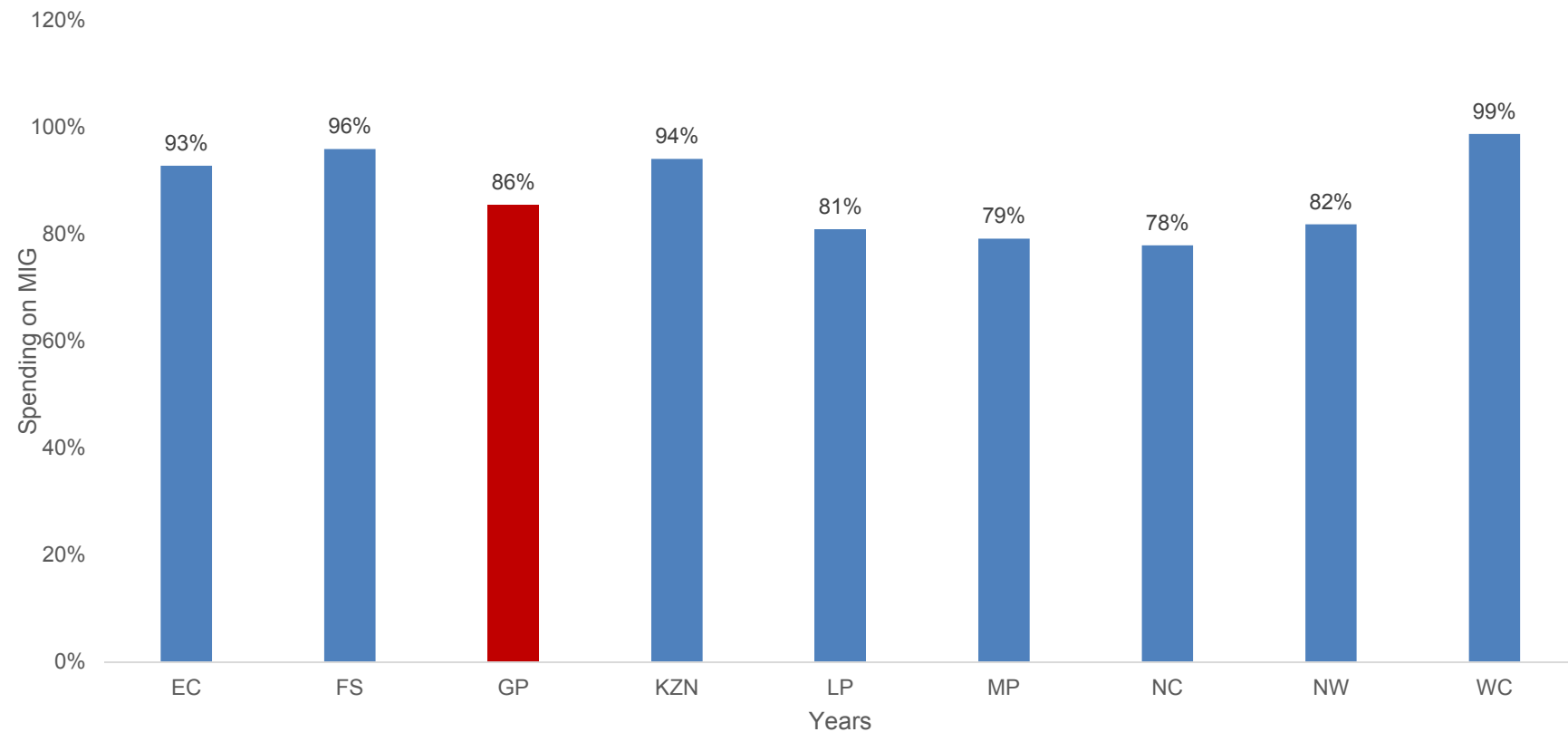
2010/11 MIG allocation was R9.9 million and in 2014/15 , it was R14.3 billion  
MIG spending increased from 86% in 2010/11 to 92% in 2014/15.

In Gauteng:

2010/11 MIG allocation was 3.3 million and increase in 2013/14 to 4.6 billion  
MIG spending increased from 90% in 2010/11 to 93% in 2013/14.

