

South Africa Local Government Financial Reform Project

Final Report

10 September 2001

Task 4: Evaluation of Alternative Arrangements of Powers and Functions—[Eastern Cape Case Study – DC12](#), [Kwa-Zulu/Natal Case Study – DC22](#), and [Mpumalamga Case Study – DC32](#)

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SA LOCAL GOVERNMENT FINANCIAL REFORM PROJECT:
Task 4: Evaluation of Alternative Arrangements of Powers and Functions—Eastern Cape
Case Study - DC12

Evaluation of Alternative Arrangements of Powers and Functions—
Eastern Cape Case Study – DC12

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Prepared by Palmer Development Group



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1 PREFACE

This report highlights the findings of research into existing municipal expenditure patterns within the new municipal boundaries of DC12, EC121, EC125, and EC127. It (together with 2 other case studies) forms part of “Task 4: Revenue Expenditure Assignment” of the Local Government Financial Reform Project. Jeremy Timm of Palmer Development Group was responsible for writing this report and the underlying research.

2 ACKNOWLEDGEMENTS

The assistance of officials from the Amatola District Council and officials from the TLCs of Elliotdale, Willowvale, Idutywa, Seymour, Hogsback, Alice, Fort Beaufort, Middeldrift, King William’s Town and East London is sincerely appreciated. Also thanks go to various consultants associated with the Municipal Support Programme who assisted in providing some of the financial information.

3 INTRODUCTION

3.1 Methodology

Fieldwork was conducted during July 2000 when all the TLCs which form part EC121, EC125 and EC127, and the Amatola District Council were visited. During these visits, discussions were held with officials and copies of the latest audited financial statements and planning documents (where available) were obtained. The interviews with local authority officials were used to assess the current allocation of functions, i.e. which services and functions are carried out, and at what level, in the case study area.

Following the fieldwork, sub-consultants were contracted to assign each of the enumerator areas that forms part of the DC12 to one of five settlement types: urban, dense, village, scattered and farmland. In the case of DC12, no enumerator areas meeting the criteria for dense settlements were identified resulting in four settlement categories being used. This allowed for census data to be extracted according to the new municipal boundaries.

Once this was complete, data was analysed according to a common methodology for the three case studies.

Because boundaries have changed and because the base data used in this report (98/99) refers to the “old” (TLC/TRC) boundaries, some standard assumptions were made. This only applies to the TRC figures. Where a TRC was split with a portion of it falling within one of the category B cases, the financial statistics for the “old” boundaries were multiplied by the percentage of households that fall within the category B municipality to give an indication of expenditure on that particular portion.

All expenditure figures from the financial statements were then added together according to agreed upon categories giving an overall total for the new category B municipality.

3.2 Limitations

There are certain uncertainties with the data underlying this type of research in South Africa at present. The best overall demographic data is that of the 1996 Census, however this is contradicted at times by local level planning data. With respect to financial data local authority financial statements are currently moving towards harmonising with the so-called GAMAP standard. However for the base year chose, 1998/99 there is not consistency across municipalities in recording and reporting expenditure. In addition, some municipality's most recent financial statements reflect the 1996/97 financial year. In order to compare across cases, these figures have been updated to 1998/99 using an 8 percent inflation rate.

Some TRCs that have a small portion of their area falling within the category B cases being examined have not been included as the expenditure associated with them is insignificant for the purposes of this study. The "cut-off" point are those TRCs for which more than 90 percent of the population falls outside of the category B municipality in question.

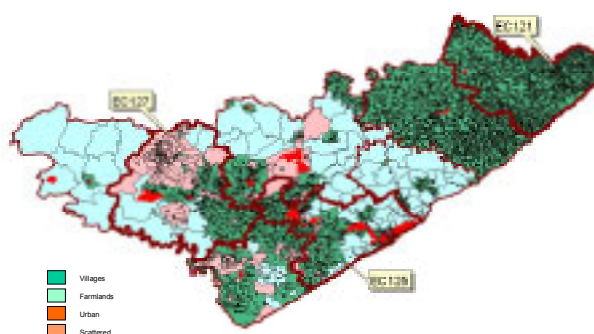
The data presented only refers to services provided by district or local municipalities. There are a number of other provincial, national and parastatal departments that provide services directly to communities. The expenditure on these services is not quantified in this report. The future contribution of these external agencies will be an important issue when assessing future local government revenue needs.

4 INSTITUTIONAL OVERVIEW

4.1 Old and New Municipalities

The newly demarcated boundaries (see Figure 1) will result in a substantial reduction in the total number of municipalities. The existing Amatola District Council (ADC) comprises 19 Transitional Representative Councils (TRCs), 22 Transitional Local Councils (TLCs) and 2 Local Councils (LCs). The new boundaries for DC12 will see a reduction to 8 local (category B) municipalities.

**Figure 1:
Map of DC12 and Associated Settlement Types**



The current Amatola District Council boundaries will not change significantly. Certain portions of Bedford, Cathcart, Nqamakwe and Tsomo TLCs have been excluded and portions of Umtata, Engcobo and Hewu and the entire Xhora (Elliotdale TRC) will be added (UWP, 2000). The category B boundaries, on the other hand, will see significant changes because of the reduction from 43 to 8 entities (see Table 1). 3 of these category Bs have been chosen each one representative of a distinct type. EC125 represents a “large urban” type, EC127 represents a “small urban” type and EC121 a “rural” type of municipality.

**Table 1:
Category B’s: Old and New**

New Category B	TLCs	TRCs
EC121 (rural)	Idutywa	Idutywa (portion)
	Willowvale	Willowvale (portion)
	Elliotdale (formerly Kei District Council)	Xhora (formerly Kei District Council)
		Umtata (portion)
		Engcobo (portion)
EC125 (large urban)	King William’s Town	King William’s Town
	East London	East London
		Amatola Coastal LC (portion)
		Eureka LC
		Macleantown LC
EC127 (small urban)	Middledrift	Middledrift
	Fort Beaufort	Fort Beaufort
	Alice	Victoria East (portion)
	Seymour	Mpofu
	Hogsback (local council)	Catchcart (portion)
		Hewu (portion)

These changes do not have significant financial implications (in terms of income) for ADC as they will not affect the levy income 90 percent of which currently comes from East London and King William’s Town. There are, however, significant financial implications for the new category Bs.

4.2 Other Service Providers

In addition to the municipalities themselves, other service providers operate within the area of DC12. These include various provincial government departments (e.g. Public Works, Local Government and Housing, Land Affairs), national government departments (Department of Water Affairs and Forestry through their Eastern Cape regional office), the Amatola Water Board, Eskom, community based organisations (.e.g. village water committees), NGOs, and the private sector (e.g. Water and Sanitation South Africa).

