

# **South Africa Local Government Financial Reform Project**

**Final Report**

**10 September 2001**

**Task 4: Assignment of Local Government Powers and Functions**

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SA LOCAL GOVERNMENT FINANCIAL REFORM PROJECT:  
Task 4: Assignment of Local Government Powers and Functions

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Prepared by Larry Schroeder



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## ASSIGNMENT OF LOCAL GOVERNMENT POWERS AND FUNCTIONS

10 September 2001

The assignment of local government functions is a critical first step in any decentralization process. A clear delineation of what services municipalities are to provide is necessary to insure that the local revenue-mobilization powers assigned to municipalities governments and the system of intergovernmental transfers are generally in-line with expenditure needs.

The task of assigning local government functions is particularly complicated in the South African context for several reasons. First, the Constitution establishes three categories of local governments – A, B, and C – with the latter two overlapping. This then raises the issue of how the set of functions can best be assigned to the B and C municipalities. Second, there is considerable heterogeneity across the B and C municipalities in the country. Different municipalities have great differences in existing public sector infrastructures, settlement patterns, economic bases, and institutional capacities. This makes designing a “one size fits all” set of expenditure assignments particularly difficult. Third, as will be emphasized below, there are a number of objectives that can be sought when assigning functions to local governments. Since these objectives often conflict, alternative views on their importance can lead to differences in preferred assignment outcomes.

The heterogeneity issue that faces the functional assignment question is equally troublesome when considering the assignment of revenue powers to the B and C municipalities (within constitutional constraints). Within a single C municipality (district)<sup>1</sup> there is likely to be great disparity in the ability of different B municipalities to mobilize resources locally. This, in turn, will have a profound effect on the design of an appropriate intergovernmental transfer system.

The assignment of powers and functions is, of course, not being done without historical precedence. Municipalities have been providing local public services, albeit at quite diverse levels across jurisdictions. This is both an advantage and disadvantage. It does allow us to examine the current levels of expenditures on local services, the costs of providing a more uniform level of services across jurisdictions, the current flows of local revenues, and the capacity for generating additional local revenues. However, the fact that services are currently being provided also means that any policy that reassigns functions and powers should be tailored to avoid major disruptions in service flows.

The objective of this paper is to discuss and evaluate alternative arrangements for the provision of local public services within the B and C municipalities. To accomplish this we begin by briefly considering the legal assignments of expenditure functions and revenue powers as delineated in the Constitution and relevant statutes. We then summarize the results of a three-district study of actual arrangements used to provide local public services so as to provide some context for how service and revenue assignments might have to change under an alternative rule system.

To provide additional insight into the fiscal implications of the expenditure-revenue assignment issue we carry out a jurisdictional-level assessment of expenditure needs and

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<sup>1</sup> The term “district” is used interchangeably with “C municipality” throughout this paper.

revenue capacity. Due to time and budget constraints, this analysis is based on a small set of jurisdictions; however, from it we draw several conclusions regarding the gaps in local public expenditure requirements and fiscal capacity that will need to be addressed under any new set of arrangements of powers and functions.

We then present several alternative arrangements for the assignments of powers and functions and evaluate these on the basis of a set of alternative objectives. Ultimately, the decision concerning these assignments will be a policy decision to be reached by the government; nevertheless, the evaluation has the potential to shed additional light on the advantages and disadvantages of alternative approaches to the question.

## **1 LEGAL BASIS FOR THE ASSIGNMENT OF LOCAL GOVERNMENT POWERS AND FUNCTIONS<sup>2</sup>**

The legal basis for local governments is contained in the Constitution and in several statutes that have been promulgated since 1996.

### **1.1 Constitution**

As mentioned above, the Constitution of the Republic of South Africa, 1996 (Section 155) established three categories of municipal government – A, B, and C. These are defined as follows:

Category A: A municipality that has exclusive municipal executive and legislative authority in its area.

Category B: A municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls.

Category C: A municipality that has municipal executive and legislative authority in an area that includes more than one municipality.

Thus, although Category A municipalities (metropolitan areas) have exclusive powers and functions, these responsibilities and activities are intended to be split between the Category C (districts) and their overlapping B municipalities. The Constitution is not specific regarding this split in powers. Instead it specifies that national legislation must "... make provision for an appropriate division of powers and functions between municipalities when an area has municipalities of both category B and category C" (Section 155 (3) (c)). However, the same paragraph goes on to state that "A division of powers and functions between a category B municipality and a category C municipality may differ from the division of powers and functions between another category B municipality and that category C municipality."

It appears, therefore, that the framers of the Constitution envisioned the situation whereby there would be asymmetric assignments even beyond those differentiating the metropolitan areas from the rest of the country. This provision for asymmetric assignments of powers and functions probably stems from recognition of the previously mentioned vast differences in the

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<sup>2</sup> We acknowledge that many readers of this report will be intimately familiar with many of the provisions discussed in this section. As such, we do not intend for this to constitute a thorough examination of all the legal details that relate to the questions of powers and functions. Nevertheless, since these legal documents provide the guidelines and constraints for what is and is not possible legally, it is necessary to provide this overview.

needs, resources, and capacities of South African municipalities. It does, however, also complicate implementing any assignment rules.

Another complication also stems from the Constitution. Section 299 specifies the Municipal fiscal powers and functions. Since much of this paper focuses on local revenues, it is worthwhile to repeat that section in full.

- 229.
1. Subject to subsections (2), (3) and (4), a municipality may impose:
    - a. rates on property and surcharges on fees for services provided by or on behalf of the municipality; and
    - b. if authorised by national legislation, other taxes, levies and duties appropriate to local government or to the category of local government into which that municipality falls, but no municipality may impose income tax, value-added tax, general sales tax or customs duty.
  2. The power of a municipality to impose rates on property, surcharges on fees for services provided by or on behalf of the municipality, or other taxes, levies or duties:
    - a. may not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and
    - b. may be regulated by national legislation.
  3. When two municipalities have the same fiscal powers and functions with regard to the same area, an appropriate division of those powers and functions must be made in terms of national legislation. The division may be made only after taking into account at least the following criteria:
    - a. The need to comply with sound principles of taxation.
    - b. The powers and functions performed by each municipality.
    - c. The fiscal capacity of each municipality.
    - d. The effectiveness and efficiency of raising taxes, levies and duties.
    - e. Equity.
  4. Nothing in this section precludes the sharing of revenue raised in terms of this section between municipalities that have fiscal power and functions in the same area.
  5. National legislation envisaged in this section may be enacted only after organised local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered.

Paragraph 1 limits local governments' own revenues to property rates, surcharges on services, and other nationally authorized taxes (presumably the Regional Service Charge levy). Paragraphs 3 and 4 address the general question of how local revenues may be shared between overlapping B and C municipalities. In the same manner as Section 155, it begs the question and leaves it up to national legislation to resolve the issue.

Before turning to the current status of that legislation, it is useful to provide some details on the types of services that municipalities are expected to provide according to the Constitution. These are listed in Schedules 4 and 5 (reproduced in Annex A). According to Section 156 (1)

of the Constitution, municipalities have “executive authority in respect of, and the right to administer” the services listed in Part B of both Schedules 4 and 5. However, according to Paragraph (4) of that Section, the national and provincial governments can (the Constitution states “must”) assign the administration of any matter listed in Part A of Schedules 4 and 5 if municipalities can administer the task more effectively and has the capacity to administer it.

## 1.2 Statutes

The Municipal Structures Act of 1998 is the principal statute governing the specific assignment of powers and functions, particularly with regard to the division of those functions between the B and C municipalities. That Act was, however, amended (the Municipal Structures Amendment Act, 2000) with significant implications for the division of powers and functions (Chapter 5 of the Act).

Under the amended version of the Act, the district (Category C) municipality has the following functions:

- a. Integrated development planning
- b. Potable water supply
- c. Bulk supply of electricity
- d. Domestic waste-water and sewage disposal systems
- e. Solid waste disposal (formulating strategy, regulations, and operating waste sites, bulk waste transfer facility and waste disposal facilities)
- f. Municipal roads (that are part of the district road transport system)
- g. Regulating passenger transport
- h. Municipal airports
- i. Municipal health services
- j. Fire fighting
- k. Establishing and controlling fresh produce markets and abattoirs
- l. Establishing and controlling cemeteries and crematoria
- m. Promoting local tourism
- n. Municipal public works pertaining to functions assigned to the district
- o. Receipt, allocation, and distribution of grants made to the district
- p. Imposition and collection of taxes, levies and duties as related to these functions or others assigned to the district by national legislation.

Paragraph (2) of the Section reserves for “local municipalities” (i.e., category B) any functions not specified above. The original act (paragraph 3) then went on to state that a local municipality could perform functions and exercise powers list above within its own area with the Member of the Executive Council (MEC) of the province having the authority to adjust the division of functions and powers.

This provision was subsequently amended. Under the Amendment, the authority to authorize a B municipality to perform certain functions or exercise powers was transferred to the Minister (of DPLG). Specifically, paragraph (3)(a) gave the Minister (after consultation with Cabinet and the MEC in the province and subject to national legislation) those powers for four specific functions – potable water, bulk supply of electricity, domestic waste-water and sewage disposal systems, and municipal health services.

Section 85 (as amended) gives the MEC the power to readjust some functions and powers between the B and C municipalities. However, the MEC cannot transfer the four functions specified above from the districts to local municipalities nor can the development planning or revenue powers (items o and p in the above list) be transferred from the districts to B municipalities.

The amended Act provides for a two-year transition period not contemplated in the original Act. Basically, the purpose of that additional sub-chapter was to allow the “status quo” regarding the division of powers and functions to continue as prior to the creation of the newly demarcated B and C municipalities. This then leads us to examine how local public services have, in fact, been provided during the recent past.

## **2 RECENT PAST ARRANGEMENTS FOR THE PROVISION OF LOCAL PUBLIC SERVICES**

As was suggested in the introduction, the Municipal Structures Act is not the first piece of legislation since the adoption of the new Constitution to create local governments. In fact, provision of local public services by formal local governments has a long history in South Africa, at least in the urbanized areas.

Prior to the creation of the newly demarcated B and C municipalities in 2000, local public services in the non-metropolitan areas were provided through a combination of the 42 districts along with 843 transitional local (TLCs) and rural (TRCs) councils. (The councils were created under the Local Government Transition Act, 1993.) One relevant aspect of the Local Government Transition Act is that it provided considerable powers to provincial governments in defining aspects of the powers and functions of municipalities.

Generally, the jurisdiction of transitional local councils primarily encompassed the urbanized portions of small towns and cities and excluded the surrounding rural hinterlands which were governed by the TRCs. Districts overlapped the TLCs and TRCs. As originally conceived the districts were intended to provide bulk services, e.g., water, sewerage, landfills, etc., with the local municipalities carrying out reticulation activities associated with these services. In addition, since the primary own source revenue of the districts was the Regional Service Council (RSC) levy, which was originally meant to be used for public infrastructure investments, the districts could also be expected to be engaged in major capital infrastructure projects.<sup>3</sup>

This section is intended to document what services these local governments were providing and how their revenues were obtained.

### **2.1 Case Studies of the Allocation of Powers and Functions in the Recent Past**

Although the legislation is reasonably precise concerning the functions and powers of the transitional councils, in reality many of the provisions of the statutes were not being implemented. To understand better the actual arrangements for the provision of public services in a small set of jurisdictions, the Project contracted with the Palmer Development

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<sup>3</sup> The Regional Service Councils and the RSC levy were created pursuant to the Regional Services Council Act, 1985. For a detailed analysis of the RSC levy, see the Task 3 Report (2001).

Group (PDG) to perform a set of case studies in three districts. Among the tasks completed in the cases was a review of what services were in fact being provided and whether the services were being provided by the district or by the local municipalities.

The design of the case studies was based on guidance provided by the Project's Reference Group. Three districts representing three different provinces and with rather dissimilar economic bases were chosen non-randomly. The districts included the Amatola (Eastern Cape), Ndlovu (Kwa-Zulu/Natal), and Lowveld Escarpment (Mpumalanga). Three or four new "B" municipalities within each of the three districts were then chosen for more detailed study. The choice of the municipalities was purposeful rather than random with the primary criteria being that, within each district, the chosen new B municipalities would represent three different settlement patterns. Table 1 shows the final sample of new B municipalities (in parentheses are the number of former TLCs and TRCs that were amalgamated into the new B municipality).

**Table 1:  
Sample of New B Municipalities Used for the Case Studies**

| Type Settlement | Province          |                                 |                                      |
|-----------------|-------------------|---------------------------------|--------------------------------------|
|                 | Eastern Cape      | Kwa-Zulu/Natal                  | Mpumalanga                           |
| Large Urban     | EC125 (2TLC&5TRC) | KZ225 (2TLC&1RegC) <sup>a</sup> | MP322(1TLC&1TRC)                     |
| Small Urban     | EC127 (5TLC&6TRC) | KZ223 (1TLC&1RegC)              | MP321(3TLC&2TRC)<br>MP323(3TLC&2TRC) |
| Rural           | EC121(3TLC&5TRC)  | KZ224 (1TLC&1RegC)              | MP324(3TLC&2TRC)                     |

<sup>a</sup>Reg C refers to a "regional council" which is the term used for district councils in Kwa-Zulu/Natal province.

Within each of the case study areas efforts were made to determine which jurisdictions were providing each of a large number of local public services. The results are shown in Tables 2 through 4. An X represents that most towns (TLCs) provide the service within their boundaries and that the district provides the service in most of the non-TLC areas of the district. An L indicates that the service was provided in only some towns and/or in a limited number of areas within the district. As will be shown more directly below, although many of the towns (small cities) have been providing many services, it is quite uncommon for residents of the former TRCs (the rural scattered settlements) to get any of the services listed in the tables.<sup>4</sup>

The entries in the tables are far from uniform across districts. This is particularly the case for the district councils. Both the Amatola and Ndlovu Districts are apparently engaged in a variety of non-infrastructure development activities. For example, each is providing health and emergency services, which entail activities other than capital investment.

The entries for the large and, to some extent, the small urban areas are quite uniform. Most are engaged in a number of traditional local public service activities generally associated with urbanized areas throughout the world. On the other hand, rural municipalities represented in this small sample are rather diverse in the sorts of services provided.

<sup>4</sup> It should be emphasized that the entries in the tables represent only services provided by *local governments*. As such, they do not include services provided by such agencies as various provincial departments, the regional offices of the Department of Water Affairs, or Eskom.

