

FINANCIAL AND FISCAL COMMISSION

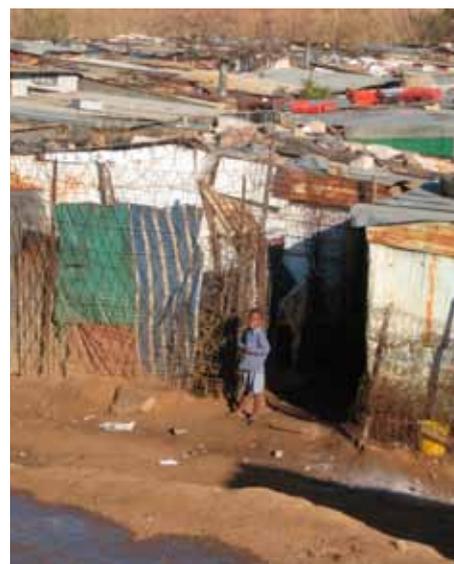
POLICY BRIEF

The Impact of Unfunded Mandates in South African Intergovernmental Relations

EXECUTIVE SUMMARY

Government should also take steps to ensure that all mandates have a legal basis and develop a programme with clear deadlines to clarify the functions of libraries and museums.

A recent study¹ by the Financial and Fiscal Commission looked at South African intergovernmental relations and the impact of unfunded mandates on housing, health care services, roadworks, libraries and museums at metropolitan, municipal and provincial level. The study found that municipalities perform functions on behalf of provinces but do not receive the necessary funding. Similarly, unfunded mandates exist between national and provincial government. Recommendations made relate to the need for government to address unfunded mandates in the housing (new development) and health sectors, where most financial problems are found. It is further recommended that government review compliance with the legal procedures for assigning and delegating functions, as set out in the Intergovernmental Fiscal Relations Act, the Financial and Fiscal Commission Act, the Division of Revenue Act and the Local Government Municipal Systems Act.



1. Ntenga, L. 2011. The Impact of Unfunded Mandates in South African Intergovernmental Relations, Chapter 14 in Financial and Fiscal Commission (2011). 2012/13 Submission for the Division of Revenue Technical Report, Midrand, South Africa.

STATEMENT OF THE PROBLEM

An unfunded (or underfunded) mandate is when a sphere of government performs certain functions or activities for which it has no (or inadequate) funds. Municipalities carry out functions that are not included in the powers and functions allocated to them by the Constitution or legislation, while policy decisions made at a national level result in provinces facing underfunded or unfunded mandates.

The reasons for such situations include:

- Historical roles assumed in the past (for example by certain municipalities), which have continued into the new constitutional era.
- Weak, incomplete or confused allocation of functions, the result of poor policy-making and oversight.
- Implicit or explicit choice by a sphere of government to perform a function.

Unfunded and underfunded mandates have implications for the equitable sharing of nationally collected revenue and the delivery of services.

FINDINGS - METROPOLITAN MUNICIPALITIES

A recent study by the Financial and Fiscal Commission (the Commission) looked at functions that municipalities perform on behalf of provinces. These included housing, health care services, roadworks, libraries and museums - functions assigned by provinces to municipalities without the necessary funding.

Figure 1 summarises the cost of unfunded mandates for the six metropolitan municipalities. The metros spent a total of R3,819 billion in 2008/09 and R4,194 billion in 2009/10 of their own budget on existing unfunded mandates.

Figure 1: Unfunded mandates by metropolitan municipality (R million)



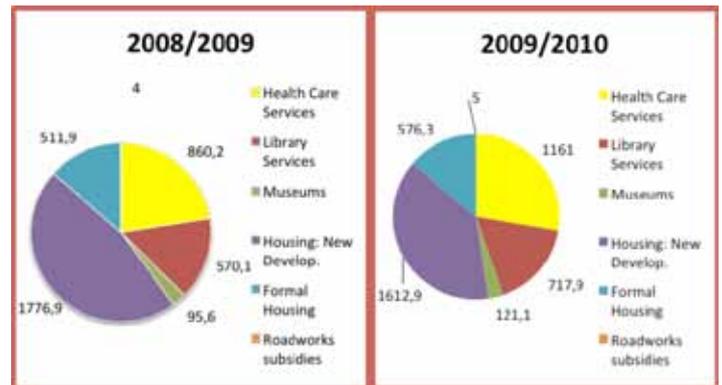
Source: Metropolitan municipalities of eThekweni, City of Johannesburg, Nelson Mandela Bay, Ekurhuleni, Tshwane and City of Cape Town



Of the six metros, the City of Johannesburg spent the largest amount on unfunded mandates: R1,126 billion in 2008/09 and R1,203 billion in 2009/10; eThekweni municipality followed, spending R945 million in 2008/09 and R917 million in 2009/10.

Figures 2 and 3 show the cost of unfunded mandates by sector for 2008/2009 and 2009/2010.