These other service providers, however, are not the focus of this report.

5 SOCIO-ECONOMIC OVERVIEW

In the sections that follow, access to services is distinguished according to the categories reflected in Table 2. Note that only the engineering services are dealt with. Data for fire and health services was not available from the census per enumerator area and is therefore discussed less quantitatively in Section 6.

**Table 2:
Definition of Levels of Service**

	None/ Inadequate	Basic	Intermediate	Full
Water	No reticulation, communal standpipes greater than 200 metres from house	Communal standpipes within 200 metres from house	Yard taps and yard tanks	In-house
Sanitation	Nothing, unimproved pit latrine, bucket toilet	VIP	Simple waterborne or septic tank	Waterborne
Electricity	Unelectrified	Solar panel or limited supply	20 Amp supply	60 Amp supply
Solid waste	Nothing or on-site	Communal dumping site	Communal bins	Curbside

5.1 District (DC12)

**Table 3:
DC12 Population**

	DC12 pop	DC12 hholds	%
Urban	549,760	129,340	33
Villages	1,004,849	208,240	61
Scattered	65,589	13,808	4
Farmland	38,496	9,501	2
TOTAL	1,658,694	360,889	100

DC12 has a predominantly (67%) rural population of 1 658 694 living in 360 889 households.

Table 4:
DC12 Income Distribution

	R0 – R800	R801 – R1500	R1501 – R2500	R2501 – R3500	> R3500
Urban	42%	19%	12%	7%	20%
Village	71%	14%	5%	2%	7%
Scattered	77%	15%	4%	1%	3%
Farmland	52%	18%	7%	4%	19%
Total	61%	16%	8%	4%	12%

Most of this population is poor, with levels of poverty most pronounced in the village and scattered categories where approximately three quarters of households earn less than R800 per month.

Table 5:
DC12 Service Provision

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	3%	23%	11%	63%
Sanitation	15%	7%	16%	62%
Roads				
Solid waste	11%	5%	4%	80%
Electricity	51%	0%	18%	31%
Villages				
Water	58%	30%	5%	7%
Sanitation	78%	12%	10%	0%
Roads				
Solid waste	88%	1%	0%	10%
Electricity	94%	0%	5%	2%
Scattered				
Water	77%	18%	3%	2%
Sanitation	80%	17%	3%	0%
Roads				
Solid waste	96%	1%	0%	2%
Electricity	97%	0%	2%	0%
Farmland				
Water	50%	9%	23%	18%
Sanitation	62%	6%	32%	0%
Roads				
Solid waste	82%	9%	0%	9%
Electricity	83%	0%	11%	6%

It is only in the urban category where households have access to an adequate level of service. In the rural category, most households do not have access to even a basic level of supply.

5.2 Large Urban (EC125)

**Table 6:
Large Urban Population**

	EC125 Pop	EC125 hholds	%
Urban	443,794	105,408	65
Villages	220,060	49,482	32
Scattered	5,069	1,038	1
Farmland	13,136	3,887	2
TOTAL	682,059	159,815	100

Most (65%) of the people living within the large urban category reside in the urban areas of East London and King William's Town.

**Table 7:
Large Urban Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2501 – R3500	> R3500
Urban	36%	18%	12%	6%	21%
Village	48%	17%	8%	4%	17%
Scattered	71%	14%	4%	1%	5%
Farmland	37%	16%	9%	6%	26%
Total	43%	19%	11%	6%	21%

Compared to the district average as well as the two other category Bs, households within this municipality are financially better off, with more than half earning more than R800 per month and a significant percentage earning more than R3 500 per month.

**Table 8:
Large Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	3%	22%	11%	64%
Sanitation	10%	5%	17%	68%
Roads	0%	30%	30%	40%
Solid waste	10%	9%	0%	81%
Electricity	50%	0%	18%	31%
Villages				
Water	19%	47%	14%	20%
Sanitation	55%	12%	33%	0%
Roads	40%	60%	0%	0%
Solid waste	64%	3%	0%	34%
Electricity	86%	0%	11%	4%
Scattered				
Water	79%	12%	5%	4%
Sanitation	76%	13%	10%	0%
Roads	50%	50%	0%	0%
Solid waste	94%	4%	0%	2%

	None/inadequate	Basic	Intermediate	Full
Electricity	97%	0%	2%	0%
Farmland				
Water	50%	8%	23%	19%
Sanitation	49%	5%	46%	0%
Roads	10%	90%	0%	0%
Solid waste	72%	9%	0%	19%
Electricity	79%	0%	13%	8%

Households living within the urban category have better access to services than those living in the rural categories where most households do not have access to even a basic level of service. It is interesting to note that half the population living within the urban category is unelectrified.

5.3 Small Urban (EC127)

**Table 9:
Small Urban Type Population**

	EC127 pop	EC127 hholds	%
Urban	27,403	4,843	19
Villages	87,928	17,859	61
Scattered	25,946	5,438	18
Farmland	3,211	610	2
TOTAL	144,488	28,750	100

EC127 has 19% of its population living in the small towns of Alice and Fort Beaufort. The towns of Middeldrift, Seymour and Hogsback are small enough to be regarded as rural (villages) for the purposes of this study.

**Table 10:
Small Urban Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2501 – R3500	> R3500
Urban	53%	16%	8%	5%	18%
Village	71%	17%	5%	2%	5%
Scattered	78%	8%	2%	1%	12%
Farmland	47%	26%	6%	3%	17%
Total	69%	15%	5%	2%	8%

As in EC125 (large urban) the urban population is relatively better off than the rural categories with the exception of farmland where a similar income distribution is found.

**Table 11:
Small Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	1%	18%	12%	68%
Sanitation	69%	1%	6%	24%
Roads	30%	30%	30%	10%
Solid waste	14%	8%	0%	79%
Electricity	66%	0%	13%	22%
Villages				
Water	32%	61%	3%	4%
Sanitation	75%	20%	5%	0%
Roads	40%	60%	0%	0%
Solid waste	95%	3%	0%	2%
Electricity	91%	0%	6%	2%
Scattered				
Water	66%	27%	4%	3%
Sanitation	78%	20%	2%	0%
Roads	50%	50%	0%	0%
Solid waste	97%	2%	0%	1%
Electricity	98%	0%	2%	0%
Farmland				
Water	47%	4%	27%	22%
Sanitation	70%	14%	16%	0%
Roads	20%	80%	0%	0%
Solid waste	95%	0%	0%	4%
Electricity	84%	0%	10%	6%

Apart from water, most households do not have access to adequate levels of service.

