

FINANCIAL AND FISCAL COMMISSION

POLICY BRIEF

More People, Inferior Services: Understanding the Factors Influencing Municipal Spending

EXECUTIVE SUMMARY

The study's recommendations include (i) designing intergovernmental fiscal transfers and related policies that can supplement the funding of municipal service delivery mandates, and (ii) helping municipalities to effectively and efficiently plan their budgets and spending decisions so that all communities are provided with a high quality of services.

A recent study¹ by the Financial and Fiscal Commission looked at the factors influencing municipal spending. It found that municipalities with more wealthy households, economic activity and households with access to services spend more on average. These findings suggest that greater levels and quality of services are demanded in municipalities with a more affluent population and stronger economy. Operating costs are higher when households have access to formal services, and operating spending per head is higher in densely populated municipalities, while higher migration leads to lower municipal expenditures.



1. Mahabir, J. 2011. Estimating the Factors that Influence Municipal Expenditure, Chapter 7 in Financial and Fiscal Commission (2011). 2012/13 Submission for the Division of Revenue Technical Report, Midrand, South Africa.

BACKGROUND

Several reasons contribute to poor service delivery at local government level in South Africa. They include capacity constraints, incompetence, inefficient use of resources and general mismanagement. However, certain municipalities argue that the lack of resources and additional spending pressures are hindering their performance and their ability to deliver and maintain high quality services.

According to the Constitution, all spheres of government have the right to an equitable (or fair) share of nationally raised revenues. The amount of equitable share received by a sphere (national, provincial or local government) is a politically driven process (vertical division). However, the division of these revenues among governments (the nine provinces and the 278 municipalities) within a sphere (horizontal division) is based on a formula. For the local government sphere, the formula used to distribute the equitable share among the country's 278 municipalities is based on demographic and service delivery data.



Of particular interest are the effects of population density and migration, for which various policy options are given in the next section. The positive effect of population density on operating spending per person suggests that denser settlements do not result in cost savings, as the higher demand for additional services requires municipalities to spend more. The negative effect of migration implies that municipalities are struggling to cope with the spending pressures linked to migration, which is stretching resources and, as a result, the quality of services is decreasing.



KEY FINDINGS

The study found that the following factors significantly affect the operating spending per person:

Factor	Effect
Average Household Income	Increased per capita Operating Expenditure
Employment	Increased per capita Operating Expenditure
Access to Refuse Removal	Increased per capita Operating Expenditure
Population Density	Increased per capita Operating Expenditure
Migration	Decreased per capita Operating Expenditure
Water Service Authority	Increased per capita Operating Expenditure

POLICY OPTIONS

To sustain denser settlements, municipalities have to spend more on infrastructure and the associated operating costs of street lighting, traffic control and increased social services. Despite the additional cost to municipalities, government should continue to promote denser settlements, as they allow poorer households to save on transport costs and can lead to other significant environmental gains.²

The impact of migration also needs to be addressed, as municipalities appear to find it difficult to deal with the large influx of people from elsewhere. When more people and households relocate from one municipality to another, spending can be expected to increase because of the increased demand for services. The results of the study suggests otherwise. This is probably because municipalities are not able to properly track and monitor changes in population and service delivery levels, which results in certain households receiving no or lower levels of services. Therefore, municipalities need first to improve their internal data

2. For more information please refer to the 2012/13 FFC Annual Submission on the Division of Revenue and subsequently Chapter 10 of the FFC 2012/13 Technical Report entitled "The Economic and Fiscal Costs of Inefficient Land Use Patterns".

collection and monitoring systems to make sure that additional people and households are counted. Internal planning processes also need to be improved so that spending decisions can be revised to enable services to be provided to these new households.

Secondly, intergovernmental transfer mechanisms should also be robust enough to account for these population shifts, so that additional funding pressures faced by municipalities are appropriately accounted for and funded through these grants. Without accurate data, national government is unable to adjust the distribution of revenue to allow for changes in municipal populations due to migration. Improving data collection at local government level is thus necessary but is likely to be difficult, especially as the annual sample surveys are not large enough to be broken down to municipal level. Government will need to expand the number of households questioned in such surveys or have more frequent, comprehensive censuses.

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RECOMMENDATIONS

Local government is facing additional pressure on its spending. Therefore, it is recommended that:

1. National government should accurately account for the additional spending pressures when making intergovernmental transfers to municipalities by, for example, better recording of population movements.
2. Municipalities should improve their internal systems so that these pressures can be taken into account and services are not affected.
3. National government should promote policies aimed at efficient spatial settlements and land-use patterns and consider adopting a holistic strategy to deal with the large-scale migration and urbanisation in South Africa.

RECOMMENDED SOURCES

The interested reader is referred to Cox and Utt (2004) and Ladd (1992) for a look at the impacts of population density and migration on municipal expenditure while Kushner et al. (1996) offer a general look at the factors driving municipal expenditure in Ontario, Canada.

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