*Presentation to the Infrastructure Development Portfolio Committee*

# SPENDING ON MIG BY PROVINCE (AVERAGE: 2010/11-2014/15)



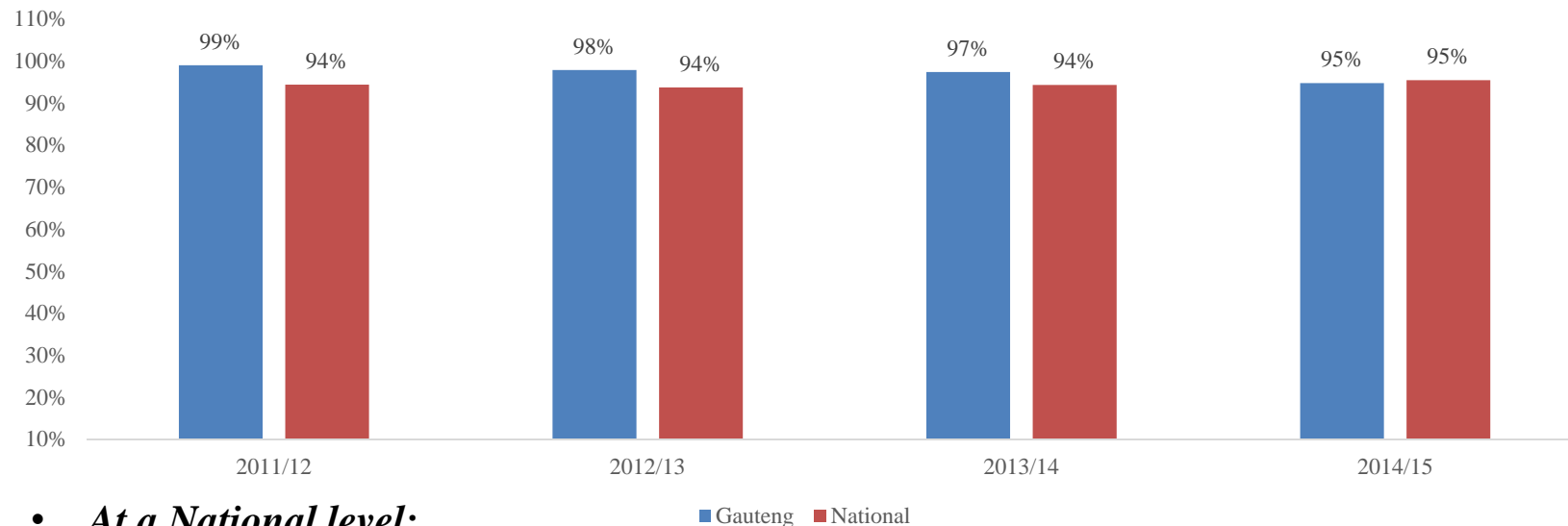
# SPENDING ON MIG BY MUNICIPALITY: GAUTENG(AVERAGE;2011/12-2014/15)