5.4 Rural (EC121)

**Table 12:
Rural Population**

	EC121 pop	EC121 hholds	%
Urban	3,146	1,221	1
Villages	237,964	46,926	98
Scattered	3,396	631	1
Farmland			
TOTAL	244,506	48,778	100

All except one percent of households live in rural villages and scattered settlements. For the purposes of this study, the small towns of Willowvale and Elliotdale are regarded as villages.

**Table 13:
Rural Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2501 – R3500	> R3500
Urban	42%	18%	12%	10%	17%
Village	76%	10%	3%	1%	3%
Scattered	76%	12%	3%	0%	1%
Total	80%	11%	3%	2%	4%

Households living within EC121 are the poorest of the category B municipalities with three quarters of household's incomes being below R800 per month.

**Table 14:
Rural Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	10%	9%	12%	69%
Sanitation	17%	1%	16%	66%
Roads	30%	40%	15%	15%
Solid waste	21%	18%	0%	62%
Electricity	45%	0%	20%	35%
Villages				
Water	96%	2%	1%	1%
Sanitation	93%	6%	0%	0%
Roads	50%	50%	0%	0%
Solid waste	99%	1%	0%	0%
Electricity	99%	0%	1%	0%
Scattered				
Water	95%	4%	0%	0%
Sanitation	97%	3%	0%	0%
Roads	70%	30%	0%	0%
Solid waste	100%	0%	0%	0%
Electricity	100%	0%	0%	0%

Most households do not receive any formal services, with the exception of the urban area where limited services are provided.

6 EXISTING POWERS AND FUNCTIONS—WHO PROVIDES WHAT?

The following table gives an indication of services that the municipalities currently provide. Following the table there is some discussion on the services provided.

**Table 15:
Services: Who Provides What?**

Key	
X	Most towns provide service DC provides service for most areas
x	Most towns don't provide service DC provides service only in limited number of areas

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

This table is based on services provided by the ADC and TLCs. TRCs generally do not have the capacity or financial resources to provide for the operation and maintenance of services with expenditure being restricted to salaries, allowances and general overhead costs. The

table does not reflect other service providers. These are mentioned, where appropriate, in the text that follows. The primary focus of this research brief is on current expenditure arrangements of local government. Naturally when considering the provision of services the role, and expenditure, of all service providers will need to be considered.

Apart from “traditional” service providers, there are other programmes aimed at supporting municipalities. The Municipal Mentoring Programme (MMP) assists towns with technical support in the form of works managers to assist with the operation and maintenance of infrastructure. The Municipal Support Programme (MSP) comprises a number of financial consultants that assist the less capacitated municipalities in financial management. Both of these programmes provide much needed assistance. In the future, there is scope for these programmes to be co-ordinated at the district level so that their efforts can mutually reinforce one another.

A degree of subjectivity was required in order to complete the table. Some of the items are not listed specifically on the financial statements, but are included as a result of discussions with officials at the municipality concerned. Further, the table does not give an indication of the quality or extent of the service provided.

6.1 District (DC12)

Most of the ADC’s annual operating budget is allocated to the funding of priority projects. However, it does play a significant role in operating a variety of services as reflected below.

ADC provides limited economic and trading services, mainly to a series of small coastal towns falling under the Amatola Coastal Local Council. Water supply is restricted to bulk supply to coastal areas, public standpipes in certain rural areas and a tanker service to farmers, occupiers of smallholdings and some rural villages. A waterborne sanitation system is provided to residents of the coastal areas. A limited solid waste service is provided for residents of the coastal areas and picnic areas controlled by the ADC.

Public transport is provided (on a very limited scale) by the Amatola District Council. The demand for public transport is generally met by the private sector through minibus taxis. The ADC also fulfils a road traffic regulation function, although it is negotiating with the province to either take over the function or provide adequate funds for the ADC to undertake it.

The ADC Roads Department acts as an agent for the provincial Department of Public Works. Its main function is the maintenance of main, divisional and minor roads (three categories of proclaimed roads). There is currently a funding crisis as no funds have been forthcoming from the province since the 1997/98 financial year. There are no regravelling and maintenance units in the former Transkei area. The deteriorating quality of the road network is an area of significant concern.

In terms of health and emergency services, the ADC runs a nursing service (on an agency basis for the province) in the old South Africa area. The province provides a health service directly to the former Ciskei and Transkei areas.

The ADC also provides an ambulance and rescue service on behalf of the provincial government. The condition of the road network has a significant negative effect on this service. In addition to the ADC's ambulance service, this service is also provided by the provincial hospitals situated in the major towns. A disaster management and environmental health service is also provided by the ADC.

The ADC runs a number of museums, parks and recreation as well as beaches and amusement facilities. They also perform a nature conservation service (reflected under technical and scientific services).

The ADC is responsible for planning and building control and plays a role in the promotion of tourism and local economic development.

There are certain areas where the ADC is currently playing a strong role in service delivery and others where its current limited role could be extended. The ADC is in a healthy financial position and has the potential to extend its service provision role.

6.2 Large Urban (EC125)

EC125 has considerable capacity to perform almost all municipal functions. Other service providers provide bulk services in the case of water (Amatola Water Board in certain instances) and electricity (both existing municipalities buy electricity in bulk from Eskom).

It also has capacity to provide services outside its areas. For example, in addition to providing a fire service for itself, East London municipality has been contracted by the ADC to perform a fire fighting service for the district. However, this service favours areas closer to East London as this is where the service is located.

In some instances it could be argued that EC125 has more capacity to provide certain services outside its boundaries than DC12 does.

6.3 Small Urban (EC127)

A range of municipal services is provided by the municipalities that comprise EC127. The two bigger towns (Alice and Fort Beaufort) perform most functions, with the smaller towns of Middeldrift, Seymour and Hogsback having limited capacity to provide services other than trading services.

Bulk water is provided both by the towns themselves and purchased from the Amatola Water Board. In Fort Beaufort there is a contract for the operation and maintenance of water and sanitation between the municipality and WSSA. Only Fort Beaufort provides electricity itself (purchasing bulk from Eskom). In the other towns, Eskom provides the service directly.

Traffic regulation and vehicle licensing functions are performed only by Alice and Fort Beaufort. There were some calls for a greater percentage of the vehicle licensing fee to be allocated to the municipality than is currently the case. All municipalities play some role in the maintenance of roads, although funds for this service in all cases are not sufficient to meet the need.

Health and firefighting services are only performed by Alice and Fort Beaufort. The other towns rely on the provincial Department of Health's hospitals and clinics. With firefighting services restricted to the two big towns, smaller towns rely on their support in times of need. For example, Seymour reported phoning Alice for assistance when they have a fire. Middeldrift reported that the ADC gave them a two-way radio to contact them in the event of a fire.