**Table 2:  
Local Public Service Arrangements in Amatola District, Eastern Cape**

|   | District (DC12) | Large Urban (EC125) | Small Urban (EC127) | Rural (EC121) |
|---|-----------------|---------------------|---------------------|---------------|
| <b>Economic and trading services</b>  |                 |                     |                     |               |
| Solid waste: landfill   |                 | X                   | X                   | X             |
| Solid waste: collection   | L               | X                   | X                   | X             |
| Sanitation: bulk  | L               | X                   | X                   | L             |
| Sanitation: reticulation  | L               | X                   | X                   | L             |
| Water: bulk   | L               | X                   | X                   | X             |
| Water: reticulation   | L               | X                   | X                   | X             |
| Electricity   |                 | X                   | L                   |               |
| Market and abattoirs  |                 | X                   | L                   |               |
| Commercial property   |                 | X                   | L                   |               |
| <b>Roads, transport and traffic</b>   |                 |                     |                     |               |
| Airports  |                 |                     |                     |               |
| Public transport  | L               | X                   |                     |               |
| Road traffic regulation   | X               | X                   | L                   |               |
| Vehicle licensing   |                 | X                   | X                   |               |
| Pontoons, ferries, jetties, piers and harbours  |                 | L                   |                     |               |
| Roads   | X               | X                   | X                   | L             |
| Traffic and parking   |                 | X                   | L                   |               |
| <b>Health and emergency services</b>  |                 |                     |                     |               |
| Disaster management   | X               |                     |                     |               |
| Health services   | X               | X                   | L                   |               |
| Firefighting services   |                 | X                   | L                   | L             |
| Ambulance services  | X               |                     |                     |               |
| Facilities for accommodation, care and burial of animals (usually a pound)                |                 | X                   | X                   | L             |
| Licensing and control of undertakings that sell food to the public (environmental health) | X               | X                   | L                   | L             |
| <b>Amenities and works</b>  |                 |                     |                     |               |
| Child care facilities   | L               | L                   | L                   |               |
| Libraries   |                 | X                   | X                   | L             |
| Museums   | X               | X                   | L                   |               |
| Cultural matters  |                 | L                   |                     |               |
| Parks and recreation  | X               | X                   | L                   |               |
| Beaches and amusement facilities  | X               | L                   |                     |               |
| Sport facilities  |                 | X                   | X                   | L             |
| Swimming pools  |                 | X                   | L                   |               |
| Municipal halls   |                 | X                   | X                   | L             |
| Technical and scientific services   | X               | L                   |                     |               |
| Cemeteries and crematoria   |                 | X                   | X                   | L             |
| <b>Protection services</b>  |                 |                     |                     |               |
| Municipal police  |                 | L                   |                     |               |
| Civil defense/protection  |                 | L                   | L                   |               |
| <b>Planning and regulation</b>  |                 |                     |                     |               |
| Planning and architectural services   | L               | X                   | L                   |               |
| <b>Housing</b>  |                 |                     |                     |               |
| Housing   |                 | X                   | L                   |               |
| <b>Local economic development</b>   | X               | L                   |                     |               |

Source: Palmer Development Group, "Revenue Expenditure Assignment, Eastern Cape Case Study – DC 12" (2001)

**Table 3:  
Local Public Service Arrangements in Ndlovu District, Kwa-Zulu/Natal**

|   | District (DC22) | Large Urban (KZ225) | Small Urban (KZ223) | Rural (KZ224) |
|---|-----------------|---------------------|---------------------|---------------|
| <b>Economic and trading services</b>  |                 |                     |                     |               |
| Solid waste: landfill   | L               | X                   | X                   |               |
| Solid waste: collection   |                 | X                   | X                   | L             |
| Sanitation: bulk  |                 | X                   | X                   |               |
| Sanitation: reticulation  |                 | X                   | X                   |               |
| Water: bulk   |                 | X                   | X                   | X             |
| Water: reticulation   |                 | X                   | X                   | X             |
| Electricity   | X               | X                   | X                   |               |
| Market and abattoirs  |                 | X                   |                     |               |
| Commercial property   |                 | X                   | X                   |               |
| <b>Roads, transport and traffic</b>   |                 |                     |                     |               |
| Airports  |                 | X                   |                     |               |
| Public transport  |                 |                     |                     |               |
| Taxi ranks  | X               | X                   | X                   | L             |
| Road traffic regulation   |                 | X                   | X                   |               |
| Vehicle licensing   |                 | X                   | X                   |               |
| Pontoons, ferries, jetties, piers and harbours  |                 |                     |                     |               |
| Roads   | X               | X                   | X                   | X             |
| Traffic and parking   |                 | X                   | X                   |               |
| <b>Health and emergency services</b>  |                 |                     |                     |               |
| Disaster management   | X               |                     | X                   |               |
| Health services   | L               | X                   | X                   |               |
| Firefighting services   | X               | X                   |                     |               |
| Ambulance services  |                 |                     |                     |               |
| Facilities for accommodation, care and burial of animals (usually a pound)                |                 | X                   |                     |               |
| Licensing and control of undertakings that sell food to the public (environmental health) |                 | X                   | X                   |               |
| <b>Amenities and works</b>  |                 |                     |                     |               |
| Child care facilities   |                 |                     |                     | X             |
| Libraries   |                 | X                   | X                   |               |
| Museums   |                 | X                   | X                   |               |
| Cultural matters  |                 | X                   | X                   |               |
| Parks and recreation  | X               | X                   | X                   |               |
| Sport facilities  | X               | X                   | X                   | L             |
| Swimming pools  |                 | X                   |                     |               |
| Municipal halls   | X               | X                   | X                   |               |
| Technical and scientific services   | X               | X                   | L                   |               |
| Cemeteries and crematoria   |                 | X                   | X                   | L             |
| <b>Protection services</b>  |                 |                     |                     |               |
| Municipal police  |                 |                     |                     |               |
| Civil defense/protection  | L               | X                   |                     |               |
| <b>Planning and regulation</b>  |                 |                     |                     |               |
| Planning and architectural services   | X               | X                   | X                   | L             |
| <b>Housing</b>  |                 |                     |                     |               |
| Housing   |                 | X                   | X                   |               |
| Local economic development  | X               | X                   | X                   |               |

Source: Palmer Development Group, "Revenue Expenditure Assignment, Kwa-Zulu Natal Case Study – DC 22" (2001)

**Table 4:  
Local Public Service Arrangements in Lowveld Escarpment District, Mpumalanga**

|  | District<br>(DC32) | Large Urban<br>(MP322) | Small Urban<br>(MP321) | Small Urban<br>(MP323) | Rural<br>(MP324) |
|--|--------------------|------------------------|------------------------|------------------------|------------------|
| <b>Economic and trading services</b>   |                    |                        |                        |                        |                  |
| Solid waste: landfill  |                    | X                      | X                      | X                      | X                |
| Solid waste: collection  |                    | X                      | X                      | X                      | X                |
| Sanitation: bulk   |                    | X                      | X                      | X                      | X                |
| Sanitation: reticulation   |                    | X                      | X                      | X                      | X                |
| Water: bulk  | L                  | X                      | X                      | X                      | X                |
| Water: reticulation  |                    | X                      | X                      | X                      | X                |
| Electricity  |                    | X                      | X                      | X                      | X                |
| Market and abattoirs   |                    |                        | L                      |                        |                  |
| Commercial property  |                    |                        |                        |                        |                  |
| <b>Roads, transport and traffic</b>  |                    |                        |                        |                        |                  |
| Airports   |                    | L                      | L                      | L                      |                  |
| Public transport   |                    |                        |                        |                        |                  |
| Road traffic regulation  |                    | X                      | X                      | X                      | X                |
| Vehicle licensing  |                    | X                      | X                      | X                      | X                |
| Pontoons, ferries, jetties, piers and harbours   |                    |                        |                        |                        |                  |
| Roads  | L                  | X                      | X                      | X                      | X                |
| Traffic and parking  |                    | X                      | X                      | X                      | X                |
| <b>Health and emergency services</b>   |                    |                        |                        |                        |                  |
| Disaster management  |                    | X                      | X                      | X                      | X                |
| Health services  |                    | X                      | X                      | X                      | X                |
| Firefighting services  |                    | X                      | X                      | X                      | X                |
| Ambulance services   |                    | X                      | X                      | X                      | L                |
| Facilities for accommodation, care and burial of animals (usually a pound)                               |                    | X                      | X                      | L                      | L                |
| Licensing and control of undertakings that sell food to the public (environmental health)                |                    | L                      | L                      |                        |                  |
| <b>Amenities and works</b>   |                    |                        |                        |                        |                  |
| Child care facilities  |                    |                        | L                      |                        |                  |
| Libraries  |                    | X                      | X                      | X                      | X                |
| Museums  |                    |                        | L                      |                        |                  |
| Cultural matters   |                    |                        |                        |                        |                  |
| Parks and recreation   |                    | X                      | X                      | X                      | X                |
| Beaches and amusement facilities   |                    |                        |                        |                        |                  |
| Sport facilities   |                    | X                      | X                      | L                      |                  |
| Swimming pools   |                    | L                      |                        | X                      |                  |
| Municipal halls  |                    | L                      | X                      | X                      |                  |
| Technical and scientific services  |                    | L                      |                        |                        |                  |
| Cemeteries and crematoria  |                    | X                      | X                      | X                      | L                |
| <b>Protection services</b>   |                    |                        |                        |                        |                  |
| Municipal police   |                    | L                      |                        |                        |                  |
| Civil defense/protection   |                    | L                      | L                      | L                      | L                |
| <b>Planning and regulation</b>   |                    |                        |                        |                        |                  |
| Planning and architectural services  | L                  | L                      |                        |                        |                  |
| <b>Housing</b>   |                    |                        |                        |                        |                  |
| Housing  |                    | X                      | X                      |                        | L                |
| <b>Local economic development</b>  |                    |                        |                        |                        |                  |
| Source: Palmer Development Group, "Revenue Expenditure Assignment, Mpumalanga Case Study – DC 32" (2001) |                    |                        |                        |                        |                  |

## 2.2 Expenditures and Revenues of Transitional Local Governments

While the entries in Tables 2 through 4 provide some general impression of how functional activities have been divided between B and C municipalities, they do not yield any information on the extent to which resources are being utilized to provide those services. In order to provide some information on that issue we have compiled fiscal data from a small set of transitional councils.<sup>5</sup>

Data on 30 municipalities (pre-2000 definition) were available to indicate the flow of revenues and expenditures that occurred in fiscal years 1997/98 and 1998/99. Summary information is shown in Table 5. Since there are substantial differences between the former Transitional Rural Councils and Transitional Local Councils, we have shown the results separately for these two groups of municipalities. (There were 21 TLCs analyzed and 9 TRCs; their names and provincial locations are shown in Table 6.)

Table 5 has been constructed to show first the composition of revenues and expenditures for each class of municipality. (These results are shown in columns 1 and 2 and 5 and 6 of the Table.) Consider first the TLCs. Approximately one eighth (12 – 14 percent) of the revenues available to TLCs were collected from property rates in 1997/98 and 1998/99. However, these locally raised taxes were greatly exceeded by *gross* revenues from trading services. Nearly one-half of the gross revenues available to the sample TLCs were collected from electricity sales (in all instances in the sample, from retail sales of electricity). Gross income from the sale of water (in nearly all instances, again, it was retail water sales), constituted only 13 – 15 percent of total revenues. The only other reasonably large entry for TLC revenues was from refuse and sanitation services (termed “economical services” in the tables).

For the sample of 21 TLCs, the revenues from trading services exceeded the expenditures on those services by approximately Rand 70 million in both years examined. This amount was approximately two times greater than the total amount received by the same TLCs from the Equitable Shares grant and approximately 90 percent of the total property rates collected in the municipalities during those same two years.

Another way of looking at this excess is to determine how the excess revenues could be used to finance other TLC expenditures. For the TLCs examined, the excess revenues from trading services amounted, *on average*, to approximately 20 percent on non-trading service expenditures. This should, however, not be construed to mean that the excess revenues were capable of financing only other services provided by the TLCs since a portion of the excess should be reinvested in the capital necessary to maintain the flow of trading services within a jurisdiction.

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<sup>5</sup> This data set and the process used to generate the data are described in more detail in the Task 1 Report (2001).

**Table 5:**  
**Composition and Mean Per Capita Revenues and Expenditures, Selected TLC and TRC, 1997/98 and 1998/99**

| Income and Expenditure Category                          | Transitional Local Councils      |         |                                   |          | Transitional Rural Councils      |         |                                   |         |
|--|----------------------------------|---------|-----------------------------------|----------|----------------------------------|---------|-----------------------------------|---------|
|  | Composition of Revenues & Expend |         | Mean Per Capita Revenues & Expend |          | Composition of Revenues & Expend |         | Mean Per Capita Revenues & Expend |         |
|  | 1997/98                          | 1998/99 | 1997/98                           | 1998/99  | 1997/98                          | 1998/99 | 1997/98                           | 1998/99 |
| <b>Recurrent Income</b>                                  |                                  |         |                                   |          |                                  |         |                                   |         |
| Income from assessment rates                             | 12.5%                            | 13.8%   | 189.13                            | 227.82   | 0.0%                             | 0.0%    | -                                 | -       |
| Equitable shares grant                                   | 3.7%                             | 3.2%    | 79.08                             | 79.70    | 31.0%                            | 26.1%   | 15.83                             | 34.69   |
| Other current (non-capital) grants (total)               | 0.8%                             | 0.5%    | 20.95                             | 12.65    | 59.1%                            | 72.0%   | 2.78                              | 12.20   |
| Other income for community services (total)              | 4.3%                             | 5.3%    | 92.55                             | 100.64   | 1.6%                             | 0.5%    | 2.98                              | 3.24    |
| Subsidised services                                      | 3.3%                             | 3.3%    | 63.39                             | 63.44    | 0.0%                             | 0.0%    | -                                 | -       |
| Economical services                                      | 10.1%                            | 11.5%   | 86.28                             | 219.40   | 0.0%                             | 0.0%    | -                                 | -       |
| Housing services   | 0.2%                             | 0.2%    | 19.76                             | 15.52    | 0.0%                             | 0.0%    | -                                 | -       |
| Trading services (total)                                 | 63.5%                            | 60.7%   | 899.78                            | 998.25   | 0.5%                             | 0.1%    | 0.97                              | 0.90    |
| <i>a. Water income</i>                                   | 13.4%                            | 15.1%   | 226.52                            | 259.04   | 0.5%                             | 0.1%    | 0.97                              | 0.90    |
| <i>b. Electricity income</i>                             | 49.1%                            | 44.3%   | 662.01                            | 708.82   | 0.0%                             | 0.0%    | -                                 | -       |
| <i>c. Other trading income (including subsidies)</i>     | 1.0%                             | 1.3%    | 11.25                             | 30.38    | 0.0%                             | 0.0%    | -                                 | -       |
| All other income   | 1.5%                             | 1.5%    | 47.42                             | 37.32    | 7.8%                             | 1.3%    | 0.31                              | 0.62    |
| <b>TOTAL RECURRENT INCOME</b>                            |                                  |         | 1,598.33                          | 1,754.74 |                                  |         | 22.86                             | 51.64   |
| <b>Recurrent Expenditures</b>                            |                                  |         |                                   |          |                                  |         |                                   |         |
| Community services (community facilities)                | 27.0%                            | 28.9%   | 526.98                            | 635.38   | 97.5%                            | 98.4%   | 16.96                             | 49.82   |
| <i>a. Public works</i>                                   | 5.3%                             | 5.5%    | 158.47                            | 181.51   | 0.1%                             | 0.0%    | 0.17                              | -       |
| <i>b. Municipal council</i>                              | 5.0%                             | 5.5%    | 147.20                            | 144.76   | 63.2%                            | 36.8%   | 14.99                             | 35.57   |
| <i>c. Other community services</i>                       | 6.7%                             | 7.6%    | 194.42                            | 274.10   | 33.7%                            | 29.3%   | 1.79                              | 7.05    |
| <i>d. Contributions to other funds (or assets)</i>       | 2.9%                             | 3.3%    | 38.73                             | 52.61    | 0.5%                             | 32.4%   | 0.01                              | 7.20    |
| Subsidized services                                      | 5.5%                             | 5.7%    | 98.82                             | 120.48   | 0.3%                             | 0.2%    | 0.44                              | 0.94    |
| Economical services                                      | 10.0%                            | 12.0%   | 159.67                            | 254.12   | 0.6%                             | 0.4%    | 1.07                              | 2.08    |
| Housing services   | 0.1%                             | 0.1%    | 5.43                              | 6.01     | 0.0%                             | 0.0%    | -                                 | -       |
| Trading services   | 57.4%                            | 53.3%   | 762.37                            | 794.90   | 1.7%                             | 1.0%    | 2.88                              | 3.63    |
| <i>a. Water</i>  | 11.2%                            | 13.7%   | 143.06                            | 186.35   | 1.0%                             | 0.3%    | 1.74                              | 1.51    |
| <i>b. Electricity</i>                                    | 41.1%                            | 34.9%   | 515.94                            | 529.41   | 0.7%                             | 0.3%    | 1.13                              | 1.71    |
| <i>c. Other (including contributions to other funds)</i> | 5.1%                             | 4.7%    | 103.37                            | 79.14    | 0.0%                             | 0.3%    | -                                 | 0.42    |
| <b>TOTAL RECURRENT EXPENDITURES</b>                      |                                  |         | 1,553.27                          | 1,810.89 |                                  |         | 21.35                             | 56.48   |

Source: Computed by author from project sample data.