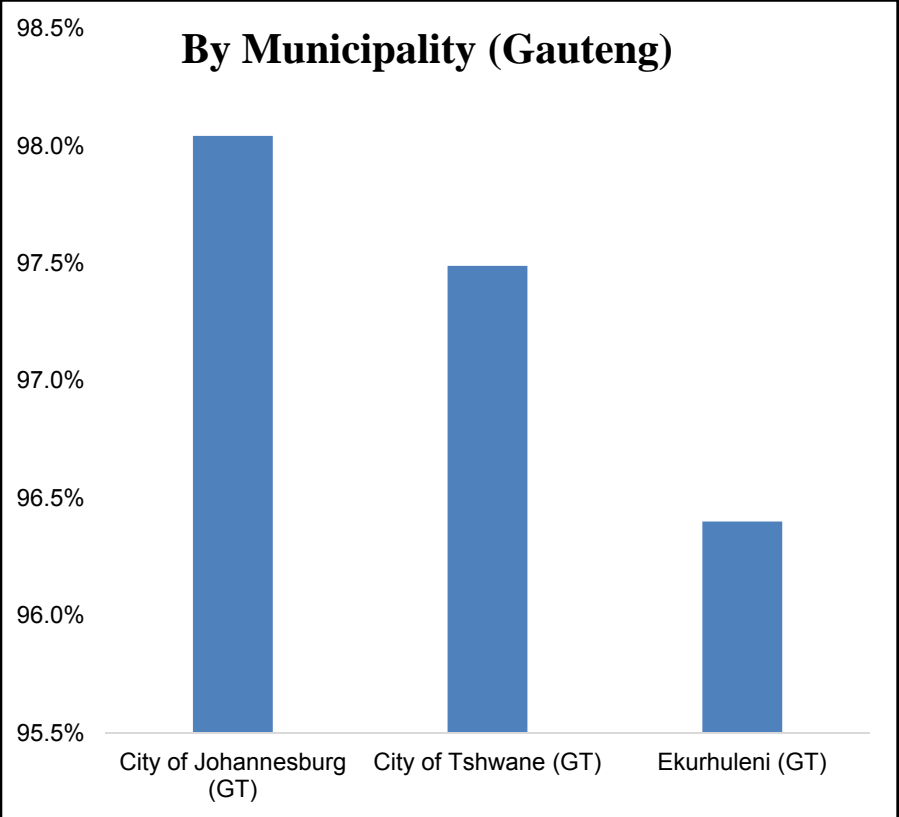
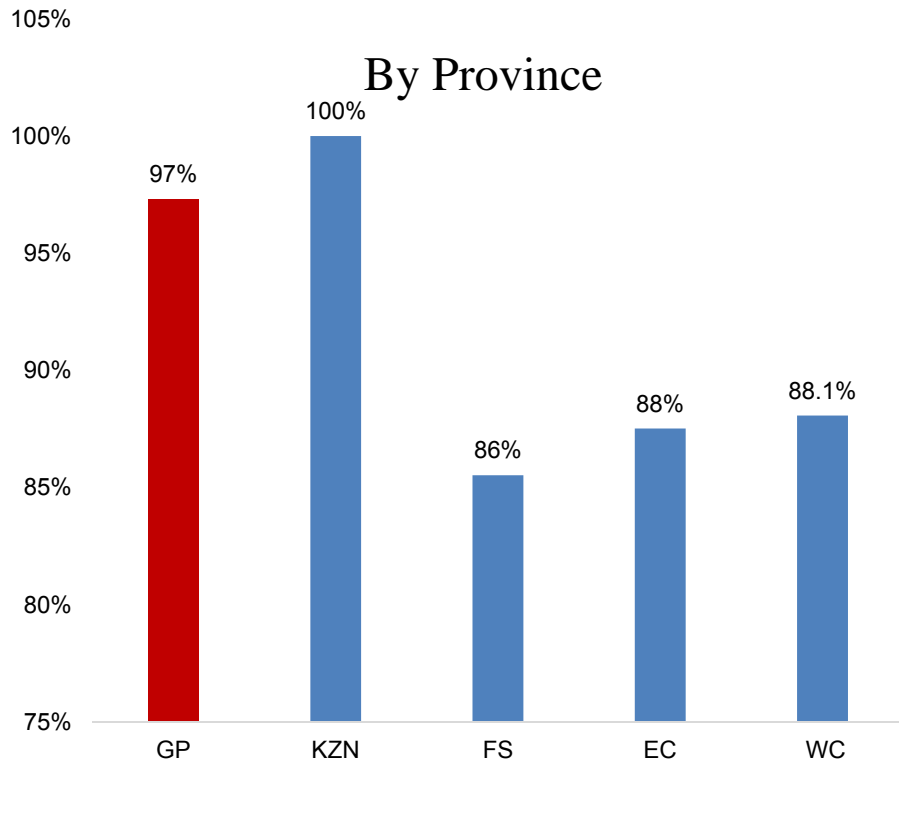
# PERFORMANCE OF THE USDG: NATIONAL VS GAUTENG