Similarly, an environmental health service is only performed in these two towns. Most municipalities have a pound (with the exception of Hogsback and Seymour) for stray animals.

Libraries are provided within all the municipalities, with sports and recreation facilities being restricted to Alice, Fort Beaufort and Middeldrift. Fort Beaufort has a museum.

All towns, with the exception of Hogsback, have cemeteries.

Fort Beaufort plays a limited role in civil defence and housing. The other municipalities do not perform this function. No municipalities within EC127 play perform a town planning or LED role explicitly, although the recent construction of taxi ranks in Alice and Middeldrift will no doubt have a positive impact on LED.

In the bigger towns of Alice and Fort Beaufort there is capacity to deliver a range of services (although both towns are under significant financial stress and lack capacity in certain areas). However, outside of these areas, capacity is limited. It is not clear how the new municipality will function as a combined unit and related to this how services will be extended to the rural areas. Because of the relatively large number of "separate" towns that comprise this new municipality, significant effort will need to be directed at addressing the integration of systems (e.g. billing) and the compatibility of policies (especially levels of service and tariffs).

6.4 Rural (EC121)

Services provided by municipalities within EC121 are generally restricted to trading services. However, Idutywa, the largest municipality, provides additional services.

All three towns provide water, with Idutywa being the only one to provide a sewerage service. All provide some form of refuse collection and disposal service (however, none of the dumps are registered which is an area of concern as water sources are being polluted in an area where most people rely on an unreticulated supply). Electricity is provided directly by Eskom.

No traffic regulation services are provided and limited expenditure is provided for the maintenance of roads in Idutywa.

Limited firefighting infrastructure (although not staff) is provided in Idutywa. The other towns have to rely on the nearest big towns for fire services. For Willowvale this is Butterworth and for Elliotdale Umtata. An environmental health service is provided only in Idutywa.

Limited amenities and works are provided, mostly in Idutywa.

No protection services, planning and regulation, housing or LED functions are provided by the existing TLCs.

While the situation in Idutywa seems to be improving, there are capacity and financial crises in Elliotdale and Willowvale. If it were not for the Equitable Share allocation, these towns would have collapsed. Both Elliotdale and Willowvale believe that the new municipality will bring significant benefits to them. Idutywa, on the other hand, highlighted some concerns about amalgamating with these towns and the surrounding rural areas. These include concerns raised by Idutywa residents that they would now be responsible for cross-subsidising the whole impoverished new municipal area. A further concern is a possible conflict between the new municipality and the traditional leaders who see the new municipality as a threat. This poses a threat to the “amalgamation” of urban and rural areas. Concerns were also raised by workers who are concerned about retrenchments as a result of the formation of the new municipality.

Lastly, it must be noted that the poor condition of roads in the area will hinder effective municipal operations. Without access it will not be possible to provide most services.

From the above it can be seen that EC121 will require significant support from DC12. Without this, it is unlikely that the current TLCs will be able to run their current services, let alone extend service provision to rural areas.

7 EXISTING MUNICIPAL EXPENDITURE

This section of the report provides a “snap-shot” of operating and capital expenditure for the 1998/99 financial year.

7.1 Operating Expenditure

7.1.1 District Municipality

**Table 16:
DC12 Operating Expenditure**

	DC (12) %	DC12 (Rands)
Overheads	22	9,401,605
Economic & trading services	6	2,749,345
Roads, transport & traffic	9	3,748,420
Health & emergency services	56	24,285,950
Amenities & works	3	1,320,254
Protection services	0	0
Planning & regulation	2	1,010,914
Housing	0	0
Local economic development	3	1,135,405
Total	100	43,651,893

Most operating expenditure is allocated to health and emergency services, with the next most significant amount being that of overheads. As none of the category B municipalities provide ambulance or disaster management services, this high proportion is expected.

7.1.2 Local Municipalities

The current (1998/99) operating expenditure of the three case study local municipalities is shown in the table below. For each local municipality this expenditure is made up of a *sum* of the current TLC and TRC expenditure in the geographical area that will make up the new local municipality. The proportional expenditure on the various categories is compared in the graph following.

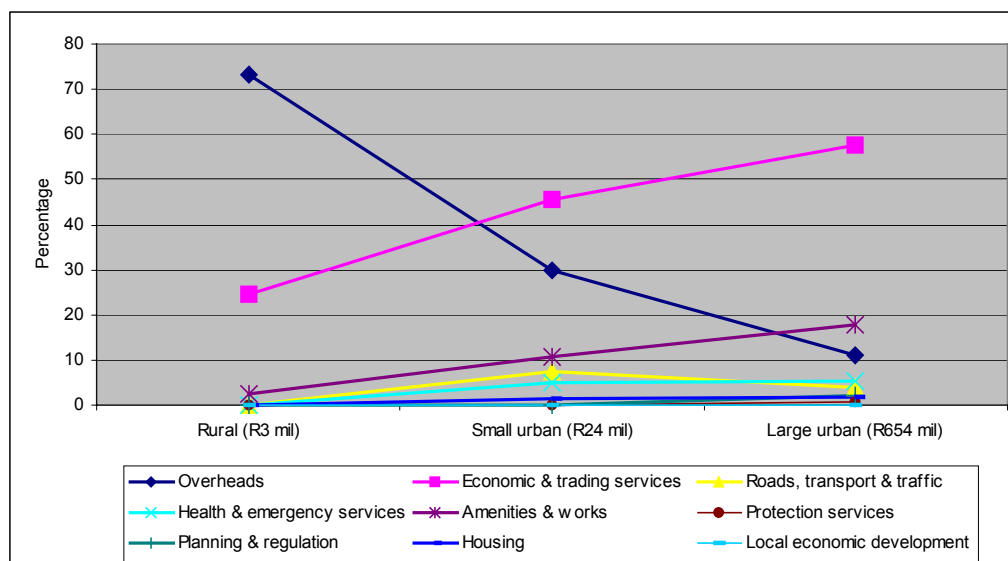
**Table 17:
Category B Operating Expenditure**

	Rural (R3 mil)	Small urban (R24 mil)	Large urban (R654 mil)
Overheads	73	30	11
Economic & trading services	24	46	58
Roads, transport & traffic		7	4
Health & emergency services		5	5
Amenities & works	3	11	18
Protection services			1
Planning & regulation			2
Housing		2	2
Local economic development			

**Table 18:
Category B Operating Expenditure (Rands/Capita)**

	Rural	Small urban	Large urban
Overheads	443	196	167
Economic & trading services	148	299	873
Roads, transport & traffic		49	57
Health & emergency services		33	80
Amenities & works	15	69	270
Protection services			10
Planning & regulation			30
Housing		10	26
Local economic development			
Total	606	656	1512

**Figure 2:
Category B Operating Expenditure**



Percentage expenditure on overheads decreases from rural to large urban with expenditure on economic and trading services and amenities and works increasing from rural to large urban. When most expenditure is limited to overheads, the ability to spend money on the provision of services is limited.