**Table 6:  
Local Councils Included in Sample**

| <b><u>Transitional Local Councils</u></b> | <b><u>Transitional Rural Councils</u></b> |
|---|---|
| <b><u>Eastern Cape</u></b>                | <b><u>Eastern Cape</u></b>                |
| Elliotdale TLC                            | Elliotdale (Xhora) TRC                    |
| Idutywa TLC                               | Engcobo TRC                               |
| <b><u>Free State</u></b>                  | Idutywa TRC                               |
| Allanridge TLC                            | Willowvale (Gatyana) TRC                  |
| Henneman TLC                              | <b><u>Free State</u></b>                  |
| Odendaalsrus TLC                          | Kroonkop RLC                              |
| Ventersburg TLC                           | Sand Rivier RLC                           |
| Virginia TLC                              | <b><u>Northern Cape</u></b>               |
| Welkom TLC                                | E'Boya TRC                                |
| <b><u>Gautang</u></b>                     | Masizakhe TRC                             |
| Bronkhorstspuit TLC                       | <b><u>Western Cape</u></b>                |
| <b><u>Kwa-Zulu Natal</u></b>              | Winelands TRC                             |
| Mooi River TLC                            |   |
| <b><u>Mpumalamga</u></b>                  |   |
| Graskop TLC                               |   |
| Sabie TLC                                 |   |
| <b><u>Northern Cape</u></b>               |   |
| Colesberg TLC                             |   |
| Noupoort TLC                              |   |
| <b><u>Northwest</u></b>                   |   |
| Marikana TLC                              |   |
| Rustenburg TLC                            |   |
| <b><u>Western Cape</u></b>                |   |
| Ashton TLC                                |   |
| Bonnievale TLC                            |   |
| McGregor TLC                              |   |
| Montagu TLC                               |   |
| Robertson TLC                             |   |

By far the most important components of trading service revenues are those from the sales of electricity by the TLCs. The *net* revenues from electricity sales (net of expenditures on electricity) were, on average, nearly 80 percent of property rates collected in the sampled jurisdictions. Alone, the net electricity revenues could have financed more than 16 percent of non-trading service expenditures. This illustrates the extreme importance of the current efforts to reorganize the electricity sector. If these revenues are taken from the local governments, even fewer local services will be able to be provided in many localities.

Table 5 also shows the *average* per capita amounts of revenues collected by the TLCs. Property rates yielded approximately R200 per capita whereas trading service revenues totaled approximately R900 – R1,000 per resident. (The per capita amounts were based on

1996 population census data; had updated population data been used, the per capita amounts would have, of course, been slightly lower.)<sup>6</sup>

On the expenditure side of the budget, we see that trading services again constituted the majority of total recurrent spending among these 21 jurisdictions. Second in importance were expenditures on “community services” which include public works, municipal council, and other community service spending (including transfers of funds to purchase physical assets). It is interesting to note that spending on economical services (refuse and sanitation) constituted approximately the same proportion of total expenditures as did the revenues from those same activities. The implication is that the users are, in total, paying for the services (although there obviously could be considerable cross-subsidies among the various groups of service users).

The results for the TRCs stand in stark contrast to those of the more urbanized TLCs. Furthermore, it is important to recognize that the sample of twenty-one TLCs contained a total population of approximately 600,000 and that of the nine TRCs amounted to approximately 450,000 (again, using 1996 census data). Because TRCs were to be primarily representative structures with few powers and functions of their own, TRCs collected essentially no revenues locally and, furthermore, provided nearly no public services beyond the support of the council and some small amounts of community service (probably no more than about R10 per resident of the TRC).<sup>7</sup> One point that is not clear from the data in Table 5 is the fact that “All Other Income” was often shown to be from interest earnings of the TRCs. This suggests that even though the TRC was getting some small amounts of revenue, not all of it was being spent but, instead, was used to build up financial reserves.

In summary, the data illustrate that (1) TLCs are spending substantially more on basic services guaranteed by the Constitution than are TRCs, (2) property rates in these more urbanized jurisdictions are being used to supplement user-based fees and charges, (3) trading services are providing some net revenues for the continuation of that service as well as for other services, and (4) TRCs are providing essentially no public services to their residents.

Summary data similar to those in Table 5 are shown in Table 7 for three district councils for which we have detailed revenue and expenditure data. The entries reveal that, for these three districts in total, the RSC levy constituted between 40 and 50 percent of total revenues in 1997/98 and 1998/99. Subsidies for particular services, primarily from provinces, constituted another important source of revenues.

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<sup>6</sup> Note that the percentage of totals and mean per capita amounts reflect different weighting schemes. The percentage amounts are based on the aggregate revenues and expenditures across all jurisdictions in the sample. They are therefore essentially weighted by municipal populations. That is, more populous municipalities will generally have larger total revenues (and expenditures) and they will constitute a larger share of the total. The mean per capita amounts were, on the other hand, computed as simply averages of the per capita amounts found in each of the localities. They are, therefore, not weighted by population.

<sup>7</sup> It is quite possible that the bulk of the entries called “Other Current Grants” were really from Equitable Shares grants since the basic data often showed zero Equitable Shares grants and “Other Grants” were from the District in which the TRC is located.

**Table 7:**  
**Composition of Revenues and Expenditures for District Councils, 1997/98 and 1998/99**

|   | Composition of Revenues and Expenditures |           | Mean Per Capita Revenues and Expenditures |           |
|---|--|-----------|---|-----------|
|   | 1997/1998                                | 1998/1999 | 1997/1998                                 | 1998/1999 |
| <b>Recurrent Income</b>                 |  |           |   |           |
| RSC levy                                | 52.3%                                    | 40.2%     | 41.81                                     | 44.02     |
| Community services                      | 5.6%                                     | 4.6%      | 4.89                                      | 9.30      |
| Subsidised services                     | 26.9%                                    | 17.5%     | 53.30                                     | 69.15     |
| <i>Emergency services</i>               | 10.1%                                    | 6.4%      | 6.87                                      | 4.97      |
| <i>Health</i>                           | 3.7%                                     | 2.7%      | 8.68                                      | 8.89      |
| <i>Other subsidised services income</i> | 13.1%                                    | 8.3%      | 37.74                                     | 55.29     |
| Economical services                     | 0.0%                                     | 0.0%      | 0.11                                      | 0.05      |
| <i>Sewerage</i>                         | 0.0%                                     | 0.0%      | 0.04                                      | 0.04      |
| <i>Refuse collection</i>                | 0.0%                                     | 0.0%      | 0.04                                      | 0.01      |
| <i>Other economical services income</i> | 0.0%                                     | 0.0%      | 0.04                                      | 0.00      |
| Trading services                        | 3.6%                                     | 4.9%      | 3.14                                      | 5.50      |
| Other income                            | 11.6%                                    | 32.9%     | 5.32                                      | 19.61     |
| TOTAL                                   |  |           | 108.57                                    | 147.62    |
| <b>Recurrent Expenditures</b>           |  |           |   |           |
| Community services                      | 39.2%                                    | 36.5%     | 34.36                                     | 38.76     |
| <i>Public works</i>                     | 0.9%                                     | 1.1%      | 5.50                                      | 7.54      |
| <i>Municipal council</i>                | 1.4%                                     | 1.6%      | 8.95                                      | 11.17     |
| <i>All other community services</i>     | 37.0%                                    | 33.8%     | 19.91                                     | 20.05     |
| Subsidized services                     | 15.3%                                    | 9.2%      | 8.99                                      | 6.55      |
| <i>Emergency services</i>               | 8.0%                                     | 6.9%      | 4.33                                      | 4.44      |
| <i>Health services</i>                  | 2.0%                                     | 2.0%      | 2.09                                      | 1.95      |
| <i>All other subsidized services</i>    | 5.3%                                     | 0.3%      | 2.57                                      | 0.16      |
| Economical services                     | 0.1%                                     | 0.1%      | 0.48                                      | 0.51      |
| Housing services                        | 0.0%                                     | 0.0%      | 0.24                                      | 0.26      |
| Trading services                        | 1.1%                                     | 1.0%      | 0.55                                      | 0.56      |
| TOTAL RECURRENT                         | 55.8%                                    | 46.8%     | 44.61                                     | 46.65     |
| <b>Grants to Municipalities</b>         |  |           |   |           |
| Grants for recurrent expenditures       | 1.1%                                     | 1.4%      | 1.05                                      | 1.40      |
| Grants for capital expenditures         | 43.1%                                    | 51.8%     | 40.43                                     | 47.25     |
| Per capita                              |  |           | 86.09                                     | 95.30     |

Source: Computed by author from project sample data.

On the expenditure side, we see that the largest single category of spending by the districts was to provide a source of capital to municipal governments within the district. These grants constituted from 43 to 50 percent of total expenditures in the three districts. Community services were the second most important component of spending.

Although there is, apparently, concern with the problem of “unfunded mandates” in local councils, the data here suggest it was not significant in these three jurisdictions.<sup>8</sup> For example, the data reveal that subsidies from provinces and the central government for

<sup>8</sup> Unfunded mandates were mentioned several times during the Stakeholders Workshop sponsored by the Local Government Financial Reform Project in June 2001.

subsidized services such as health and emergency services *exceeded* total spending on those functions during the two years examined here.<sup>9</sup>

While not directly observable in Table 7, there was a significant difference in the activities of the three district councils. Spending by Ndlovu (Kwa-Zulu/Natal province) District Council was totally in the form of recurrent and capital grants to municipalities; the other two districts allocated only 25 to 40 percent of their expenditures to municipal grants. This pattern of spending is also reflected in the personnel employed by the District Councils. Ndlovu District Council employed only 70 persons at the time the survey was completed (2000) whereas the other two districts employed more than 200. This, of course, has major implications for the determination of powers and functions of district vis-à-vis local municipal councils. If districts such as Ndlovu are to assume direct provision of services throughout their jurisdictions, significant changes will have to be made in their overall structures.

### 3 LOCAL PUBLIC SERVICE NEEDS AND HOW THEY MIGHT BE MET

The previous discussion has focused exclusively on the previous set of local government arrangements: Transitional Local Councils, Transitional Rural Councils, and the District Councils. Under the new dispensation, only the two types of local governments are to exist outside the metropolitan areas. Since these local governments are newly formed, it is not possible to carry out a detailed examination of their finances and services. Instead, all analysis must be very speculative.

The intent of this section is to examine the levels of spending that would be required to provide a reasonably full set of basic local public services over the next ten years and to consider how those spending requirements might be financed. We begin by reporting the findings of the expenditure requirement studies and then review their implications in light of the set of local revenues currently available to local governments (both districts and local municipalities).

It should be noted that the original scope of work for the Local Government Financial Reform Project called for an estimation of the expenditure needs – fiscal capacity “gap”—as part of the Task 4 exercise. However, since the results of that work pertain even more directly to the issue of vertical sharing of revenues between different levels of government and, therefore, to the intergovernmental transfer system, the results of that effort are reported upon extensively in the Task 2 Report (2001). There is, of course, a close link between that work and the results reported upon here. The emphasis in this section is on local financing to meet expenditure needs.

#### 3.1 Expenditure Needs

A detailed discussion of the objectives and methods that can be used to estimate local government expenditure needs is contained in the Task 2 Report (2001) and need not be repeated here. Suffice it to say that the technique requires the choice of (1) a set of local

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<sup>9</sup> We acknowledge again the fact that this conclusion may be attributable to the accounting practices employed by the district councils. That is, perhaps some spending on mandated activities are not reflected in the “subsidized services” line items shown in the table but, instead, are accounted for elsewhere.

public services, (2) a target level for each of those services, and (3) an estimate of the unit costs of each services. Since the public services of interest here are primarily intended to serve local residents (as opposed to businesses or other specific groups), target levels are generally linked to the number of household units to be served.

The integral part of this work was carried out in Task 4 by the Palmer Development Group (PDG) using their District Services Model to estimate the costs of providing a common set of services in the three case study districts and to disaggregate those projections to the ten B municipalities. Unlike the expenditure needs–revenue capacity gap analysis reported upon in the Task 2 Report (2001), the PDG analysis included estimates of both operating and capital cost requirements. (The Task 2 Report focuses on Equitable Shares transfers, which are intended exclusively for operating costs.)

In brief, the PDG model is a population-driven model of expenditures (although households are used rather than populations since the households are presumed to constitute the basic public service consumption unit). Households in the base year are further disaggregated into income groups and settlement types. Finally, current service levels for each of the public services expenditures being projected are included in the base year data.

To make expenditure projections, the model uses assumptions about (1) annual growth rates in households by both income group and settlement type, (2) the rate of economic growth in the district, (3) the levels of service (by settlement type) for the different types of services being projected, and (4) the per household costs of providing each type and level of service. Changing any of these assumptions will result in a different set of projections. Since the focus in this particular study is on assigning powers and functions, only a single set of assumptions was used.

As indicated above, one determinant of expenditures is the level of services to be provided. Furthermore, one critical determinant of capital expenditure needs is the level of services currently being provided; without capital infrastructure, services such as water, electricity, or roads cannot be delivered. As was shown in Table 5, TRCs have spent little on municipal services. The extent of the backlogs in service levels is made more explicit in Table 8, which shows the proportion of the households in the three case study districts, arrayed by settlement type, that are not currently being adequately served in five service areas – water, sanitation, electricity, solid waste removal, and roads. As illustrated there, inadequate services for all service types characterize the vast majority of households living outside urban areas in these districts representing three different provinces. (The one exception to this is District 32 in Mpumalanga Province where a only a minority of households lacks adequate services.)

**Table 8:**  
**Percent of Households with Inadequate Services, by Settlement Type and District**

|                  | DC12 (EC) | DC22 (KZN) | DC32 (Mpu) |
|------------------|-----------|------------|------------|
| <b>Urban</b>     |           |            |            |
| Water            | 3%        | 5%         | 5%         |
| Sanitation       | 15%       | 11%        | 5%         |
| Solid waste      | 11%       | 20%        | 6%         |
| Electricity      | 51%       | 28%        | 23%        |
| <b>Villages</b>  |           |            |            |
| Water            | 58%       | 53%        | 33%        |
| Sanitation       | 78%       | 68%        | 9%         |
| Solid waste      | 88%       | 97%        | 10%        |
| Electricity      | 94%       | 82%        | 38%        |
| <b>Scattered</b> |           |            |            |
| Water            | 77%       | 61%        | 19%        |
| Sanitation       | 80%       | 77%        | 8%         |
| Solid waste      | 96%       | 95%        | 13%        |
| Electricity      | 97%       | 92%        | 73%        |
| <b>Farmland</b>  |           |            |            |
| Water            | 50%       | 34%        | 22%        |
| Sanitation       | 62%       | 57%        | 12%        |
| Solid waste      | 82%       | 76%        | 11%        |
| Electricity      | 83%       | 83%        | 45%        |

Sources: Palmer Development Group, “Revenue Expenditure Assignment, Eastern Cape Case Study – DC 12” (2001); Palmer Development Group, “Revenue Expenditure Assignment, Kwa-Zulu/Natal Case Study – DC 22” (2001); and Palmer Development Group, “Revenue Expenditure Assignment, Mpumalamga Case Study – DC 32” (2001).

Starting from this current level of service, the question is what will it cost to increase levels of services to “adequate” or basic levels. This will, of course, entail spending for both capital infrastructure and, subsequently, operating and maintenance expenditures. Based on a set of assumptions regarding population growth (differentiated by settlement type), unit costs of services, and the assumption that service backlogs are to be filled within the ten-year projection period, PDG projected expenditure requirements for the case study districts and municipalities. Tables 9 through 12 reproduce the findings concerning operating and maintenance expenditure needs, first for district-wide totals (Table 9) and then for the case study municipalities (Table 10 through 12). Shown also are the per household amounts based on the projected number of households in the B municipalities.