National vs Gauteng percentage USDG spending

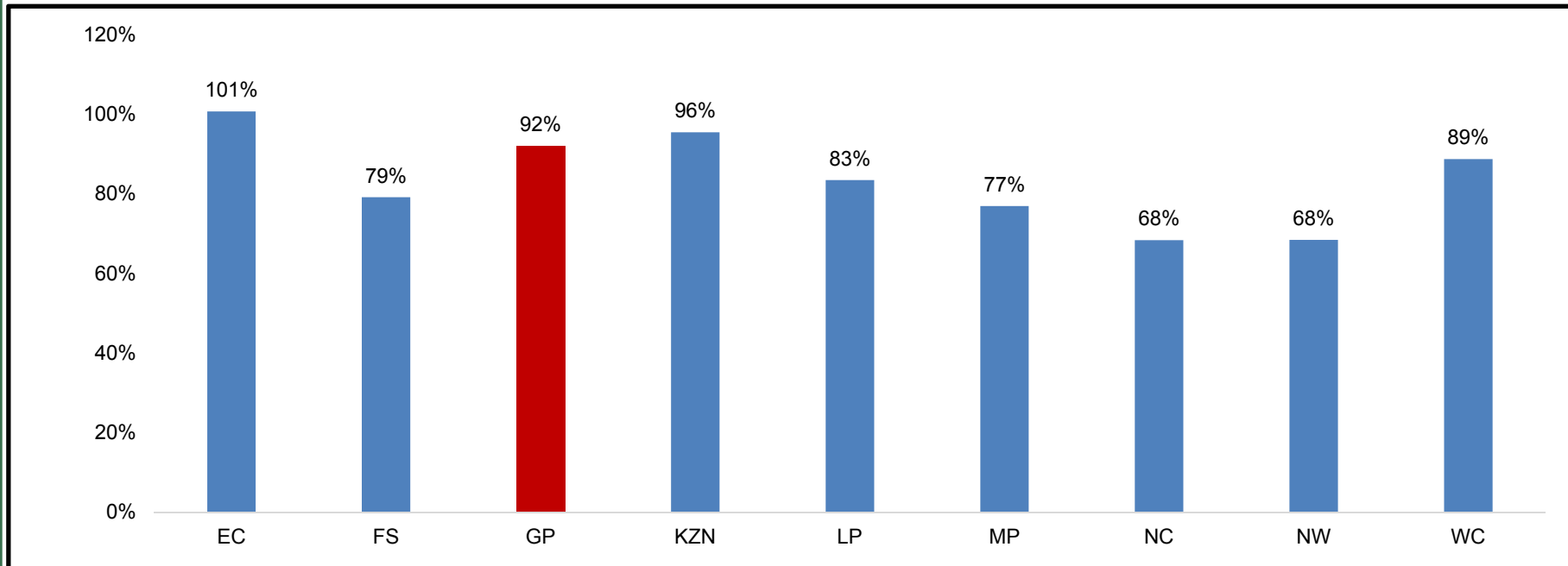


- ***At a National level:***
- In 2011/12 allocation was R6.2 billion and in 2015/16 , it was R10.6 billion 2011/12 spending was 94% and increased to 95% in 2014/15.
- ***In Gauteng:***