In the rural category, most money is spent on overheads, with less being spent on economic and trading services and a small amount going to amenities and works.

In the small urban category, the highest category is also economic and trading services, although it is not as high (in percentage terms) as the expenditure within the large urban category. Overheads are somewhat higher (also in percentage terms).

Most operating expenditure in the large urban category is allocated to economic and trading services. In line with the range of services it provides, there is expenditure on all categories. Note that there is not an amount allocated to LED, but money is spent on this and reported elsewhere in the financial statements.

Operating expenditure per capita is lowest in the rural category (where the backlogs are highest) and highest in the urban category.

As would be expected, these expenditure patterns mirror the service provision functions discussed in section 0.

7.2 Operating Income

The focus of this report is on expenditure patterns and therefore operating income is not dealt with to a significant extent. What is interesting, however, is the percentage of operating income made up from the equitable share allocation.

Table 19:
Category Bs: % Income from Equitable Share

	Large urban	Small urban	Rural
% income from Equitable Share	5	21	74

While Equitable Share income is insignificant for the large urban category, it plays an important role in the small urban category and is the mainstay of the rural category.

7.3 Capital Expenditure

There are limits to looking at capital expenditure for one particular year as it is by its very nature “lumpy”. The figures that follow should be read with this in mind.

7.3.1 District Municipality

Capital expenditure for the ADC in the table below deals with expenditure for projects within the TLC and TRC areas. It does not include an amount of R6.1 million that is expended on capex associated with the ADC itself.

Table 20:
District Capital Expenditure (Projects)

	DC12 (%)	DC12 (Rand)
Overheads	0	187,769
Economic & trading services	52	40,365,949
Roads, transport & traffic	32	24,449,265
Health & emergency services	2	1,446,505
Amenities & works	13	10,164,325
Protection services		
Planning & regulation	1	445,765
Housing		235,017
Local economic development		
Total	100	77,294,595

Most finances for projects funded by the ADC is allocated to economic and trading services with a significant amount also going to roads and a lesser amount to amenities and works.

7.3.2 Local Municipalities

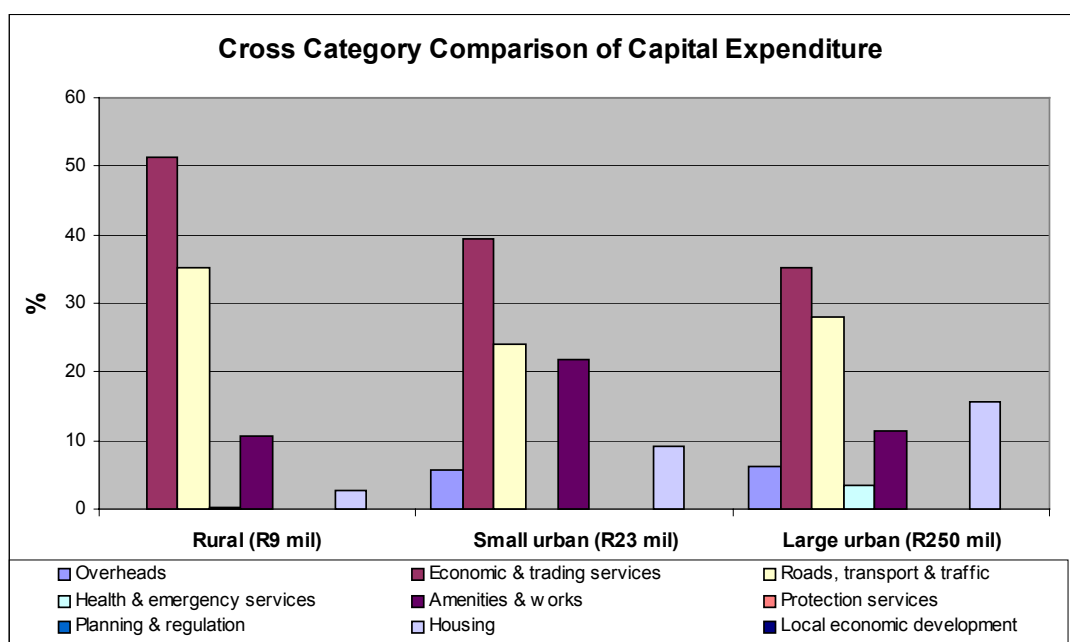
As with the operating expenditure the current capital expenditure in the geographical area making up the new local municipalities is summed. In the case of capital there is a significant contribution from the Amatola District Council. The expenditure of the new local municipalities shown in the table below thus includes that expenditure of the ADC going to the area that will fall within the boundaries of the new local municipality, as well as the current TLC and TRC capex. However, capex is not included from sources that are not

reflected on the financial statements of the TLCs, TRCs or ADC. A comparative graph of this expenditure is shown below.

**Table 21:
Category B Capital Expenditure**

	Rural (R9 mil)	Small urban (R23 mil)	Large urban (R250 mil)
Overheads		6	6
Economic & trading services	51	39	35
Roads, transport & traffic	35	24	28
Health & emergency services			3
Amenities & works	11	22	11
Protection services			
Planning & regulation			
Housing	3	9	16
Local economic development			

**Figure 3:
Category B Capital Expenditure**



In all categories, most capex is spent on economic and trading services and roads. The relative percentages decrease as one moves from rural to large urban. The reverse trend occurs with expenditure on amenities and works which increases as one moves from rural to large urban. These expenditure patterns mirror the services provided by the municipalities.

The key concern is that the overall amount of capex going to rural areas is relatively very small. The capex flowing to EC121 is about 4% of that in the large urban category (EC125), whereas the population of the rural municipality is about 36% of the large urban one. There is

also a greater service backlog in the rural area. In the case of the small urban municipality, EC127, it receives 9% of the capex of EC125, while having 21% of the larger municipality's population.

In this light the new demarcation may assist in a more equitable distribution of resources across the district municipality. However, it must be borne in mind that although the larger municipalities do spend relatively more on new infrastructure their current budgets are not necessarily adequate to extend such levels of infrastructure into their rural hinterlands. The scale of the funding gap is looked at in section 8 below.

7.4 Capital Income (Sources)

Sources of capital income range from government subsidies and grants, contributions from the municipality's income and borrowing. The focus in this report is on expenditure reflected on either the district or local government's financial statements. With the larger, well capacitated municipalities, sources for capital expenditure are usually clearly stated. However, with the smaller, less capacitated TLCs and TRCs, sources for capital expenditure and the capital expenditure itself is not always reflected on the financial statements.