**Table 9:**  
**Projected Operating Expenditure Needs, District-Wide Totals (thousand rand)**

| Service<br>Function | MP32           |                | EC12           |                | KZ22           |                |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                     | Year 1         | Year 10        | Year 1         | Year 10        | Year 1         | Year 10        |
| Water supply        | 54,546         | 79,340         | 85,631         | 205,150        | 68,872         | 140,638        |
| Sanitation          | 18,321         | 36,757         | 43,430         | 116,126        | 33,186         | 75,655         |
| Roads               | 21,868         | 29,264         | 4,938          | 5,938          | 110,736        | 230,585        |
| Solid waste         | 6,742          | 7,949          | 32,119         | 37,258         | 16,745         | 19,104         |
| Electricity         | 94,950         | 175,080        | 119,571        | 326,672        | 4,499          | 12,497         |
| <b>TOTAL</b>        | <b>196,427</b> | <b>328,390</b> | <b>285,689</b> | <b>691,144</b> | <b>234,038</b> | <b>476,469</b> |

Source: Case studies cited in Table 8.

**Table 10:**  
**Projected Operating Expenditure Needs, Municipalities in MP32 District**

| Service Function           | MP322 Lg. Urban    |                    | MP321 Sm. Urban   |                    |
|----------------------------|--------------------|--------------------|-------------------|--------------------|
|                            | Year 1             | Year 10            | Year 1            | Year 10            |
| Water supply               | 69,877,696         | 87,990,661         | 17,437,495        | 20,522,579         |
| Sanitation                 | 70,745,380         | 87,274,804         | 15,942,966        | 20,456,055         |
| Roads                      | 0                  | 103,973,300        | 0                 | 24,155,360         |
| Solid waste                | 17,245,933         | 25,118,132         | 4,851,978         | 5,962,052          |
| Electricity                | 79,933,148         | 190,187,491        | 22,521,502        | 44,247,895         |
| <b>TOTAL</b>               | <b>237,802,157</b> | <b>494,544,388</b> | <b>60,753,942</b> | <b>115,343,941</b> |
| Per household <sup>a</sup> | 2,489              | 4,642              | 2,757             | 4,699              |

| Service Function           | MP323 sm. Urban   |                   | MP324 rural       |                    |
|----------------------------|-------------------|-------------------|-------------------|--------------------|
|                            | Year 1            | Year 10           | Year 1            | Year 10            |
| Water supply               | 8,526,596         | 12,741,654        | 31,524,202        | 42,426,086         |
| Sanitation                 | 8,140,867         | 13,278,008        | 19,270,229        | 39,414,852         |
| Roads                      | 0                 | 14,631,757        | 0                 | 51,536,349         |
| Solid waste                | 2,407,040         | 3,378,674         | 8,568,390         | 13,356,785         |
| Electricity                | 9,623,100         | 26,629,605        | 23,095,076        | 95,533,913         |
| <b>TOTAL</b>               | <b>28,697,603</b> | <b>70,659,697</b> | <b>82,457,897</b> | <b>242,267,986</b> |
| Per household <sup>a</sup> | 2,438             | 5,255             | 1,526             | 4,116              |

<sup>a</sup>Based on projected number of households in the municipality.

Source: Palmer Development Group, "Revenue Expenditure Assignment, Mpumalanga Case Study – DC 32" (2001)

**Table 11:**  
**Projected Operating Expenditure Needs, Municipalities in EC12 District**

| Service<br>Function           | EC125 Lg Urban |             | EC127 Sm Urban |             | EC121 Rural |             |
|-------------------------------|----------------|-------------|----------------|-------------|-------------|-------------|
|                               | Year 1         | Year 10     | Year 1         | Year 10     | Year 1      | Year 10     |
| Water                         | 117,906,928    | 164,734,031 | 11,988,170     | 23,980,019  | 2,483,022   | 37,578,765  |
| Sanitation                    | 116,835,865    | 177,896,996 | 4,943,531      | 24,128,595  | 2,671,524   | 36,800,229  |
| Roads                         | 128,633,899    | 191,992,693 | 12,642,588     | 29,708,571  | 17,285,417  | 47,702,884  |
| Solid waste                   | 27,898,726     | 43,308,824  | 1,219,329      | 7,651,312   | 267,660     | 12,828,607  |
| Electricity                   | 109,507,625    | 335,903,999 | 6,242,144      | 51,554,124  | 1,978,041   | 82,325,364  |
| TOTAL                         | 500,783,043    | 913,836,543 | 37,035,762     | 137,022,621 | 24,685,664  | 217,235,849 |
| Per<br>household <sup>a</sup> | 3,072          | 4,846       | 1,263          | 4,241       | 496         | 4,021       |

<sup>a</sup>Based on projected number of households in the municipality.

Source: Palmer Development Group, "Revenue Expenditure Assignment, Eastern Cape Case Study – DC 12" (2001)

**Table 12:**  
**Projected Operating Expenditure Needs, Municipalities in KZ22 District**

| Service<br>Function           | KZ225 Lg. Urban |               | KZ223 Sm Urban |            | KZ224 Rural |            |
|-------------------------------|-----------------|---------------|----------------|------------|-------------|------------|
|                               | Year 1          | Year 10       | Year 1         | Year 10    | Year 1      | Year 10    |
| Water                         | 124,663,995     | 192,895,694   | 4,449,411      | 5,899,273  | 3,850,056   | 4,765,265  |
| Sanitation                    | 115,747,015     | 211,441,365   | 3,096,805      | 5,869,990  | 1,134,971   | 4,426,778  |
| Roads                         | 119,413,082     | 192,906,160   | 4,194,033      | 6,402,751  | 2,276,524   | 5,107,569  |
| Solid waste                   | 26,359,151      | 47,843,861    | 630,367        | 1,670,124  | 77,701      | 1,560,641  |
| Electricity                   | 203,519,979     | 388,510,493   | 4,048,688      | 12,722,940 | 1,006,576   | 10,710,689 |
| TOTAL                         | 589,703,222     | 1,033,597,573 | 16,419,305     | 32,565,079 | 8,345,828   | 26,570,941 |
| Per<br>household <sup>a</sup> | 4,920           | 7,340         | 3,401          | 6,007      | 1,324       | 3,888      |

<sup>a</sup>Based on projected number of households in the municipality.

Source: Palmer Development Group, "Revenue Expenditure Assignment, Kwa-Zulu/Natal Case Study – DC 22" (2001)

The entries there are large; however, that is not surprising considering the large backlog of unmet needs in many local areas, particularly in the non-urban portions of local governments. As shown in Tables 10 through 12, based on the projected number of households in each of the municipalities after ten years, expenditure needs for these five services will range from 4,000 to over 7,000 rands per household (using constant rand amounts). The amounts for year 10 are generally two to three times the projected expenditure needs for the first projection year and significantly more than is currently being spent on the per household basis.

Another perspective on the magnitude of these expenditure needs can be obtained by comparing the first year projections to current revenues. Of course, since these local governments (the newly demarcated B municipalities) are only now beginning operation, no

directly observable data on revenues are available. We therefore had to rely on revenues collected by the former TRCs and TLCs that will make up the new B municipalities.

Unfortunately, good fiscal data are not available for municipalities within South Africa. Since actual revenue data were not available for the 1998-99 base year for all of the former jurisdictions that make up the new B municipalities, we relied on data collected by the Department of Finance. These data contain information only on the amount of revenues that are “expected” to be raised by local governments during the fiscal year (the data are submitted to Treasury a few months prior to the completion of the fiscal year). Those data were then aggregated across all local councils that made up the new B municipalities included in the case studies.<sup>10</sup> The revenue data were limited to tariffs from the services included in the expenditure need estimates plus property rate revenues. The rationale for this is to determine the degree to which current revenue efforts in the municipalities could meet even the first year of expenditure needs. The results are shown in Table 13 and show that, for all but one of the jurisdictions, current revenues fall substantially below operating expenditure needs. The shortfalls are particularly great for the rural jurisdictions since, in the base year, they had a very small tariff and property rate base. The information in the final column in the Table suggest by how much local revenues would have to be increased in order for revenues to meet expenditure needs.

**Table 13:**  
**Comparison of Tariff and Property Rate Revenues with Projected Expenditure Needs, Case Study Municipalities**

| <b>New B Municipality</b> | <b>First Year Projected Operating Expense (a)</b> | <b>Tariffs and Prop. Rate Revenues (b)</b> | <b>Shortfall</b> | <b>Shortfall as % Revenue</b> |
|---------------------------|---|--|------------------|-------------------------------|
| MP 322 Lg Urban           | 237,802,157                                       | 148,044,222                                | 89,757,935       | 60.6%                         |
| MP 323 Sm Urban           | 28,697,603  | 31,645,954                                 | (2,948,351)      | (9.3%)                        |
| MP 321 Sm Urban           | 60,753,942  | 42,971,429                                 | 17,782,513       | 41.4%                         |
| MP 324 Rural              | 82,457,897  | 24,298,511                                 | 58,159,386       | 239.4%                        |
| KZ 225 Lg Urban           | 589,703,222                                       | 540,365,550                                | 49,337,672       | 9.1%                          |
| KZ 223 Sm Urban           | 16,419,305  | 12,140,241                                 | 4,279,064        | 35.2%                         |
| KZ 224 Rural              | 8,345,828   | 40,985                                     | 8,304,843        | 20263.1%                      |
| EC 125 Lg Urban           | 500,783,043                                       | 444,424,624                                | 56,358,419       | 12.7%                         |
| EC 127 Sm Urban           | 37,035,762  | 12,432,951                                 | 24,602,811       | 197.9%                        |
| EC 121 Rural              | 24,685,664  | 6,873,160                                  | 17,812,504       | 259.2%                        |

(a) From Palmer Case Studies

(b) 1998-99 projected revenues from DOF Database

Source: Computed by author.

It is unrealistic to think that local revenue sources would be able to meet all of the implied shortfalls in revenues; many of the underserved residents are low income users and cannot be expected to pay the full costs of services. The intergovernmental grant system will have to be relied upon to meet at least a portion of the needs.<sup>11</sup> We also acknowledge that fiscal flows

<sup>10</sup> We checked and determined that no former TRC in the case study municipalities nor the overlying districts reported any tariff revenues from these sources.

<sup>11</sup> This issue is considered in much more depth in the Task 2 Report (2001).

from the provinces, particularly in support of functions such as roads and health, will be critical in determining the ability of municipalities to finance these services. The aspect of the financing system was, however, outside our mandate and received only minimal attention; this should be corrected in future local government finance analyses.

The question remains as to whether the revenues currently assigned to municipalities have much potential for increased revenue productivity. As was noted above, some tariffs, particularly those from electricity sales, already provide considerable revenues in excess of the costs of providing the service. However, since the bulk of the currently unserved population is low income, these and other trading services are likely to be limited in their revenue potential. Furthermore, the current uncertainty regarding arrangements for the provision of electricity makes it difficult to anticipate that significant new revenues will be earned from electricity tariffs by municipalities.

Property rates constitute the other primary source of potential increases in revenue. The current Property Rates Bill anticipates a significant expansion in the base of the tax. Prior to the creation of “wall-to-wall” municipalities, property rates were not imposed by the TRCs; with the inclusion of these areas into municipalities, the ratable property lying within those areas is taxable. However, it is unrealistic to think that the process necessary to put this tax into place can be accomplished within the next few years. Even then, after many years of being untaxed, it is not realistic to think that the tax can be as productive as that in urban areas for many years into the future.

While the potential for substantial revenues from newly taxed properties is probably not feasible, the question arises regarding the potential for revenue increments from the existing tax base. The amount of property rates legally due on any property is the product of the rate levy imposed times the taxable base (net of any exemptions or rebates). The taxable base depends on the legal definition of that base (e.g., the value of the land or “site” or the value of the site plus improvements) together with the assessment process that determines those values. Finally, actual tax revenues depend also on the ability of the taxing jurisdiction to collect the legally due taxes.

Experience with property taxation throughout the world suggests that several factors can adversely affect property tax revenues. Until properties are reassessed, their taxable values remain unchanged. Thus long periods between reassessments will slow the growth in the taxable base; furthermore, if assessors substantially undervalue properties for tax purposes, tax revenues will fall far below potential revenues. Statutes that exempt significant portions of the potential tax base also limit tax revenues. Finally, if taxing jurisdictions are unwilling or unable to collect the taxes that are legally due, actual revenues will fail to achieve their potential. Note that each of these factors – the statutory tax rate, including any rebates, assessment lags, ratios of assessed to market values, legal definition of the tax base, and tax collection – is either administrative or political in nature.

To ascertain the state of current property rates administration practices in urban areas of the country, we conducted a small study of the former TLCs in the case study B municipalities. Unfortunately, because of the disruptions associated with the creation of the new B municipalities, it was not possible to obtain a substantial set of data. Of the twenty-one former TLCs in the new B municipalities, we were able to obtain data from only seven (and, in some instances, only partial data from those). Nevertheless, the small sample that is

available can yield some information on additional revenue potential from existing property rates.

Table 14 shows some of the basic features of the property rates that have been levied in seven former TLCs. Several points stand out in the table. First, the legal definition of the tax base differs across the several locations.<sup>12</sup> Second, the rate structures in all of the jurisdictions give preferential treatment to residential land (and, in the case of Pietermaritzburg, to improvements as well). Uniform rates equal to those imposed on commercial or industrial lands would increase the potential revenues from property rates.

Assessment practices also appear to provide for some improvements in potential tax revenues in at least a couple of the localities. A small study of the ratio of assessed to market values found ratios in four of the jurisdictions to be very close to one; in two (Lydenburg and White River) the ratios were less than 0.8. Recent reassessments in several jurisdictions probably help explain the high ratios.

The collection ratio data that were collected also show some variation in the quality of tax administration. While the ratios suggest that several localities are collecting all or nearly all the property rates levied, improvements to the collection process could be made in those places collecting only about two-thirds of the tax levies.

An *effective* tax rate can be defined as property rate collections relative to the market value of the tax base. As such it reflects the (1) statutory rate, (2) assessment ratio, (3) any exemptions and rebates in the system, and (4) the collection ratio. The entries shown in the final row of Table 14 are particularly instructive. They show effective rates varying from a low of less than 0.5 percent to nearly 7 percent. The 6.8 percent rate for Barbarton is, however, misleading since the ratio shown applies only to the assessed value of land and does not include the assessed value of improvements in the municipality. Ratios around one percent are quite similar to those in cities throughout the world and should be feasible in South Africa.

The situation in Lydenburg is instructive. It has experienced *both* a relatively low collection record and relatively low assessment ratios. So in spite of the statutory rates that are generally higher than in the other jurisdictions, the administration of the tax (together with the rebates built into the tax structure) substantially lowers the effective tax rate. This leads us to conclude that there appears to be additional property rate revenue potential in at least some localities. This question, however, deserves considerably greater study.

The discussion of property rates and tariffs is directed primarily at the potential of local governments to meet the projected recurrent costs associated with improved services. What needs to be considered as well is the potential to meet the very substantial capital infrastructure expenditures projected in the model.

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<sup>12</sup> If a full computation of taxable capacity were to be carried out in the course of a complete analysis of fiscal gaps, this could greatly complicate the task since it is unlikely that a site value jurisdiction would have good data on the assessed values of improvements.