Figure 2: Unfunded mandates by sector in 2008/2009 and 2009/2010 (R million)



Source: Metropolitan Municipalities: eThekweni, City of Johannesburg, Nelson Mandela Bay, Ekurhuleni, Tshwane and City of Cape Town

In both years, municipalities spent the largest share of their budget on housing (new development), followed by health care services, libraries and museums.

Unfunded mandates affect a municipality's ability to deliver services. The study found that the challenges related to the delivery of health care, library, housing and museum services include the following:



<p>Health Care Services</p> <ul style="list-style-type: none"> Health facilities are inadequate, but their extension, upgrading and maintenance are for the account of the local government. There is a critical shortage of personnel trained in promotive and preventative health care. Non-governmental organisations are sometimes used to get certain programmes going, but then their funding is stopped or limited. However, the services continue, which creates an even greater workload for the remaining staff. There is not enough money for stock, equipment and records required for primary health care (e.g. needles, syringes, dressings), which have to be funded by the local government budget. 	<p>Libraries</p> <ul style="list-style-type: none"> The Library Grant published in the Gazette is inadequate to fund the expenses of the library service. The library service has been curtailed in its function to save on costs. There is a shortage of staff. Existing buildings need maintenance. There is a lack of funding for programmes and projects. The standard of library services and facilities is declining slowly, as municipal budgets are not large enough to maintain/improve/expand services, resources and facilities.
<p>Housing</p> <ul style="list-style-type: none"> The rental collection rates are poor. There is scarcity of suitable land for development. Municipalities have inherited aging housing stock that is expensive to maintain. The housing subsidy provided to municipalities is not relative to the costs of delivering houses. Additional houses are needed. 	<p>Museums</p> <ul style="list-style-type: none"> There is a shortage of education and support staff. Most museums have inadequate infrastructure for storage and exhibitions. The space for visiting schools and practical workshops is limited.

Other issues relating to intergovernmental relations include:

- Some provincial departments have not signed service level agreements (SLAs) with municipalities for the last three years.
- Some provincial departments do not stick to the SLAs and provide all the agreed resources.
- Sometimes the province does not keep to the agreed payment schedule.
- Some services are devolved to municipalities without consultation and/or additional funding.

FINDINGS – PROVINCES

The study also investigated unfunded mandates between national and provincial government, where metropolitan municipalities are funded through the respective provincial treasuries. Table 1 summarises the findings for KwaZulu-Natal and the Eastern Cape.

According to the KwaZulu-Natal Treasury, unfunded mandates exist between national government and the province. They are the result of decisions made at a national level, which are implemented at provincial level without the necessary funding. In 2011/2012 the total cost of unfunded mandates in the province amounts to R310,888 million, of which the bulk is accounted for by the Department of Education (R130,000 million) and the Department of Agriculture, Environmental Affairs and Development (R85,070 million).

The Eastern Cape Provincial Treasury also said that unfunded mandates exist between national government and the province, amounting to R6,363 billion in 2011/2012. As in KwaZulu-Natal, the bulk of the costs are accounted for by the Department of Education (R2,514 billion), followed by the Departments of Health, Economic Development and Rural Development and Agrarian Reforms (R1,243 billion, R1,240 billion and R1,040 billion respectively).

Table 1: Unfunded mandates by province and department – 2011/12 (R'000)

Department	KwaZulu-Natal	Eastern Cape
Provincial legislature	11,445	
Agriculture, Environmental Affairs and Rural Development	85,070	
Rural Development and Agrarian Reforms		1,040,040
Economic Development and Tourism	4,000	1,239,669
Education	130,000	2,514,233
Health		1,242,500
Social Development		38,900
Human Settlements		131,922
Public Works	47,114	155,339
Arts and Culture	33,259	
Total	310,888	6,362,603

Source: KwaZulu-Natal Provincial Treasury and Eastern Cape Provincial Treasury

RECOMMENDATIONS

In light of the findings of this research, the following recommendations are made:

1. Unfunded mandates in the housing (new development) and health sectors should be addressed first, as most financial problems are found in these sectors.
2. Government should review compliance with the legal procedures for assigning and delegating functions, as set out in the Intergovernmental Fiscal Relations Act, the Financial and Fiscal Commission Act, the Division of Revenue Act and the Local Government Municipal Systems Act.
3. Government should take steps to ensure that all mandates have a legal basis.
4. Government should develop a programme with clear deadlines to clarify the functions of libraries and museums.

SOURCES USED

Khumalo, B and Mokate, R. 2007. Republic of South Africa. In Shah, A. (Ed). *The Practice of Fiscal Federalism: Comparative Perspectives*. Montreal & Kingston: McGill-Queen's University Press, 262-286.

SACN (South African Cities Network). 2007. *State of Cities Finances Report 2007*. Pretoria: SACN.

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