- USDG allocation was 3 billion in 2011/12 and increased to 5.1 billion in 2014/15.
- Spending on USDG was 99% in 2011/12 and decreased to 95% in 2014/15.

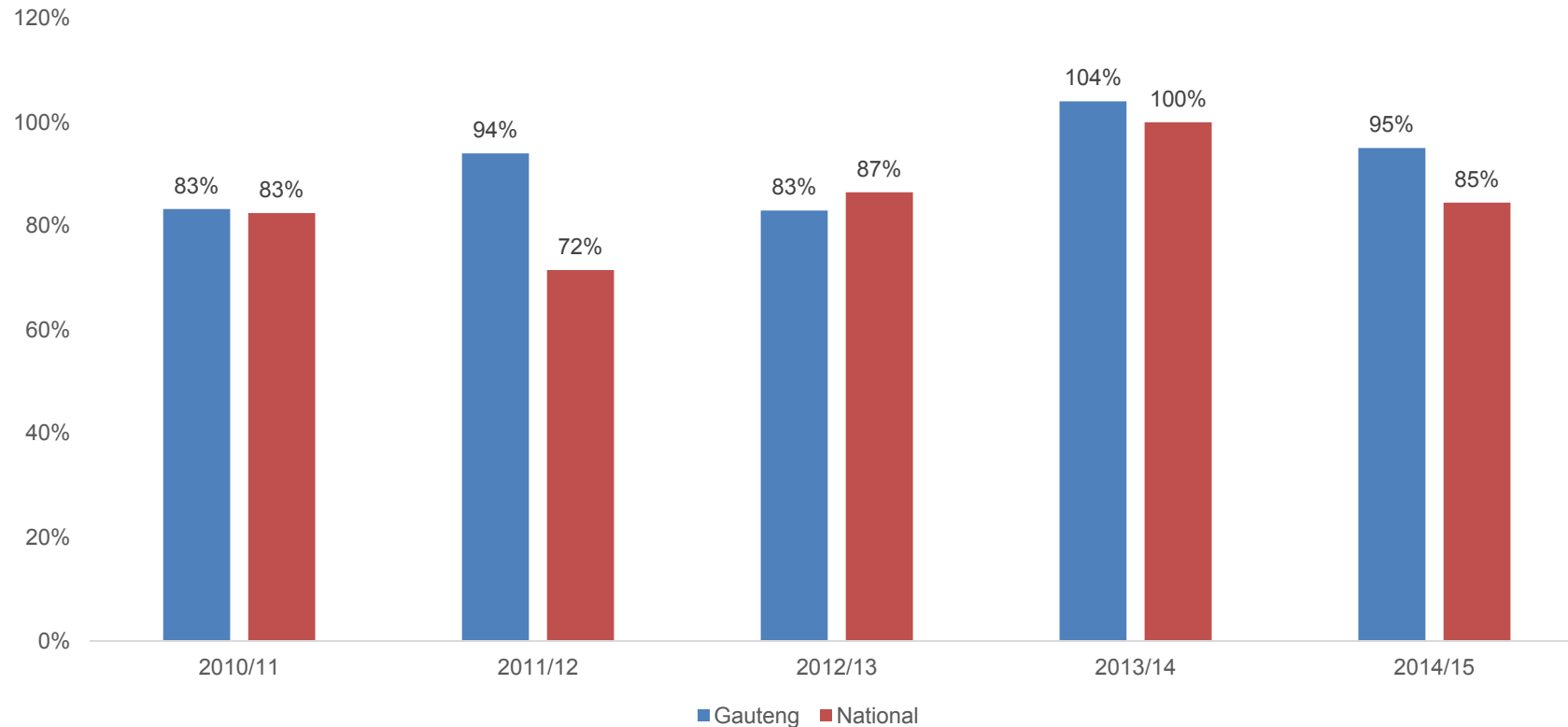
# PERCENTAGE USDG SPENDING: AVERAGE (2011/12 – 2015/16)