**Table 14:  
Features of Property Rates Administration in Selected TLCs**

|   | <b>Pieter-maritzburg</b> | <b>Sabie</b> | <b>Graskop</b> | <b>Lydenburg</b> | <b>Nelspruit</b> | <b>White River</b> | <b>Barberton</b> |
|---|--------------------------|--------------|----------------|------------------|------------------|--------------------|------------------|
| Description of base (land, flat, composite) | Composite                | Land         | Land           | Land             | Land             | Land               | Land             |
| Statutory rate, residential land            | 2.908%                   | 8.910%       | 6.300%         | 11.410%          | 2.770%           | 3.600%             | 7.260%           |
| Statutory rate, residential improvements    | 0.763%                   |              |                |                  |                  |                    |                  |
| Statutory rate, commercial land             | 4.781%                   | 14.850%      | 11.200%        | 16.300%          | 7.750%           | 3.600%             | 12.980%          |
| Statutory rate, commercial improvements     | 0.941%                   |              |                |                  |                  |                    |                  |
| Statutory rate industrial land              | 4.781%                   | 13.660%      | 11.200%        | 16.300%          | 9.500%           | 3.600%             | 12.980%          |
| Statutory rate industrial improvements      | 0.941%                   |              |                |                  |                  |                    |                  |
| Statutory rate, government land             | 4.781%                   | 11.880%      | 6.300%         | 11.410%          | 7.750%           | 3.600%             | 12.980%          |
| Statutory rate, government improvements     | 0.941%                   |              |                |                  |                  |                    |                  |
| Residential rebates                         |                          | 40%          | 44%            | 30%              |                  |                    | 13%              |
| Pensioners rebate                           |                          |              | 40%            | 40%              |                  | 40%                |                  |
| Date of last assessment                     |                          |              | 1999           |                  | 1999             | 1998               | 1999             |
| Mean assessment: sales ratio                |                          | 0.96         | 1              | 0.76             | 0.99             | 0.73               | 1.01             |
| Total billings (1999)                       | 150,648,443              | 3,611,530    |                | 4,647,906        | 34,858,158       |                    | 5,171,957        |
| Total collections (1999)                    |                          | 3,625,382    |                | 3,021,139        | 33,224,469       |                    | 4,970,776        |
| Collection ratio, 1999                      |                          | 1.00         |                | 0.65             | 0.95             |                    | 0.96             |
| Total billings (2000)                       |                          | 4520000      | 1053732        | 3990000          | 38441550         | 6505020            | 5468011          |
| Total collections (2000)                    |                          | 3164000      | 1053732        | 2593500          | 39324252         | 6158999            | 5608604          |
| Collection ratio, 2000                      |                          | 0.70         | 1.00           | 0.65             | 1.02             | 0.95               | 1.03             |
| Effective tax rate                          |                          | 1.3292%      | 1.094%         | 0.566%           | 0.984%           | 0.479%             | 6.825%           |

Source: Derived from questionnaire administered by the project

The PDG report also contains estimates of total capital expenditure requirements for the ten-year projection period. These are replicated in Tables 15 through 18, first for the districts as a whole and then for the individual B municipalities. Shown, as well, for the individual municipalities are the projected, *per household*, capital expenditure requirements (using the PDG projected number of households at the end of the ten-year period). If one assumes that these ten-year capital spending requirements were spread uniformly over the ten years, they suggest that from 800 to nearly 1,600 rands per household would have to be spent each year. (Since the projected number of households at the end of the ten-year period was used, these are underestimates of the per household expenditures needed.)

One potential source of such capital is borrowing by municipalities; however, until their financial situations become more secure, this source is likely to be limited. A second alternative source of capital infrastructure financing is the Regional Service Council levy. Indeed, the intent of this levy was to provide a source of funds for capital infrastructure improvements at the local level. In order to determine the degree to which the current RSC levy would be capable of filling the capital expenditure gap, a set of simulations were run under different scenarios regarding economic growth and the rate structure of the RSC levy. The results are shown in Table 19.

Under the assumption that the structure of the RSC levy is unchanged but the real economy grows by 3 percent per annum, approximately 9 percent of the capital backlog could be filled in both Amatola DC (Eastern Cape) and Lowveld DC (Mpumalanga) whereas slightly more than 16 percent of the backlog would be filled in Ndlovu (KZN). In order to fill a greater proportion of the void, e.g., 20 or 50 percent, substantial annual increases in the rates imposed would be necessary.

Another indirect indicator of the potential role of the RSC levy to fill the capital expenditure needs is comparing the projections with current RSC collections. We were able to obtain Treasury *estimates* of RSC levy collections in 1998-99 by district (prior to demarcation). The mean *per capita* RSC levy revenues were only R52 (the median was an even smaller R42 per person). The district per capita collections ranged from only R5.10 to a very high R158 (for Eastern Gauteng district). Still, the implication is that the RSC levy is unlikely to be able to fill all the required capital expenditures needed to make services available to the currently un- or under-served population of South Africa.

In summary, the purely empirical portion of Task 4 of this project has found that, regardless of how revenue powers and functional responsibilities are assigned, the needs for both capital and recurrent expenditures are extensive if the backlog of basic services is to be provided in the non-metro municipalities. While the first step towards improving the flow of services is to devise a reasonable assignment of powers and functions, even then much will remain to be done to strengthen local governments in South Africa.

**Table 15:**  
**District-Scale Capital Expenditure Requirements Over Projection Period**  
**(thousand rand)**

| <b>Service Function</b> | <b>MP32</b>      | <b>EC12</b>      | <b>KZ22</b>      |
|-------------------------|------------------|------------------|------------------|
| Water                   | 183,659          | 450,636          | 361,174          |
| Sanitation              | 248,138          | 787,593          | 661,888          |
| Roads                   | 2,325,690        | 2,508,827        | 554,262          |
| Solid waste             | 43               | 134              | 88               |
| Electricity             | 371,998          | 905,320          | 1,090,944        |
| <b>TOTAL</b>            | <b>3,129,528</b> | <b>4,652,510</b> | <b>2,668,356</b> |

Source: Case studies cited in Table 8

**Table 16:**  
**Capital Expenditure Requirements, Selected Municipalities in MP32**

| <b>Service Function</b>    | <b>MP322</b>         | <b>MP321</b>       | <b>MP323</b>       | <b>MP324</b>       |
|----------------------------|----------------------|--------------------|--------------------|--------------------|
| Water                      | 155,443,000          | 35,871,000         | 23,066,000         | 83,318,000         |
| Sanitation                 | 190,751,000          | 37,322,000         | 31,407,000         | 35,054,000         |
| Roads                      | 761,415,000          | 117,762,000        | 88,826,000         | 340,235,000        |
| Solid waste                | 0                    | 0                  | 0                  | 0                  |
| Electricity                | 469,893,000          | 112,428,000        | 70,129,000         | 361,442,000        |
| <b>TOTAL</b>               | <b>1,577,502,000</b> | <b>303,383,000</b> | <b>213,428,000</b> | <b>820,049,000</b> |
| Per household <sup>a</sup> | 14,807               | 12,360             | 15,872             | 13,933             |

<sup>a</sup>Based on projected number of households in the municipality in the final year of the projection period.

Source: Palmer Development Group, "Revenue Expenditure Assignment, Mpumalanga Case Study – DC 32" (2001)

**Table 17:**  
**Capital Expenditure Requirements, Selected Municipalities in EC12**

| <b>Service Function</b>    | <b>EC125</b>         | <b>EC127</b>       | <b>EC121</b>       |
|----------------------------|----------------------|--------------------|--------------------|
| Water                      | 275,745,209          | 68,841,079         | 193,236,688        |
| Sanitation                 | 337,316,516          | 79,834,616         | 128,100,144        |
| Roads                      | 351,019,874          | 61,526,522         | 65,112,054         |
| Solid waste                | 0                    | 0                  | 0                  |
| Electricity                | 721,080,487          | 226,685,777        | 419,258,964        |
| <b>TOTAL</b>               | <b>1,685,162,086</b> | <b>436,887,994</b> | <b>805,707,850</b> |
| Per household <sup>a</sup> | 8,936                | 13,521             | 14,915             |

<sup>a</sup>Based on projected number of households in the municipality in the final year of the projection period

Source: Palmer Development Group, “Revenue Expenditure Assignment, Eastern Cape Case Study – DC 12” (2001)

**Table 18:**  
**Capital Expenditure Requirements, Selected Municipalities in KZ22**

| <b>Service Function</b>    | <b>KZ225</b>         | <b>KZ223</b>      | <b>KZ224</b>      |
|----------------------------|----------------------|-------------------|-------------------|
| Water                      | 238,203,000          | 8,279,000         | 8,708,000         |
| Sanitation                 | 426,142,000          | 11,296,000        | 11,632,000        |
| Roads                      | 467,721,000          | 25,996,000        | 10,049,000        |
| Solid waste                | 0                    | 0                 | 0                 |
| Electricity                | 339,931,000          | 34,203,000        | 34,203,000        |
| <b>TOTAL</b>               | <b>1,471,998,000</b> | <b>79,775,000</b> | <b>64,593,000</b> |
| Per household <sup>a</sup> | 10,453               | 14,715            | 9,452             |

<sup>a</sup>Based on projected number of households in the municipality in the final year of the projection period

Source: Palmer Development Group, “Revenue Expenditure Assignment, Kwa-Zulu/Natal Case Study – DC 22” (2001)

**Table 19:  
Required RSC Levy Revenues to Meet Projected Capital Expenditure Backlogs**

| District Council | Non-Electricity Capex Backlog (Rm) | Existing Levy Revenue (Rm) | Target reduction in Backlog Over 5 Years (%) | Reform Option | Annual Rate Increase Needed to Meet 5 Year Target (%) | Projected Levy Revenue in 5 Years (Rm) | Projected Rate in 5 Years: Turnover (%) | Projected Rate in 5 Years: Payroll (%) |
|------------------|------------------------------------|----------------------------|--|---------------|---|--|---|--|
| Amatola          | 3747                               | 48.352                     | <b>8.80</b>                                  | <b>1</b>      | <b>0.00</b>   | <b>73.727</b>                          | <b>0.1400</b>                           | <b>0.3600</b>                          |
|                  |                                    |                            | 10   | 1             | 3.56  | 87.804                                 | 0.1667                                  | 0.4287                                 |
|                  |                                    |                            | 10   | 4             | 3.95  | 87.022                                 |   | 1.0888                                 |
|                  |                                    |                            | 20   | 1             | 23.44   | 211.328                                | 0.4013                                  | 1.0319                                 |
|                  |                                    |                            | 20   | 4             | 24.14   | 211.390                                |   | 2.6450                                 |
|                  |                                    |                            | 50   | 1             | 53.38   | 625.934                                | 0.0119                                  | 3.0563                                 |
|                  |                                    |                            | 50   | 4             | 54.20   | 625.209                                |   | 7.8227                                 |
| Ndlovu           | 1577                               | 52.373                     | <b>16.2</b>                                  | <b>1</b>      | <b>0.00</b>   | <b>79.123</b>                          | <b>0.1200</b>                           | <b>0.3000</b>                          |
|                  |                                    |                            | 10   | 1             | -11.96  | 41.840                                 | 0.0635                                  | 0.1586                                 |
|                  |                                    |                            | 10   | 4             | -11.64  | 41.838                                 |   | 0.2484                                 |
|                  |                                    |                            | 20   | 1             | 5.47  | 103.282                                | 0.1566                                  | 0.3916                                 |
|                  |                                    |                            | 20   | 4             | 5.87  | 103.278                                |   | 0.6627                                 |
|                  |                                    |                            | 50   | 1             | 31.75   | 314.050                                | 0.4763                                  | 1.1907                                 |
|                  |                                    |                            | 50   | 4             | 32.24   | 314.043                                |   | 2.0150                                 |
| Lowveld          | 2757                               | 37                         | <b>9.2</b>                                   | <b>1</b>      | <b>0.00</b>   | <b>56.616</b>                          | <b>0.1300</b>                           | <b>0.3100</b>                          |
|                  |                                    |                            | 10   | 1             | 2.36  | 63.615                                 | 0.1461                                  | 0.3483                                 |
|                  |                                    |                            | 10   | 4             | 3.00  | 63.612                                 |   | 1.1081                                 |
|                  |                                    |                            | 20   | 1             | 22.18   | 154.123                                | 0.3539                                  | 0.8439                                 |
|                  |                                    |                            | 20   | 4             | 22.94   | 154.119                                |   | 2.6847                                 |
|                  |                                    |                            | 50   | 1             | 51.90   | 457.802                                | 1.0512                                  | 2.5067                                 |
|                  |                                    |                            | 50   | 4             | 52.85   | 457.793                                |   | 7.9747                                 |

Source: Computed by authors.

## 4 EVALUATION OF ALTERNATIVE ARRANGEMENTS OF POWERS AND FUNCTIONS

The previous sections have shown that: (1) The Constitution is quite clear on the general structure of municipalities and the general types of services the bodies are to provide. (2) The 2000 Amendment to the Municipal Structures Act gives the national government two years in which to determine how to allocate the functions and powers between B and C municipalities. (3) Presently Category B municipalities with urbanized bases are providing a set of local public services within former Transitional Local Council (TLC) boundaries that, although they do not extend to the entire population, have an expenditure base that can be built upon. (4) Former Transitional Rural Councils (TRCs) have been providing little or no basic services to their residents. (5) There are extremely large expenditures that will be needed in the future if the newly demarcated B & C municipalities are to be able to serve their entire populations with basic services over the next ten years. (6) The implied gap between the expenditure needs and an average revenue effort will still be very large which implies that either (a) the targets for levels of services to be achieved over the next ten years will have to be lowered, (b) greater revenue-raising powers will need to be granted to the B and C municipalities, or (c) significant increases in the flow of transfers to local governments will be necessary.

These points only indirectly address the puzzle of how to allocate powers and functions between the B and C municipalities. The task is even more complex when the wide variety of B municipalities is recognized. Some B municipalities consist of a small city in their core with a peri-urban or rural hinterland; others are basically rural in nature but with one or more towns serving as their market centers; and others are essentially totally rural in nature. While the statutes do not preclude an “asymmetric” distribution of powers and functions, it is necessary at this stage to suggest a general framework for assigning functions and powers. That is the intent of this section.

We begin by considering the objectives that ought to be achieved in any assignment of powers and functions. In light of those objectives we then evaluate four different sets of general approaches that might be followed and attempt to evaluate them in light of the objectives and of the findings contained above. Particularly important in this respect are the local revenue implications of alternative assignments of functional responsibilities and revenue powers.

### 4.1 Objectives and Principles

Existing documents provide only very general guidance to the granting of powers and functions to local government. For example, Section 152 of the Constitution states

1. The objects of local government are
  - a. to provide democratic and accountable government for local communities;
  - b. to ensure the provision of services to communities in a sustainable manner;
  - c. to promote social and economic development;
  - d. to promote a safe and healthy environment;
  - e. to encourage the involvement of communities and community organizations in the matters of local government.

The White Paper on Local Government (1998, p. 22) envisioned four key developmental outcomes from local government. These four outcomes include:

- Provision of household infrastructure and services
- Creation of livable, *integrated* cities, towns and rural areas
- Local economic development
- Community empowerment and redistribution

Prior to the Municipal Structures Act Amendment, DPLG issued a general Notice containing a Policy Framework for the Adjustment of Division of Functions and Powers Between District and Local Municipalities (12 July 2000). This Notice contained an explicit list of objectives or principles to be sought from the assignment.

- Equitable, efficient, affordable, economical and sustainable access to basic municipal services by all consumers;
- The placement of responsibility of providing municipal services as close as possible to the communities the services are meant to serve;
- Minimizing costs of services to consumers or customers;
- Achieving economies of scale in the delivery of services;
- Minimizing inter-jurisdictional spillovers;
- Benefiting the greatest number of residents;
- Causing the least disruptive effect on the current delivery of services;
- Promoting a safe and healthy environment;
- Promoting efficient, effective and accountable public administration;
- Promoting co-operative government; and
- Addressing the historical inequities in society.

Although there are obvious redundancies in the list, there are also conflicts among entries on the list. This means that *any* assignment of powers and functions will necessarily be able to achieve some of the objectives but fail to attain others. Thus, ultimately, the government will need to make an explicit or at least implicit weighting of which of the above is more or less critical.