7.5 Issues Arising from Previous Three Sections

The above three sections highlight that only in the large urban category is a range of services provided where most households have access to at least a basic level. In the small urban and rural categories the majority of households do not enjoy access to formal service provision.

The challenge therefore lies in extending service provision to these areas and at the same time continuing to operate and maintain existing assets. The small urban and rural types to a greater extent will not be able to perform these functions or address their significant backlogs without support. The key constraints are finance and capacity.

Two services require specific mention. Road infrastructure is deteriorating due to a lack of finance. This has a direct effect on the ability to perform other services such as health and fire fighting apart from the obvious negative effect on communities in terms of access.

There is not an adequate fire fighting service with some areas in the small urban category and most in the rural category having no effective access.

A challenge that requires specific mention is that of integrating systems and policies. The different TLCs and TRCs that comprise the new category Bs may well have had different billing systems and service level policies for example. A significant challenge will be to integrate these systems.

Lastly, the discussion in this report focuses on services provided by district and local government. However, there are also services provided directly by the province (such as health and ambulance services) in areas where the same service might be provided by a local or district government. There is an urgent need for co-ordination in this regard.

8 MEETING THE BACKLOG

In order to assess the financial implications of addressing services backlogs, a small spreadsheet model was developed which assessed the required operating and capital expenditure in each local municipality studied. From this it becomes possible to compare the current expenditure in the local authority area with the projected, post-demarcation, expenditure.

The expenditure assessment was done on the basis of typical costs of service delivery and current service levels in the new local municipality. This is referred to as the *year 1 expenditure* (in other words the expenditure that will be required in the new local municipality in its first year of operation).

A package of service targets, common to all the three case studies, was used to assess the expenditure requirements over a ten-year period, given that local municipalities will be attempting to improve levels of service for their citizens. A fairly conservative ten-year service delivery package was used. The capital costs derived over the ten year period, as well as operating costs in year ten, is referred to as the *year 10 expenditure*.

The hypothetical and future expenditure are compared against the *current expenditure* already described in the sections above. This gives an indication of the funding gap likely to be experienced in each local municipality.

8.1 Financial Implications—Operating

8.1.1 District Scale

Given the current service levels and based on the projections to meet the backlog, the following table indicates the total operating costs for the district as a whole. These figures are from the District Services Model and indicate the total operating costs for providing services to all households within the boundaries of the DC12.

**Table 22:
Implications of Targets: District Scale Operating Costs**

	Year 1	Year 10
Water supply	85,631,000	205,150,000
Sanitation	43,430,000	116,126,000
Roads (level 5)	4,938,000	5,938,000
Solid waste	32,119,000	37,258,000
Electricity	119,571,000	326,672,000
Total	285,689,000	691,144,000

Meeting the backlogs will require a large increase in operating expenditure.

8.1.2 Local Municipalities

The following tables and graphs highlight how the difference between current expenditure on services versus future required expenditure to meet the backlogs increases most significantly in the rural category and less significantly in the large urban category.

Table 23:
Implications of the Targets: Opex Within Large Urban (EC125)

	Current	Hypothetical	Future
Water supply	59,109,152	117,906,928	164,734,031
Sanitation	40,053,109	116,835,865	177,896,996
Roads (level 5)	7,236,691	128,633,899	191,992,693
Solid waste	40,261,204	27,898,726	43,308,824
Electricity	213,327,671	109,507,625	335,903,999
Total	359,987,827	500,783,043	913,836,543

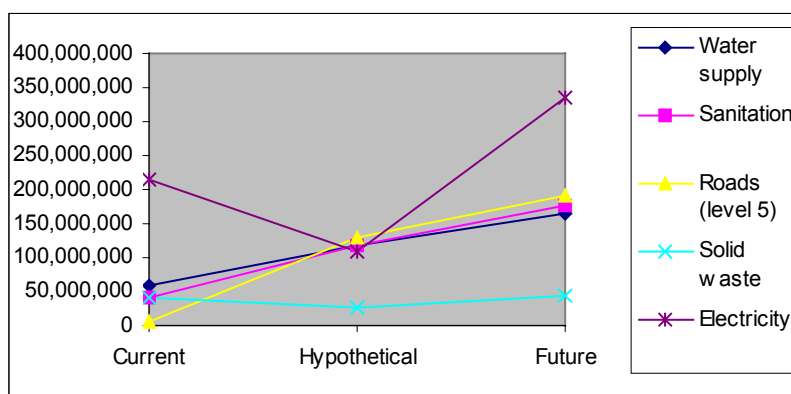
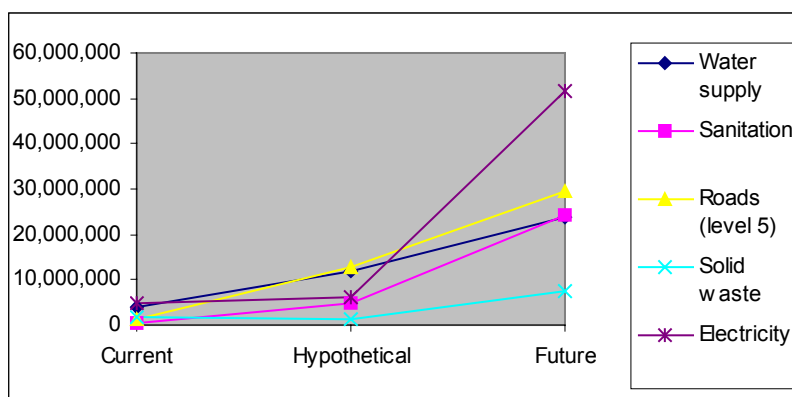


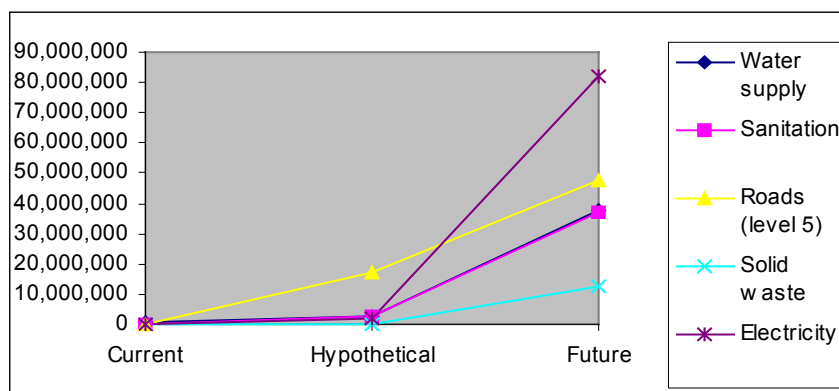
Table 24:
Implications of the Targets: Opex Within Small Urban (EC127)