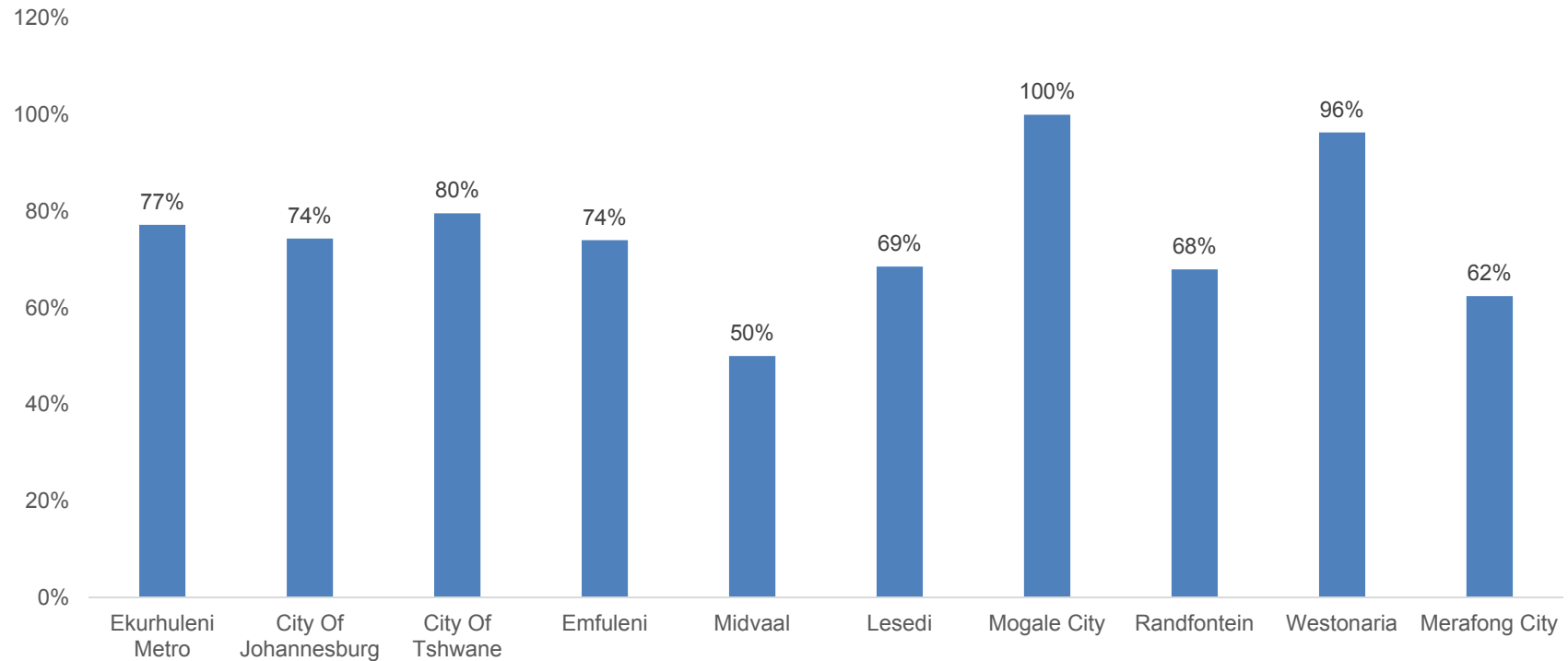
# SPENDING ON INEP BY PROVINCE



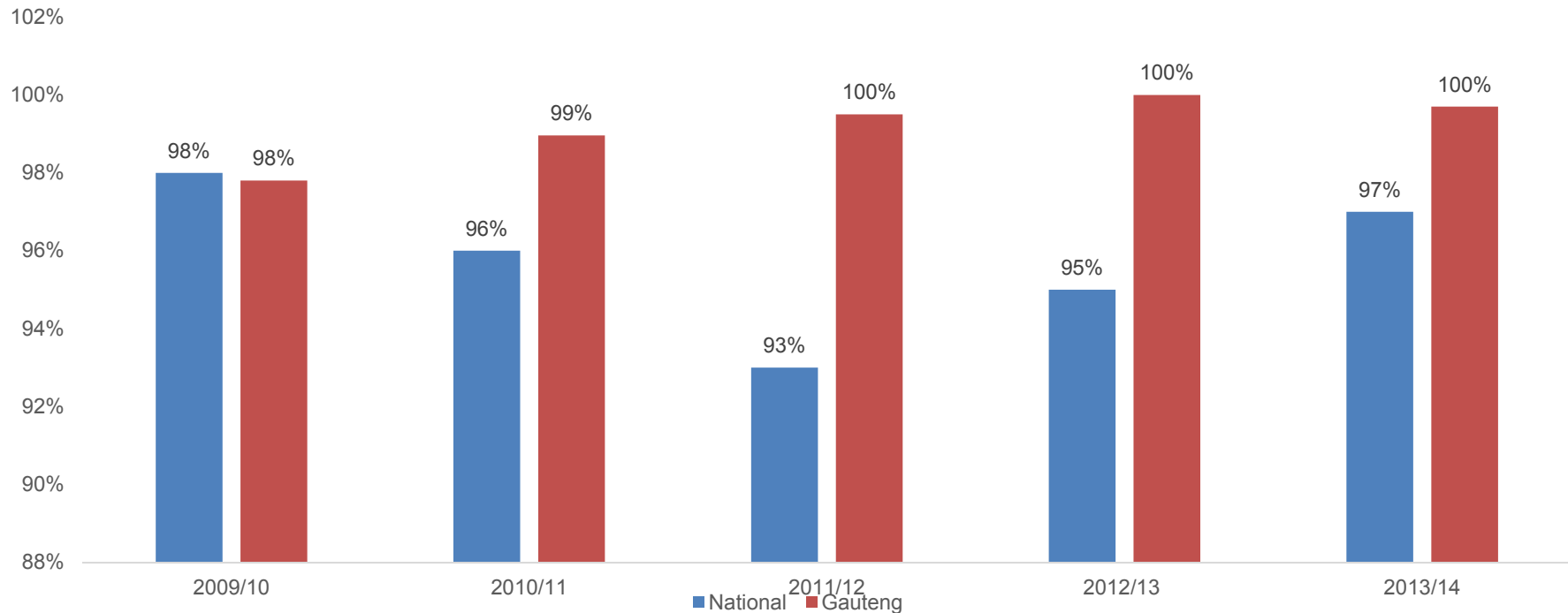
# PERFORMANCE OF THE INEP : NATIONAL VS GAUTENG