For example, keeping government as close as possible to the communities served suggests smaller (and more numerous) jurisdictions, whereas achieving economies of scale and minimizing inter-jurisdictional spillovers suggest larger, more inclusive jurisdictions. Minimizing the disruptive effect on the delivery of services suggests that those jurisdictions currently supplying certain services ought to continue to do so rather than have the service authority transferred to another municipality.

One particularly important item in the list above is that the assignment of powers and functions should take into account historical inequities within society. This is a laudable objective and suggests that local government revenue and expenditure patterns be used to achieve some redistribution from the segment of society that has historically received significantly greater net benefits from local public services to those who were unable to secure such benefits. The Local Government White Paper states (p. 112) recognizes that "...municipalities can cross-subsidise between high and low-income consumers both within

particular services and between services.” However, in the same paragraph the White Paper recognizes that “Local government cannot be solely responsible for redistribution, and national government has a critical role to play in this regard, particularly with respect to subsidising the provision of basic services.”

The recent FFC Submission on the Division of Municipal Powers and Functions Between Districts and Municipalities (July 2001) as well as its Submission on the Division of Revenue 2002/03 speak to this same issue and note that, while municipalities can provide mechanisms for redistribution, financing redistribution should be a primary role of the national government. To rely on municipalities to finance redistribution has several potentially negative consequences. While such policies are supported on the ground of ability-to-pay equity, they are at cross-purposes with a benefit-based equity principle, i.e., that payments should be in line with benefits received. It also has the potential of being non-sustainable *if* compliance with local revenue levies falls as potential payers decrease their willingness to comply in response to the realization that they are getting less for their payments to municipalities. Finally, if local taxes are to be used as the instrument for intra-jurisdictional redistribution, it will be necessary to rely on larger jurisdictions containing both higher- and lower-income groups; however, this will put local government at a greater distance from its constituents.

In the analysis below, we attempt to make explicit the various objectives that are likely to be attained or ignored under a particular set of assignments. An alternative value set will very likely lead to another set of recommendations.

## 4.2 Assumptions

Before turning to a discussion of possible alternative arrangements, it is useful to specify several concepts or assumptions that were used when evaluating the alternative assignments.

1. “Service authority” is not necessarily identical to “service provider.” The authority means ‘the power of a municipality to regulate the provision of a municipal service by a service provider’. The provider is any ‘person or institution or any combination’ which actually provides the service to a consumer.<sup>13</sup> It is to the service authority that functions are assigned; it is then up to the authority to determine how the service is provided to user-residents. It is, however, critical that the powers of the authority be clearly defined.
2. Provision of services is feasible by an array of alternative arrangements. The public organization with authority over the service may be the provider; other public sector organizations may provide the service, or private or non-governmental organizations may provide it.
3. It is feasible to disaggregate at least some public service provision processes and the authority over them into their constituent parts. For example, some production processes consist of both bulk and reticulation activities that are totally separable.

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<sup>13</sup> Although we use this terminology throughout this report, it should be recognized that slightly different terminology is used in the local public finance literature. There it is common to differentiate between “provision” and “production.” In the current terminology, service authority is synonymous with service provision and service provider is synonymous with service producer.

Furthermore, some portion of the process may entail potential economies of scale whereas other parts do not display those attributes. At the same time, feasibility for disaggregation does not mean that it will be costless. For example, there will be costs associated with coordinating bulk supply and reticulation authorities if they involve different organizations.

4. We assume that it is feasible, in an unbiased fashion, to characterize different B municipalities according to their settlement patterns and economic base. (The importance of settlement patterns was shown previously in the discussion of current service levels and estimated expenditures needs.) For our purpose here we characterize three different types of B municipalities – B1, containing a small city or large town as the economic core; B2, containing one or more small towns; B3, primarily rural or with scattered settlements.<sup>14</sup>

We acknowledge here (and reiterate below) that implementing this three-category characterization of municipalities will not be particularly easy. The problems are particularly difficult for the B2 category. There are, apparently, B2 municipalities that are currently performing very well and have the capacity to expand services to their rural hinterlands; other B2 municipalities are, however, quite weak. Only considerably more work on categorizing municipalities will allow this assumption to be workable.

5. We assume that the menu of potential own-source revenues is limited to the existing set, namely the RSC levy, property rates, and user fees linked to trading and economical services. We also assume that property rate coverage will be expanded to include real property throughout the country; however, it is unrealistic to expect that, for at least the next 5 years, revenues from this source will be significant in areas where property rates are currently not imposed.
6. Making assumptions about the future of the RSC levy is more difficult. As shown in the Task 3 Report, there are various alternative options for reforming the levy and, at present, we have no reason to assume that one is the most likely form of the tax in the future. We assume that the revenues of this tax can, in spite of the original legislation, be used for both capital and recurrent spending within the district. Although this assumption is contrary to existing legislation, it does reflect current practice (and suggests possible amendment of the legislation if the status quo is retained).<sup>15</sup>
7. Finance should follow function. That is, assignment of revenue-raising powers must be subsidiary to the assignment of functional responsibilities. As a corollary to this, the government with functional authority over services that are direct producers of

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<sup>14</sup> This differs slightly from the characterization of municipalities presented by the Palmer Development Group (PDG), which used four different types of municipalities – B1, B2, B3, and B4 where B1 were municipalities with a large town/small city as the core (identical to our characterization), B2 with a medium sized town as the core, B3 with a small town or group of small towns as the core (similar to our B2), and B4 with effectively no urban core (the same as our B3, rural municipality). In fact, the essence of the recommendations is nearly identical, as will be seen below, since for all purposes, the PDG combined their B2 and B3 categories in all recommendations.

<sup>15</sup> The FFC Submission Regarding the Division of Revenue 2002-2003 (June 2001) recommends (p. 57) that the RSC levies “be converted into a general revenue source for the district municipalities to fund the municipal services assigned by legislation.”

revenues from user fees should be the legal recipient of those revenues.<sup>16</sup> However, if the authority designates another organization as the provider of the service, the authority will have the power to transfer the revenues generated to that organization.

### 4.3 Alternative Arrangements

Here we present four alternative approaches to the assignment question. The first alternative would be most appropriate as a longer term “target” for the assignment of powers and functions whereas the second and third are shorter term in nature and focus more on the existing realities that characterize the B and C municipalities currently in place. The final alternative considers the advantages and disadvantages of the arrangement implied in the 2000 Amendment to the Municipal Structures Act – effectively assigning all municipal powers and functions to C municipalities.

The Amendment gives national government two years to assign powers and functions to B and C municipalities. It is, however, silent on whether that assignment ought to be the “ultimate” or final assignment of powers and functions or more of an interim assignment that will need to be changed as the municipalities and the local government system “matures.” The advantage of a longer term approach is that it anticipates what the system should look like in the longer term future. Its disadvantage is that it does not reflect the realities of the current situation and, therefore, interim stopgap measures to minimize disruption in service delivery would still have to be put into place in the short to intermediate term.

#### 4.3.1 *Alternative 1 – Primary Powers and Functions Assigned to B Municipalities*

Under this alternative, no differentiation would be made among the various types of B municipalities. Authority for all functions (other than planning) would be assigned to B municipalities; powers to impose property rates and tariffs would be assigned to the B municipalities.<sup>17</sup> Districts (C municipalities) would have only the planning function as their responsibility.

On the revenue side, in keeping with the principle that the municipality with authority also should have revenue powers, this alternative would require that the bulk of all RSC revenues collected at the district level be reallocated to the B municipalities. Rather than rely on an annual budgetary process to determine the share each B municipality would receive, a formula allocation could be imposed. The district should also retain a portion of the RSC levy for the purpose of constructing facilities designed to serve a significant portion of the district’s population. The formula-based allocation system could help overcome historical inequities in society. RSC levies are predominantly an urban tax (although as noted in the Task 3 Report, it is not entirely clear who bears the burden of the turnover portion of that levy). The formula could help insure that these revenues would be predominately used to enhance infrastructure in the currently under-served areas of a district.

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<sup>16</sup> This same principle has been made forcefully in the FFC’s Submission on “Division of Municipal Powers and Functions between District and Local Municipalities” (July, 2001, pp. 6-7)

<sup>17</sup> It should be noted that this arrangement makes no distinction between bulk and reticulation services. It does, however, reserve capital planning functions for the districts. It seems quite likely that, where substantial economies of scale could be realized from the creation of a “bulk” center intended to serve two or more B municipalities, the district can take the lead in setting up such a special district (as a municipal service partnership).

A similar arrangement should be used for capital infrastructure grants. B municipalities with service authority should receive such grants. The district would be the recipient of grants intended for services designed to serve large proportions of the district population, e.g., district roads.

Property rate revenues would be retained at the lowest level of government—Category B—and would be used to support recurrent expenditures for public services provided and consumed at that level. This would also help insure property rate compliance. This revenue arrangement is basically identical to the revenue system currently in place. Furthermore, since at present effectively the only services that are being provided are through the B1 municipalities, the arrangement is not expected to have a significant effect on the *current* flow of public services.

Under this alternative, the basic structure of the Equitable Shares grant would not have to be altered. It could still be designed to help equalize revenues by targeting the bulk of the funds to the B municipalities with largest proportions of poverty households.

As noted above, this alternative should be considered a longer-term scenario. Its primary underlying rationale, vis-à-vis the principles listed above, is that it would put the responsibility for local public services as close as possible to the persons being served. Thus, it would be most decentralizing. At the same time, by retaining the planning function at the district level, arrangements could be made to take advantage of economies of scale associated with some public facilities.

The most obvious difficulty with this alternative is that it fails to recognize the current low capacities of many B municipalities. While it is the case that, in the longer term, all B municipalities will have some property rate revenues, at present few small jurisdictions have any such revenues. Second, the data shown in Table 5 illustrate that at least some of the B2 municipalities and most B3 municipalities are not currently providing any services from which tariffs can be realized. Thus, under the current situation, even though these B municipalities would have the “authority” over local public services, they would not have any fiscal capacity to provide them. Furthermore, the administrative capacities of smaller B municipalities may be such that, even if capital infrastructures are put into place, the local government may not have the capability of managing it.

#### ***4.3.2 Alternative 2 – Redefining Metros to Include Additional B1 Municipalities***

This alternative would entail a substantial reorientation of local government (and would possibly require additional changes in the statutes). Effectively, this alternative would convert what is here termed “B1” municipalities into metros. The B1 municipalities would have authority over all local government services (including planning within the jurisdiction) and would also retain all tariffs, property rates, and the RSC levy collected from within the jurisdiction. They would also be recipients of both capital and recurrent (Equitable Share) transfers.

Under this alternative, districts would be the functional authority for all local public services delivered in the B2 and B3 municipalities. (This alternative could be made more complex by differentiating between various B2 and B3 municipalities in a manner similar to Alternative 3

discussed below. For our purpose here, however, we simply assume that the authority for all local functions would be retained by the districts.) The districts could, however, make arrangements for the local municipalities to serve as providers of those services. Any RSC levies paid by establishments outside the B1 municipalities would be remitted to the district, as would all capital and recurrent expenditure transfers. Although expected to be very small in the intermediate term, any property rate and tariff revenues should be retained by the B municipalities from which they are raised.

The most profound change associated with this alternative is reassignment of the RSC levy to the B1 municipalities. Since the RSC levy is primarily an urban-based tax, the effect of the change would be to provide a closer link between those who bear the burden of the tax and the services the revenues provide.<sup>18</sup> This would be particularly so if the RSC base were redefined to include only the payroll base (Option #4 in the PDG Task 4 Report).

This alternative is also likely to result in few disruptions in current service delivery and would keep municipal services in the more urbanized locations (the B1 municipalities) as close as possible to those served. It would not, however, do so well on these grounds in the B2 and B3 municipalities. On the other hand, the alternative recognizes the lack of capacity in the B3 and, at least some, B2 municipalities that, over time, could be given more authority in the provision of at least some local public services.

The transfer system would have to be dramatically altered. Local public services in the B2 and B3 municipalities would be nearly entirely dependent, particularly in the intermediate term, on such transfers. Capital grants would need to be targeted to the currently underserved areas of B2 and B3 municipalities. And, the recurrent costs of services associated with the new capital infrastructure would have to rely on recurrent grants (which, under the current system, consists of only the Equitable Shares grant). This grant would have to be substantially increased, at least in the short to intermediate term, until local tariffs and rates incomes are forthcoming.

This approach would not necessarily achieve the objective of correcting for historical inequities. Since the RSC levy would be primarily retained by the more urbanized B1 municipalities, its revenues would not be spread across an entire district. However, it is also the case that there remain a fairly substantial population of underserved areas in the newly constituted B1 municipalities (particularly the rural and peri-urban areas surrounding these towns and small cities). Thus, the RSC levies could still be targeted to upgrade services in these areas. As shown above, per capita RSC levies are currently not particularly large. Thus, focusing the revenues in the currently more urbanized areas may have a more substantial payoff than attempting to spread the revenues across an entire district.

While this alternative has some major strengths, it may not be politically feasible in the current environment. Local government in South Africa has undergone very substantial and significant changes over the past several years. The current municipalities and districts are the result of a major effort at demarcating new municipal boundaries with important new

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<sup>18</sup> Under the present dual-based (turnover and payroll) tax, it is unclear who bears the burden of the turnover portion of the tax; it could be shifted forward onto the purchasers of the good or service, it could be shifted backward onto factor suppliers, or could be borne by the producers themselves through reduced profits. It is, however, anticipated that the payroll portion of the tax is borne by labor (who are likely to reside within the jurisdiction from which the tax is collected).

statutes and rules drawn up for the new structure of local government. Elections held just one year ago envisioned a particular structure of local governments. To again alter those arrangements by redefining one to two dozen municipalities as metros could be destabilizing to the system. Furthermore, as defined here, the structure of the RSC levy collection process would also have to be rearranged. This may not be the time to undertake such changes.

#### *4.3.3 Alternative 3 – Asymmetric Assignments, by Service and Type of Municipality*

This alternative requires greater “fine-tuning” of the assignment of service responsibilities and revenue powers. It does not alter the current definition of B and C municipalities and also does not change the assignment of RSC and property rates from their current dispensation, i.e., property rate powers to local municipalities and RSC levies allocated to districts. It focuses more exclusively on the specific assignment of individual service responsibilities and segments the B municipalities into three mutually exclusive groups – B1, B2, and B3 municipalities (where the B1 are most highly urbanized and B3 are basically rural in nature). We reiterate that there are potential difficulties in categorizing the B municipalities, particularly those we characterize here as B2 municipalities. Some are likely to be much more like B1 municipalities; others are likely to resemble B3 municipalities.

In a similar vein, we cannot be fully confident that all districts have the “capacity” to carry out the service authorities recommended here. As was noted in the empirical portion of this paper, some districts have, at present, few employees and probably little capacity to assume service authority for large portions of their area. Furthermore, if the longer term vision for local government structure in South Africa is to move towards that suggested in Alternative 1 above, it could be inefficient to “upgrade” the capacity of districts and then “downgrade” the authority of those same municipalities in favor of the B municipalities. Finally, we acknowledge that districts are not fully “representative” local governments since a portion of the decision-making body is not directly elected. Therefore, they fail to correspond with the vision of local government as stated in the Constitution and the White Paper on Local Government.

Because of its focus on individual services, we begin by discussing each of the main local services in turn. We then discuss the issue of revenue assignments and finally evaluate the entire system in light of the objectives.

##### *4.3.3.1 Potable Water Supply*

Supplying potable water is a basic service with localized benefits. In some instances economies of scale can be realized from the service, e.g., bulk water supply. In rural areas of most municipalities (regardless of category), potable water is likely to be provided simply at the settlement level.