	Current	Hypothetical	Future
Water supply	4,033,313	11,988,170	23,980,019
Sanitation	304,963	4,943,531	24,128,595
Roads (level 5)	1,522,736	12,642,588	29,708,571
Solid waste	1,740,702	1,219,329	7,651,312
Electricity	4,765,818	6,242,144	51,554,124
Total	12,367,532	37,035,762	137,022,621



**Table 25:
Implications of the Targets: Opex Within Rural (EC121)**

	Current	Hypothetical	Future
Water supply	504,633	2,483,022	37,578,765
Sanitation	0	2,671,524	36,800,229
Roads (level 5)	0	17,285,417	47,702,884
Solid waste	285,348	267,660	12,828,607
Electricity	0	1,978,041	82,325,364
Total	789,981	24,685,664	217,235,849



8.2 Financial Implications—Capital

Because of its “lumpy” nature, the implications for meeting the backlogs are not reported in the same way as for operating. Rather the total figures to meet the backlogs are reported. These figures were arise from the DSM where the total capital costs of meeting services backlogs over a 10 year period were calculated.

Although the backlogs are greatest in the rural and small urban categories, the greatest costs will be incurred in the urban category. This is because this is where most households live (mainly in the urban category) and also where service level targets are slightly higher.

At the district scale, by far the greatest costs in meeting the backlogs relate to roads. In the category Bs, electricity is responsible for the greatest cost.

**Table 26:
Implications of Targets: Total District Scale Capital Costs**

	Capex required
Water supply	450,636,000
Sanitation	787,593,000
Roads (levels 3 and 4)	2,508,827,000
Solid waste	134,000
Electricity	905,320,000
Total	4,652,510,000

**Table 27:
Capex Within EC125 (Large Urban)**

	Capex required
Water supply	275,745,209
Sanitation	337,316,516
Roads (level 5)	351,019,874
Solid waste	0
Electricity	721,080,487
Total	1,685,162,086

**Table 28:
Capex Within EC121 (Rural)**

	Capex required
Water supply	193,236,688
Sanitation	128,100,144
Roads (level 5)	65,112,054
Solid waste	0
Electricity	419,258,964
Total	805,707,850

**Table 29:
Capex Within EC127 (Small Urban) (R000s)**

	Capex required
Water supply	68,841,079
Sanitation	79,834,616
Roads (level 5)	61,526,522
Solid waste	0
Electricity	226,685,777
Total	436,887,994

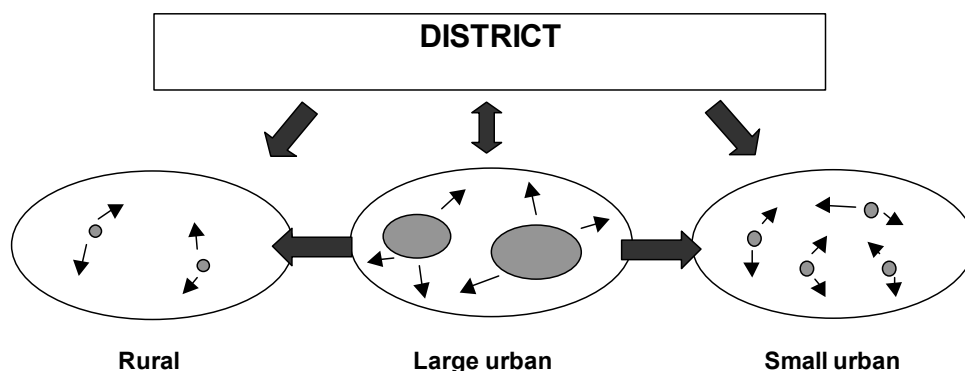
9 ISSUES ARISING

In order to address services backlogs, the quality of service provision in existing served areas needs to be improved and services extended to areas where there are currently backlogs. The greatest need is found in the rural category, followed by small urban and large urban. Within the category B municipalities, needs are highest outside the urban areas.

The key constraints are finances and management capacity. Extending services will place burdens on all municipalities, but these will be felt most strongly in the rural and small urban categories. While the small urban has some (but limited) capacity, the rural does not have sufficient financial and institutional resources to undertake this. Both these categories will require significant support from DC12 in order to do this.

There are possibilities for municipalities to enter into partnerships, but the success of this approach requires municipalities to have capacity to manage contracts.

The support context should not only be seen to arise from DC12. It is possible that the large urban category (EC125) could support neighbouring category B municipalities with certain services as indicated in the diagram below.



The challenge is as much assigning of powers and functions between category C and Bs as it is understanding and finalising the institutional and management arrangements within existing category Bs.

Unless significant resources (financial and capacity) are extended to the rural category and a lesser extent the small urban category, the current patterns of unequal access favouring both urban and former South African areas at the expense of rural and former Transkei and Ciskei areas will continue.

SA LOCAL GOVERNMENT FINANCIAL REFORM PROJECT:
Task 4: Evaluation of Alternative Arrangements of Powers and Functions—Kwa-Zulu/Natal
Case Study – DC22

Evaluation of Alternative Arrangements of Powers and Functions—Kwa-
Zulu/Natal Case Study – DC22

Final Report

10 September 2001

Prepared by Palmer Development Group



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1 PREFACE

This report highlights the findings of research into existing municipal expenditure patterns within the new municipal boundaries of DC22, KZ223, KZ224, and KZ225. It (together with 2 other case studies) forms part of “Task 4: Revenue Expenditure Assignment” of the Local Government Financial Reform Project. Mike Goldblatt of Palmer Development Group was responsible for writing this report and the underlying research.

2 ACKNOWLEDGEMENTS

The assistance of officials from all the TLCs in the case study area as well as the Indlovu Regional Council are gratefully acknowledged. The GIS department of the IRC assisted with census and other data for the new DC22 and local municipality boundaries.

3 INTRODUCTION

3.1 Methodology

Fieldwork was conducted during July 2000 where all the TLCs which form part of the future local municipalities relevant to the case study, as well as the Indlovu Regional Council (IRC) were visited. During these visits, discussions were held with officials and copies of the latest audited financial statements and planning documents (where available) were obtained.

Following the fieldwork, the IRC GIS department assisted with assigning each of the enumerator areas that forms part of DC22 to one of five settlement types: urban, dense, village, scattered and farmland. In the case of DC22, no enumerator areas meeting the criteria for villages were identified resulting in four settlement categories being used. This assignment allowed for census data to be extracted according to the new municipal boundaries.