# SPENDING ON INEP BY MUNICIPALITY : GAUTENG(AVERAGE: 2010/11-2014/15)

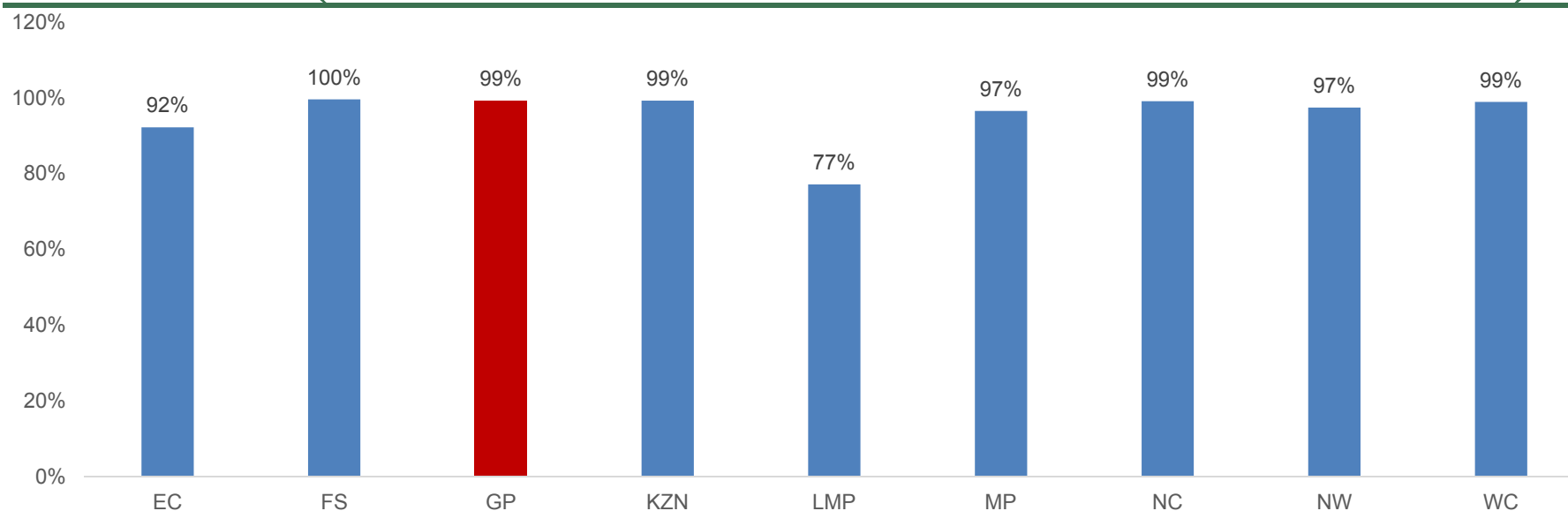


# PERFORMANCE OF THE HSDG: NATIONAL VS GAUTENG



- The average national spending performance for HSDG as indicated earlier is 98% on average.

# SPENDING ON HSDG BY PROVINCE: (AVERAGE: 2010/11-2013/14)



- Underspending in Gauteng due to the inability of the province to gazette housing allocations in time to the 3 metropolitan municipalities under its authority.
- As a result, a new clause was added in the 2016 Division of Revenue Bill, to compel provinces to gazette HSDG allocations before the grant is transferred