B1 municipalities (and probably some B2 municipalities) should have both authority and provision responsibilities. Again, this is not a significant change from the present. Financing can be from a combination of trading service revenues (direct water tariff payments), equitable share subsidies, and additional subsidies from local property rates. Loans and capital grants would be used for capital infrastructure investments. It is expected that the B1 municipality will extend water services throughout its territory.

At present it is most reasonable for districts to have authority over potable water in B3 and possibly also the B2 municipalities. Provision responsibilities can be negotiated with B2 and B3 municipalities on a case-by-case basis. Where these municipalities are mainly rural or consist of scattered settlements, it will probably be most efficient for the negotiation to be between the district and the settlement (community-based user groups) which will serve as the provider.

In the current and near future, financing of any recurrent costs will be from a combination of direct payments of tariffs by users, a portion of the equitable share allocation, and a portion of RSC levy revenues collected by the district. In the future, when property rates are extended into the B2 and B3 areas, these revenues may be used to supplement recurrent costs replacing subsidies from the RSC levy. (See discussion of issues associated with “transition” below.)

Note that this approach assumes that, at least in the short run (a) equitable share allocations will be made to the district and (b) a portion of the RSC levy will be used for recurrent expenditures in spite of current statutes.

For water services to be extended into currently underserved areas, it is critical that capital grants be provided to the jurisdictions with authority over water (B1 in the case of local municipalities with a strong urban base and the districts for the B2 and B3 municipalities).

#### 4.3.3.2 Domestic Waste-Water and Sewage Disposal Systems

As highlighted in the PDG report, there are a wide variety of methods for sewage disposal. In rural areas or scattered settlements economical “systems” are unlikely to be water-borne; even in more densely populated areas, water-borne systems may be uneconomical, i.e., the costs exceed the benefits. Still, such services have significant spillover benefits with local government involvement critical.<sup>19</sup>

Under Alternative 3, B1 municipalities would be the service authority for sewage disposal within their own boundaries. For B3 and, possibly B2, municipalities, with their lower levels of capacity, the districts should be the authority. However, as in the case of water, the districts may negotiate with individual jurisdictions to serve as the provider of this service at the local level. Note too that, as stated in the PDG report, “In terms of legislation, it is not possible to separate the authority function for water supply and sanitation.” Thus, whatever arrangement is chosen for water should apply, as well, for sanitation.

Provision of the service in the B2 and B3 municipalities will probably have to rely heavily on settlement level efforts since the nature of the service in such areas is highly localized. Furthermore, the districts are unlikely to have the capacity to supervise services across many scattered settlements or small villages.

Financing arrangements for sanitation also parallel closely the case of water. Thus, in B1 municipalities, sewerage services can be financed through a combination of tariffs (including some possible cross-subsidies to lower income users), recurrent grants, and property rates. In

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<sup>19</sup> It has been brought to our attention that “sanitation promotion” is a critical part of the sanitation service; however, it is more closely linked to health services than to the delivery of sanitation *per se*. As such, this service may best be carried out by the same municipality that has authority over health services.

the short run, any subsidies for recurrent costs of sanitation services in the B2 and B3 municipalities will have to come from equitable share grants and, perhaps, from the RSC levy. As property rates are extended to the B2 and B3 areas, these revenues can be used to support the services.

More critical for service expansion into currently underserved areas will be capital grants. These should be administered by the municipal authority – the district, in the case of B2 and B3 municipalities.

#### *4.3.3.3 Bulk Electricity Supply*

In the past many municipalities distributed electricity to local residents and businesses and, as shown previously, many of those earned a substantial surplus from electricity sales. (Eskom provided electricity directly to users in other municipalities.) There is currently considerable uncertainty regarding the role of municipalities in the supply of electricity. It is highly likely that a small number of regional electricity distributors (REDs) will be created to distribute electricity. However, there apparently is a potential constitutional issue associated with the creation of such bodies since Section 156 (1) of the document states that “a municipality has executive authority in respect of, and has the right to administer ... electricity and gas reticulation.” Until this issue is settled, the question remains as to how the electricity supply function should be assigned.

The FFC’s recent Submission on the Division of Powers and Functions argues that, given the lack of any historical precedence for district authority over electricity and no obvious benefits from transferring the function from local municipalities to districts, the function should remain the responsibility of local municipalities. To transfer the functional authority to districts would also mean that any revenues generated (both at present and, later, if REDs are established) would flow to the districts. As shown previously, for urbanized areas, loss of electricity tariffs will have a significant effect on the ability of municipalities to provide other local public services.

The PDG Report on Municipal Service Sectors recognizes the importance of municipal capacity to provide the service. For the time being, it seems most reasonable for the bulk electricity supply function to be assigned to the B1 and B2 municipalities which are currently already performing electricity supply services and not transfer the function to the districts. Where such services are not being provided by the local municipality (particularly in the B3 municipalities), the authority may be granted to the district. This is, however, one area where it is clear that additional research is warranted.

Given the low coverage of electricity supply in scattered settlements and villages (Table 8), the most immediate issue will be expanding services. This, in turn, will require substantial investments that are most reasonably overseen by the same municipality that is carrying out the planning process (i.e., the districts). However, it is unreasonable to think that even the RSC levy revenues of districts will be sufficient to cover these capital costs. Instead, substantial capital grants will probably be necessary.

#### 4.3.3.4 *Municipal Health Services*

The districts should have authority over this functional service. However, since health services generally yield significant spillover effects even beyond the boundaries of a district, national/provincial governments should finance these services (both recurrent and any necessary capital grants) via intergovernmental transfers. As shown above, transfers are currently used to finance at least a portion of these services; however, the exact nature of the transfer mechanisms deserves greater study.

B1 (and probably some B2) municipalities can be designated by districts to serve as local providers of this service since, given their proximity to those served, they are likely to be more effective than the districts at producing the service. Financing should be carried out through a pass-through of the transfers provided to the districts. Again, the sample data reveal that this arrangement is currently used in many provinces.

B3 (and probably some B2) municipalities will have no authority nor provision responsibilities given their lack of capacity. Provision will have to be the responsibility of the district (probably supervised by the province).

#### 4.3.3.5 *Solid Waste Disposal*

According to the Amended Municipal Structures Act, the powers and responsibility for solid waste disposal services (and other local services) are to be determined by the MEC in the province. We would suggest that solid waste disposal authority be granted to the B1 municipalities, which would also have provision responsibilities. Again, this service in these areas can be financed through a combination of user tariffs, equitable shares grants, and property rates.

The current lack of capacity of B2 and B3 municipalities suggests that the authority for this service be placed at the district level. Provision of collection services should, however, be at the local (municipality or settlement) level. Since landfills exhibit economies of scale, the district should provide this services (not only to B2 and B3 municipalities but to B1 municipalities as well). However, as noted in the PDG Report, it is important that landfills be distributed spatially throughout the district to keep transport costs low. This, too, is closely linked to the district's authority as the primary planning agency.

Development of landfill sites will probably require larger capital investments that will need to be financed through a combination of capital grants and loans. Recurrent costs of the landfills can be met through tariffs. Recurrent costs for collection of solid waste in the B2 and B3 will, in the short run, have to rely on tariffs and equitable share allocations; in the longer run, property rates can be used to subsidize this service.

#### 4.3.3.6 *Roads*

The PDG work shows that this "service" has been greatly ignored throughout the rural areas of South Africa. Furthermore, the nature of the service depends very heavily on the type of road and its users. Some "local" roads serve a wide range of users from a variety of areas whereas the use of other roads is very localized. This means that allocating service authority for all "roads" in a single assignment is over-simplified. Nevertheless, based on relative

capacities of municipalities, we would suggest that B1 municipalities have authority over roads and streets within those jurisdictions and the districts be designated the authority over roads in B2 and B3 municipalities.

At the same time, since decisions concerning roads and their improvement are an integral part of any planning process, the district should also play a role in determining improvements to roads even within the B1 municipalities. One way to insure that the district is involved in all planning of roads is through the allocation of road infrastructure improvement grants. If such grants all flow to the district, it will remain a principal actor in determining how the local road network evolves.

Maintenance of roads and streets within the B1 municipalities should be the responsibility of the municipality itself with financing from property rates. Maintenance of roads in B2 and B3 municipalities will have to be split between the district (for the more important rural roads that are used by a wide range of users) and the local municipality (for highly localized roads).

Financing municipal roads, particularly their maintenance, is a subject that deserves considerably more study. As highlighted in the PDG study, road and transport funding entails considerable uncertainty, associated in part with the fact that the responsibility for the provision and maintenance of roads is divided among a number of authorities with overlapping responsibilities. Municipalities should be responsible for some funding; however, provinces and the national government can and should also contribute to this service which, at least for some roads, has large spillover effects. Local funding will, however, have to be derived from property rates and/or RSC levy revenues (unless additional revenue sources such as a fuel levy are assigned to municipalities).

#### *4.3.3.7 Firefighting and Other Emergency Services*

The public benefits of firefighting services accrue primarily in more densely populated areas where fires carry the risk of spreading to nearby properties. For rural and sparsely settled areas, then, there are no strong social arguments supporting this service. Other emergency services, e.g., ambulance service, have even fewer external benefits for the community at large.

It seems reasonable to assign the authority for fire and emergency services to B1 municipalities and to the districts for such services provided in the B2 and B3 municipalities. Provision of the services in the B2 and B3 jurisdictions may be carried out at the more localized level (since a single fire or ambulance service would not be able to serve the wide areas encompassed by a district).

B1 municipalities can rely on property rates to finance the recurrent costs of these services (supplemented with user charges). Over the longer term, the same revenue sources can be used to finance these services in the B2 and B3 municipalities.

#### *4.3.3.8 Evaluation of Alternative 3*

This alternative is, obviously, considerably more complex than the two previous ones. Indeed, with highly differentiated service assignments across jurisdictions, the alternative runs the risk of creating great uncertainty regarding what jurisdiction should perform each

service in neighboring municipalities. Such uncertainty could negatively affect service performance, at least in the short term. It also has the potential of being manipulated on political grounds since it requires much more negotiation between B and C level municipalities. On the other hand, it is probably more realistic in its assessment of the *current* situation found in the wide variety of B municipalities throughout the country. As such, it is most likely to achieve the objective of not substantially disrupting the flow of local public services.

The alternative attempts to recognize both potential spillover effects and economies of scale associated with the production of public services. It does not, however, necessarily achieve the objective of placing local government decisions as close as possible to the people served. The bulk of the recommendations require districts to serve as service authorities and the decision-makers in these jurisdictions are not all directly elected and responsible directly to voters.

If the RSC levy is kept as a district-wide revenue source, there should be some redistribution of resources that takes into account historical inequities (although, as stated earlier, it is not entirely clear who ultimately bears the burden of that levy). At the same time, the alternative does not attempt to use property rates as a principal source of spatial (district-level) redistribution of resources. (There may still be a redistribution from local rate payers to other residents, but this will be primarily limited to residents of the locality itself.)

Our justification of this is as follows: Taxes on immovable property are borne primarily by residents of the area who are also beneficiaries of the services financed from those revenues.<sup>20</sup> Weakening the link between payment of rates and local benefits can have three negative consequences. First, it weakens the incentive to comply with the tax and, in the absence of a strong tax administration, can greatly erode revenues. Second, a critical assumption associated with the potential benefits of decentralization is that such arrangements make decision-makers more accountable to their constituents. The incentive for accountability is enhanced where local residents have contributed their own resources and expect to obtain something in return for those payments. Third, linking benefits to payment (even if not a one-to-one correspondence) can be recognized as being equitable. Hence we argue that such arrangements are in line with the objectives of assigning powers and functions in order to achieve both equitable and efficient outcomes. We feel that these advantages would be weakened substantially by assigning property rates to districts.

We acknowledge that the alternative presented here includes several implicit assumptions (or ignores some potential difficulties). First, it assumes that all districts are ready to assume powers over the flow of many local services. This, in fact, may not be the case in at least some districts. For example, where a district has in the past served primarily as an allocator of revenues (primarily RSC levies) to former TLCs and TRCs, the administrative capabilities of the district may not be sufficient to take on the responsibilities implied in this set of assigned powers and functions. (The case of Ndlovu District with only 70 employees mentioned above in Section 2 suggests that much “capacity building” must be undertaken before this district can take on substantial service delivery responsibilities.)

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<sup>20</sup> There is a substantial literature on who actually bears the burden of property taxes. And this literature suggests that at least some portion of the tax is ultimately borne by non-residents, i.e., owners of land or capital or consumers residing outside the jurisdiction. Nevertheless, the assumption made here captures the most critical effects of linking property rates to local services.

Second, it is easy to recommend that one jurisdiction be the authority and another be the provider of a service. However, implementing such arrangements can entail considerable costs (such costs are commonly termed “transactions costs” in the literature). Agreements have to be negotiated to the satisfaction of both parties. Furthermore, as is the case of most “contracts,” the agreements will require monitoring. Finally, mechanisms need to be put into place to resolve disputes that can and are likely to arise between the parties. None of these steps is costless. And the costs can be even greater when strong political biases are held by the parties.

Third, the discussion of health service assignment assumes that the national and provincial governments are willing and able to fund local health services rather than require local own-source revenues be used for this effort. Such an arrangement is equivalent to local health service responsibilities being delegated to municipalities. Whether this assumption is realistic is not clear to us.

The greatest puzzle associated with the assignment issue concerns assigning revenue powers (within the constraints of the current set of local revenues). Most problematic is how to finance services that are currently not being provided to residents of the former TRCs. We previously explained why we feel that property rates should appropriately not be assigned to C municipalities. But that leaves only the RSC levy, tariffs, and grants. Where facilities do not exist, tariffs yield no resources; where there are facilities, the tariffs should be used to support the recurrent costs of the service. To the extent that those tariffs do not cover operating and maintenance costs, the equitable shares grant and, if necessary, some portion of the RSC levy will have to be used.<sup>21</sup>

But such an arrangement raises additional issues. One is that such an arrangement could leave many B2 and B3 municipalities with effectively no recurrent revenues (including revenues to support overhead expenditures). That is likely to be politically unacceptable and could require sharing of the equitable shares grant between the district and local municipality. Second, using some portion of the RSC levy to support recurrent spending means that less will be available to invest in new capital facilities throughout the district.<sup>22</sup> Finally, since the RSC levy is the only local revenue source available to the C municipalities, increased administrative capacities at the district level will also have to come from this source (unless some additional grants are created to fund these activities).

Since it focuses most directly on the current situation, Alternative 3 raises additional, longer-term, implementation issues. It envisions a two-tier local system with asymmetric assignment of functions among municipalities. This may be most reasonable at present; however, we also anticipate that the longer-term objective is to move towards a mature system similar to that discussed in Alternative 1. This raises the question of how to move towards that mature system.

Two critical capacity-related needs will have to be satisfied. One is local fiscal capacity; the other is administrative/technical capacity. Local fiscal capacity will be enhanced by

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<sup>21</sup> As cited in footnote 15, the FFC has recommended that RSC levies be converted to a general revenue source.

<sup>22</sup> The FFC Submission Regarding the Division of Revenue 2002-2003 (June 2001) recommends (p. 57) that funding for district-wide infrastructure come from the national government’s infrastructure programme and loan finance.

assigning all property rate revenues to B municipalities. Local administrative/technical capacity will require additional capacity-building efforts.

As these capacities are developed, functions assigned according to Alternative 3 should be transferred to the B2 and B3 municipalities. However, in many political systems, it is not always easy to get a local government to give up power. Instead, incentives must be given. The government can provide an incentive for districts to give up functional responsibilities to the Bs by redirecting equitable shares grants from the district to those Bs that can illustrate both fiscal and technical/administrative capacity to take on additional responsibilities.

#### **4.3.4 *Alternative 4 – Districts Retain Service Authority for Major Local Public Services***

The original Municipal Structures Act (Section 84) limited the powers and functions of district municipalities to services that either served a significant proportion of the municipalities within a district or served the district as a whole. (Local municipalities were given all other powers and functions in Paragraph 2 of that Section.) Under the 2000 Amendment to the Act, such phrases were removed for the following functions – potable water, bulk supply of electricity, domestic wastewater and sewage disposal, solid waste disposal, municipal health services, produce markets and abattoirs, and cemeteries and crematoria. While paragraph (2) pertaining to local municipalities was not changed, the effect of the Amendment was to transfer nearly all functional responsibilities to the district.

Alternative 4 would assign essentially all powers and functions to C municipalities as the service authority. Each district could then, if it sees fit, reach agreement with one or more of the B municipalities within the district to act as the producer of a local public service. Districts would be assigned as the recipient of property rates imposed throughout the district and, as the service authority, would be entitled to all tariffs earned from trading and economic services (unless agreements with local municipalities acting as the producer of a service specified that the tariffs would remain with the producer). Districts would also be recipients of all grants, both equitable shares and capital grants, and would continue to be the taxing authority for the RSC levy.

This approach would constitute the opposite extreme to Alternative 1 (where the B municipalities are assigned all local public service responsibilities other than planning and allocation of capital grants). As such, the most critical disadvantages associated with Alternative 1 would generally be considered most advantageous features of Alternative 4.

This alternative would be the simplest of all the alternatives considered; and since all revenues would accrue to the district, it is most likely to be able to redress historical inequities in the distribution of resources. It would also be most likely to take advantage of economies of scale and would reduce interjurisdictional spillover effects.

Where the alternative would be the weakest is with respect to moving local decision-making as close as possible to the people. In other words, this is the least decentralizing of all the alternatives. Particularly troublesome is the fact that the approach would be less democratic than the previous alternatives since not all district legislators are directly elected. With only a few dozen local municipalities in place throughout the country, residents would not have much opportunity to directly affect local government outcomes. And, as argued above, this

lack of a close linkage between the payments of taxes (particularly property rates) and services would weaken the incentive to comply with the tax.

The approach is also more likely to create a disruption in the services that are currently being provided by B municipalities since authority over those services would be passed up to the district. This is particularly likely in those districts that, historically, have not been involved in the direct provision of services. Creating the capacity in those districts to be involved in a large number of local public services could be costly.

#### **4.4 Summary of Alternatives**

We have presented four rather different approaches to the issue of assignment of powers and functions. (Table 20 presents a summary in tabular format for quick review.) Ultimately, the choice will have to depend on the relative weights the government wishes to give to the various entries in the long list of objectives stated initially in this section. Since the choice of objectives is a policy decision, all we can do is to point out the strengths and weaknesses of each approach.

The first alternative – assigning all powers and functions to the B municipalities – would be the most decentralizing of all the options. However, since many of the smaller jurisdictions apparently have insufficient capacity presently to be given the functional responsibilities this alternative requires, it is probably better thought of as a longer term objective than a short term implementation plan.

The second alternative – giving the more urbanized B municipalities the status of metros – would significantly alter the structure of local government. The alternative would probably best match the revenue capacity and fiscal needs of urban localities while putting the responsibility on the central government to upgrade and, at least in the intermediate term, to finance less urbanized municipalities. However, since even the framers of the Constitution apparently saw smaller urban governments being treated more like their rural counterparts than the metros, this alternative may not be politically feasible.

The third alternative – splitting assignments between B and C municipalities based on the nature of the public service and the economic and population base of the B municipality – may be the most reasonable approach in the short run. It does recognize the issue of capacity while attempting to rationally allocate powers and functions between the B municipalities and their districts. However, implementing the option is likely to still be quite complex and it may be assuming an unrealistic level of cooperation between the B and C municipalities. Without this cooperation, the flow of services at the local level may be decreased rather than enhanced.

The final alternative – having districts retain all powers and functions – is the least decentralizing of all the options. While it is much simpler than the third alternative, it is probably most likely to lead to a disruption in current service flows and would have the effect of making impotent the tier of local government that is closest to the people.

**Table 20:  
Summary of Alternative Arrangements of Revenue Powers and  
Functional Responsibilities**

**Alternative 1: Primary Powers and Functions Assigned to B Municipalities**

| Revenue Powers                      | Type Municipality |                |
|-------------------------------------|-------------------|----------------|
|                                     | B                 | C              |
| Tariffs                             | X                 |                |
| Property rates                      | X                 |                |
| RSC levy                            | X <sup>a</sup>    | X <sup>a</sup> |
| Equitable share grant               | X                 |                |
| Capital grants                      | X <sup>b</sup>    | X <sup>b</sup> |
| <b>Expenditure Responsibilities</b> |                   |                |
| Planning                            |                   | X              |
| All other local services            | X                 |                |

<sup>a</sup>RSC levy to be collected at district level but allocated according to a formula among B municipalities and the district. District revenues to be used for district-wide services.

<sup>b</sup>District to be recipient of capital grants for district-wide services; all other capital grants to flow to B municipalities for infrastructure supporting services over which the municipality has authority.

**Alternative 2 – Redefining Metros to Include Additional B1 Municipalities**

| Revenue Powers                      | Type Municipality |                |   |
|-------------------------------------|-------------------|----------------|---|
|                                     | B1 <sup>a</sup>   | B2 & B3        | C |
| Tariffs                             | X                 | F <sup>b</sup> |   |
| Property rates                      | X                 | F <sup>b</sup> |   |
| RSC levy                            | X                 |                | X |
| Equitable share grant               | X                 |                | X |
| Capital grants                      | X                 |                | X |
| <b>Expenditure Responsibilities</b> |                   |                |   |
| Planning                            | X                 |                | X |
| All other local services            | X                 | P <sup>c</sup> | A |

<sup>a</sup>The current district would have no jurisdiction over the B1 municipalities.

<sup>b</sup>In the intermediate term, such revenues are unlikely to be significant; however, once in place these revenues should be retained in the local municipality.

<sup>c</sup>Service provision would be determined on a case-by-case basis with negotiations between the district and the local municipality.

**Alternative 3 – Asymmetric Assignments, by Service and Type of Municipality**

| Revenue Powers                      | Type Municipality |    |                 |    |
|-------------------------------------|-------------------|----|-----------------|----|
|                                     | C                 | B1 | B2 <sup>a</sup> | B3 |
| Tariffs                             |                   | X  | F               | F  |
| Property rates                      |                   | X  | F               | F  |
| RSC levy                            | X                 |    |                 |    |
| Equitable share grant               | X*                | X  |                 |    |
| Capital grants                      | X**               |    |                 |    |
| <b>Expenditure Responsibilities</b> |                   |    |                 |    |
| Potable water                       | A*                | A  | P               | P  |
| Sewage                              | A*                | A  | P               | P  |
| Bulk electricity                    | A*                | A  |                 |    |
| Local health services               | A                 | P  |                 |    |
| Solid waste disposal                | A*                | A  | P               | P  |
| Rural roads                         | A*                | A  | P               | P  |
| Fire fighting & emergency           | A*                | A  | P               | P  |
| Planning                            | A                 |    |                 |    |

<sup>a</sup>See text for additional discussion concerning the B2 municipalities. Based on impressions gained at the local level by a number of expert observers, it is likely that some B2 municipalities can take on functional responsibilities (and revenue powers) similar to B1 municipalities; other B2 municipalities may not have that capacity.

X: Current revenue source

X\*: Recipient of equitable shares grant allocated to the B2 and B3 municipalities

X\*\*: Primary recipient of capital grants to be allocated across the B municipalities of the district

F: Revenue source that is likely to be available, but only in the future

A: Service authority

A\*: Service authority in B2 and B3 municipalities

P: Service provider

**Alternative 4: Districts Retain Service Authority for Major Local Public Services**

| Revenue Powers                      | Type Municipality |    |
|-------------------------------------|-------------------|----|
|                                     | B                 | C  |
| Tariffs                             |                   | X  |
| Property rates                      |                   | X  |
| RSC levy                            |                   | X  |
| Equitable share grant               |                   | X  |
| Capital grants                      |                   | X  |
| <b>Expenditure Responsibilities</b> |                   |    |
| Planning                            |                   | X  |
| All other local services            |                   | A* |

\* C and B municipalities could negotiate agreements whereby the B municipality becomes the provider of one or more services.

## 5 SUMMARY AND CONCLUSIONS

While the principal topic of this paper is the assignment of powers and functions to B and C municipalities, the approach has been to place that set of issues within the context of the local government system that has been in place within South Africa and the assignment guidelines provided by the Constitution and statutes.

The Constitution makes clear that the powers and functions assigned to different B and C municipalities can be asymmetric; that is the powers and functions do not need to be uniform across areas. It was, therefore, instructive to determine the current (or recent past) performance of local municipalities to help clarify and guide the consideration of alternative distributions of powers and functions.

A three-district case study was carried out to determine how, prior to the creation of newly demarcated local governments, powers and functions were divided between districts and the former TLCs and TRCs. Although a small sample, it was sufficiently large to determine that former arrangements were far from uniform. Some districts were restricting their efforts primarily to the task of allocating capital investment funds across local municipalities. Other districts were actively engaged in the provision of some recurrent services.

Analysis of 1997-98 and 1998-99 fiscal data for a small sample of TLCs and TRCs suggests that, whereas the TLCs have been providing services to local residents, TRC spending was concentrated on the support of the municipal council and other overhead activities. While transfers dominated the revenues of the TRCs, trading services and, to a lesser extent, property rates were the important revenue producers in the TLCs. The revenue surplus from electricity sales by TLCs was particularly important and was, on average, approximately equal to 80 percent of property rate revenues.

One of the key components of the Task 4 effort was estimation of the expenditure needs in a small set of districts and new B municipalities. The PDG used their District Services Model to project expenditures under a set of assumptions regarding future populations, levels of service, and unit costs of the services. This effort served as an integral part of the estimation of the expenditure need-revenue gaps reported upon in the Task 2 Report (2001); however, it also provided the underlying rationale for further analysis of local revenue options carried out in this paper.

The PDG analysis suggest that, if basic potable water, sanitation, electricity, road, and solid waste services are to be provided to all residents over the next ten years, significant increases in both recurrent and capital expenditures will be necessary. In addition to tariffs, property rates imposed on property that is currently not a part of the tax base will help meet those needs. However, it is highly unlikely that they will be a source of significant revenues over the next decade since implementing well administered property-based taxes is a costly and time-consuming process.

We carried out a brief analysis on a small set of the former TLCs that illustrates the importance of several different factors in determining yields from property rates. While several of the jurisdictions studied show good performances with regard to assessment and

collection ratios, others could improve the revenue performance of the property rates levy through better administration of the tax.

Finally, the analysis contained herein suggested how the RSC levy with no change in rates or structure could be expected to meet only 8 to 16 percent of the projected capital costs necessary to fill the backlog of infrastructure needs in the case study districts. Thus, the remaining backlog will have to be filled through capital transfers from the central government or service targets will have to be reduced, with portions of the population still not receiving basic services after another ten years.

The empirical work associated with this task therefore suggest that financial issues will create some major challenges under the new arrangements for local government in South Africa. The task of assigning powers and functions to these newly formed local jurisdictions is, however, also challenging. Making the task particularly difficult is the wide range of potentially conflicting objectives that are apparently being sought. In fact, ultimately the government will have to choose from among the various objectives when finally assigning powers and functions.

The paper has presented four different arrangements of powers and functions divided among the B and C municipalities. They include: (1) All powers and functions other than planning be assigned to the B municipalities with the latter reserved for the districts. (2) B municipalities with large towns constituting their population/economic base having powers and functions comparable to the metros and districts retaining all service authority over the other B municipalities. (3) An asymmetric treatment of both municipalities and services with the authority for some services assigned exclusively to the district, with others assigned to a combination of the district and more “urban-like” municipalities, and with service provision arrangements determined on a case-by-case basis. (4) Districts retaining the bulk of all service authority but still allowed to arrange with B municipalities on a case-by-case basis to be the local service provider.

The analysis shows that none of these alternatives is “optimal” in the sense of being capable of achieving the full set of objectives desired by the government. There will have to be hard choices to be made among those individual objectives. The first alternative provides for the greatest amount of decentralized authority but may not be considered feasible in the short or intermediate term. The second alternative has obvious advantages with respect to providing a strong financial base for the more urbanized B municipalities but would require very significant additional changes in the overall structure of local government in the country. The third alternative may, in principle, be most feasible immediately; however, it is complex and will require considerable negotiations between the districts and their constituent B municipalities. The final alternative is much simpler than the third alternative and is line with the Constitution and current statutes; however, it is most centralizing of the alternatives and, therefore, will fail to take advantage of the benefits associated with decentralization.

Whichever of the options (or others not considered here) is chosen, the analysis of Task 4 underlines the fact that there are no easy answers to this complex puzzle.

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**ANNEX A:  
SCHEDULES 4 AND 5 OF THE  
CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA, 1996**

**Schedule 4  
Functional Areas of Concurrent National  
and Provincial Legislative Competence**

**Part A**

Administration of indigenous forests  
Agriculture  
Airports other than international and national airports  
Animal control and diseases  
Casinos, racing, gambling and wagering, excluding lotteries and sports pools  
Consumer protection  
Cultural matters  
Disaster management  
Education at all levels, excluding tertiary education  
Environment  
Health services  
Housing  
Indigenous law and customary law, subject to Chapter 12 of the Constitution  
Industrial promotion  
Language policy and the regulation of official languages to the extent that the provisions of section 6 of the Constitution expressly confer upon the provincial legislatures legislative competence  
Media services directly controlled or provided by the provincial government, subject to section 192  
Nature conservation, excluding national parks, national botanical gardens and marine resources  
Police to the extent that the provisions of Chapter 11 of the Constitution confer upon the provincial legislatures legislative competence  
Pollution control  
Population development  
Property transfer fees  
Provincial public enterprises in respect of the functional areas in this Schedule and Schedule 5  
Public transport  
Public works only in respect of the needs of provincial government departments in the discharge of their responsibilities to administer functions specifically assigned to them in terms of the Constitution or any other law  
Regional planning and development  
Road traffic regulation  
Soil conservation  
Tourism  
Trade  
Traditional leadership, subject to Chapter 12 of the Constitution

Urban and rural development  
Vehicle licensing  
Welfare services

**Part B**

The following are local government matters to the extent set out in section 155(6)(a) and (7):

Air pollution  
Building regulations  
Child care facilities  
Electricity and gas reticulation  
Firefighting services  
Local tourism  
Municipal airports  
Municipal planning  
Municipal health services  
Municipal public transport  
Municipal public works only in respect of the needs of municipalities in the discharge of their responsibilities to administer functions specifically assigned to them under this Constitution or any other law  
Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto  
Stormwater management systems in built-up areas  
Trading regulations  
Water and sanitation services limited to potable water supply systems and domestic wastewater and sewage disposal systems

**Schedule 5****Functional Areas of Exclusive Provincial Legislative Competence****Part A**

Abattoirs  
Ambulance services  
Archives other than national archives  
Libraries other than national libraries  
Liquor licences  
Museums other than national museums  
Provincial planning  
Provincial cultural matters  
Provincial recreation and amenities  
Provincial sport  
Provincial roads and traffic  
Veterinary services, excluding regulation of the profession

**Part B**

The following are local government matters to the extent set out for provinces in section 155(6)(a) and (7):

Beaches and amusement facilities

Billboards and the display of advertisements in public places  
Cemeteries, funeral parlours and crematoria  
Cleansing  
Control of public nuisances  
Control of undertakings that sell liquor to the public  
Facilities for the accommodation, care and burial of animals  
Fencing and fences  
Licensing of dogs  
Licensing and control of undertakings that sell food to the public  
Local amenities  
Local sport facilities  
Markets  
Municipal abattoirs  
Municipal parks and recreation  
Municipal roads  
Noise pollution  
Pounds  
Public places  
Refuse removal, refuse dumps and solid waste disposal  
Street trading  
Street lighting  
Traffic and parking