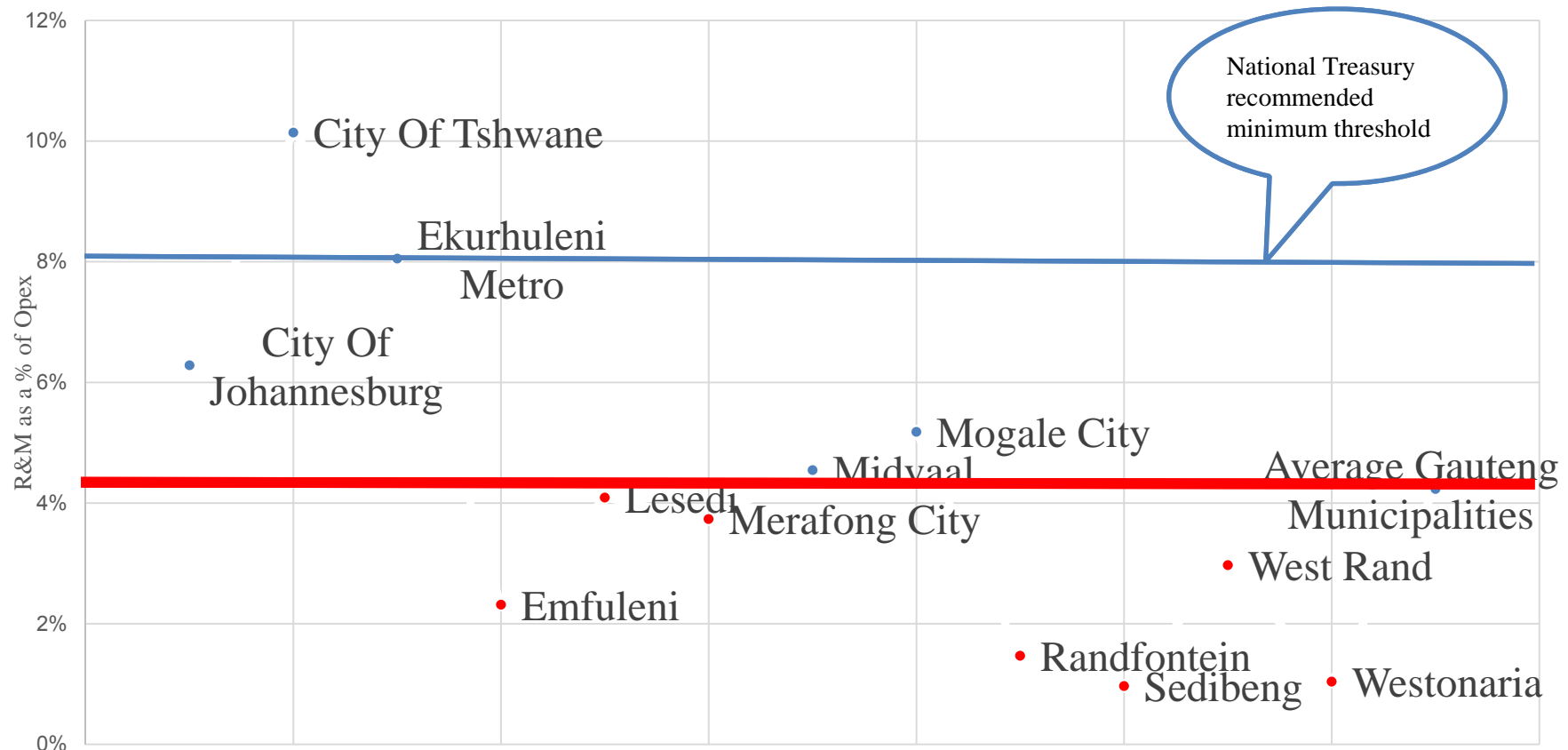
## SPENDING ON NEW INFRASTRUCTURE BUT LIMITED REHABILITATION OF INFRASTRUCTURE

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- Evidence on the ground shows mismatch between the repairs and maintenance requirements within municipalities and the resources for infrastructure rehabilitation
- Both asset maintenance and renewal activities are underfunded, and the *de facto* situation is one of asset stripping.



# REPAIR AND MAINTENANCE AS % OF OPERATING EXPENDITURE



# REHABILITATION OF INFRASTRUCTURE

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- FFC research shows that Municipalities on average spend 79% of maintenance budgets
- Research indicates that the majority of municipalities have neither formal costed maintenance strategies in place nor asset lifecycle strategies. Furthermore, they are uncertain about the nature, extent, location and physical attributes of their assets.
- The lack of formal asset management plans, detailing lifecycle strategies and plans is the likely cause for under-spending on asset care. In the absence of these plans municipalities can neither properly budget for nor schedule specific asset care tasks and interventions.
- There is a dire need to develop asset management guidelines in the short term and legislation in the medium term, to ensure improved planning and care of assets, supported by incentives offered via the fiscal system

# REVIEW OF LOCAL GOVERNMENT INFRASTRUCTURE GRANTS

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- Subsequent to FFC's 2011 review of the LGFF, a comprehensive review of infrastructure grants is underway with a view to enhancing "value for money" of these grants- improve the efficacy and effectiveness of the entire system
- Reforms to the infrastructure grants in the MTBPS, among others,
  - The merger of a multiple of water and sanitation grants
  - Introduction of a formula-driven Public Transport Network Grant
  - Introducing greater differentiation for secondary cities and creating a MIG-Cities (MIG 2)
  - Merging urban grants (USDG, NDPG, INEP) over the MTEF, and
  - Amendments to the MIG to allow its funds to be used for the maintenance and refurbishment of municipal roads.
- These reforms will, among other things, enhance the administrative efficiency and reporting; see municipalities pay more attention to asset care and maintenance; introduce predictability and transparency by a formula driven Public Transport Network grant;

# CONCLUSION

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- Underspending on infrastructure grants
- Underfunding and underspending on asset maintenance
- MIG has now been amended to allow for refurbishment of projects and upgrading of informal settlements.
  - FFC has also recommended that National Treasury devise local government infrastructure asset management guidelines. Technical assistance should be provided to municipalities to prepare and implement credible infrastructure asset management plans (2014/15)
  - Provincial and national authorities must increase scrutiny of the operating implications of capital funding so as to ensure that municipalities are able to adequately maintain and renew infrastructure (2014/15)



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THANK YOU.

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