The interviews with local authority officials were used to assess the current allocation of functions, i.e. which services and functions were currently carried out, and at what level, in the case study area. In certain case follow up telephone interviews were needed to clarify issues. Once this was complete, the data was analysed according to a common methodology for the three case studies..

3.2 Limitations

There are certain uncertainties with the data underlying this type of research in South Africa at present. The best overall demographic data is that of the 1996 Census, however this is contradicted at times by local level planning data. With respect to financial data local authority financial statements are currently moving towards harmonising with the so-called GAMAP standard. However for the base year chose, 1998/99 there is not consistency across municipalities in recording and reporting expenditure. There are also some municipalities which lack the capacity to produce clear financial statements. It must be recognised that it is therefore to present a completely accurate picture. Rather, the findings should be seen as giving a good indication of the current expenditure patterns, based on a consistent set of the best available data.

An important issue which should be borne in mind when considering future expenditure and revenue requirements of local government is the role played by service providers other than district or local municipalities. There are a number of other provincial, national and parastatal departments that provide services directly to communities. The expenditure on these services is not quantified in this report. The future contribution of these external agencies will be an important issue when assessing future local government revenue needs.

In order to deal with the above limitations certain assumptions have had to be made in some cases. These are mentioned at the appropriate points.

4 INSTITUTIONAL OVERVIEW

4.1 Old and New Municipalities

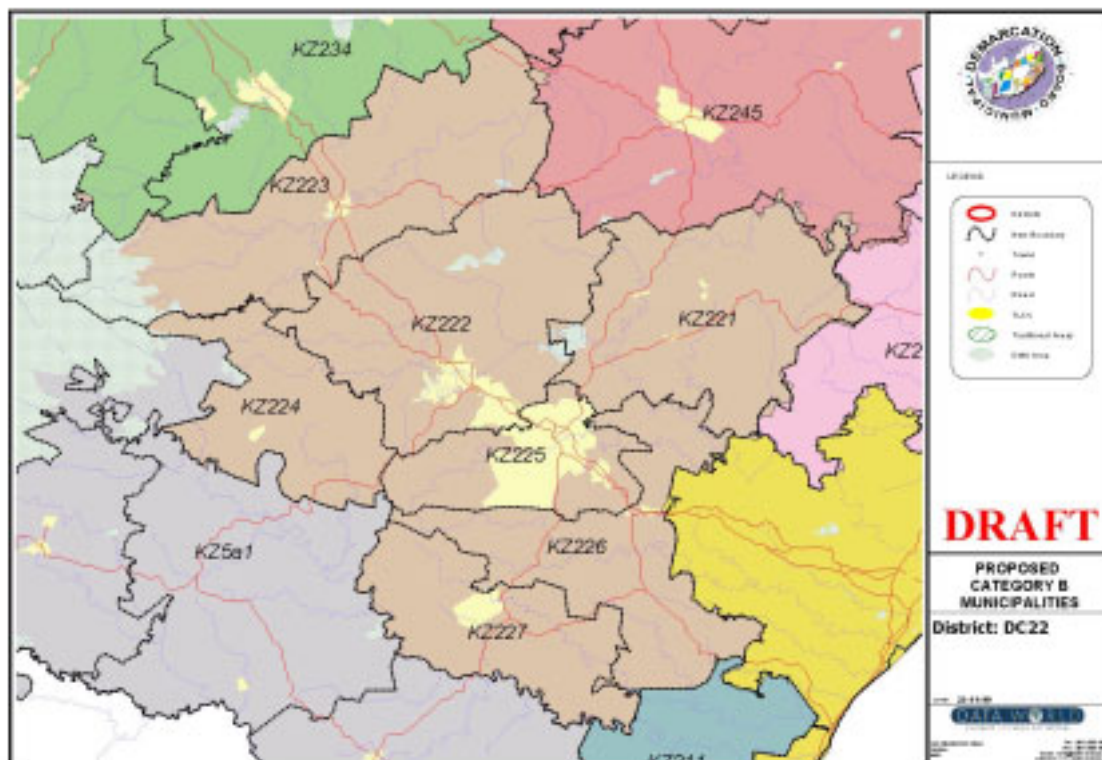
The newly demarcated boundaries of the future DC22 (see Figure 1) will result in a reduction in the total number of municipalities. The existing Indlovu Regional Council (IRC) is made up of 20 Transitional Local Councils (TLCs) and a number of tribal authorities. The terminology of ‘Regional Council’ in Kwazulu/Natal refers to the same tier of local government as District Council in other provinces. The future DC22 district municipality will be made up of local municipalities containing 12 of the original TLCs, as well as some tribal authority areas.

The boundaries of the IRC will change fairly significantly, with a large reduction in total area. However there will be a smaller loss of population, with the new DC22 retaining about 80% of the former district’s households. This is due to the fact that the main urban area of the IRC, the city of Pietermaritzburg, remains in DC22. The geographical changes have commensurate financial implications (in terms of income) for DC22 as about 18% of the levy income of IRC will be lost to the new district.

The category B boundaries will see significant changes because of their change from TLC boundaries to local municipality boundaries. Some of the smaller TLCs will ‘inherit’ relatively large rural hinterlands. There may be more significant financial implications for the new local authorities than for the district because many of them have expanded their area of jurisdiction and responsibility without commensurate expansion of their revenue base.

As with the other case studies 3 of the local municipalities have been chosen each one representative of a distinct type. KZ225 represents a “large urban” type, KZ224 represents a “small urban” type and KZ223 a “rural” type of municipality.

**Figure 1:
Map of DC22 and its Local Municipalities**



4.2 Other Service Providers

In addition to the municipalities themselves, other service providers operate within the area of DC22. These include various provincial government departments (e.g. Public Works, Local Government and Housing, Land Affairs), national government departments (Department of Water Affairs), the Umgeni Water Board, Eskom, Telkom, community based organisations (e.g. village water committees), NGOs, and the private sector (e.g. Midlands Fire and Rescue).

These other service providers, however, are not the focus of this report. They are only dealt with in any detail when their expenditure forms part of local government expenditure in DC22. It is assumed that these service providers will continue to provide their services in addition to those currently provided by local government. When local government is expected to take over any of these functions there will have to be an appropriate re-allocation of funding sources for these functions.

5 SOCIO-ECONOMIC OVERVIEW

In the sections that follow, access to services is distinguished according to the categories reflected in Table. Note that only the engineering services are dealt with. Data for fire and health services was not available from the census per enumerator area and is therefore discussed less quantitatively in Section 0.

**Table 1:
Definition of Levels of Service**

	None/ Inadequate	Basic	Intermediate	Full
Water	No reticulation, communal standpipes greater than 200 metres from house	Communal standpipes within 200 metres from house	Yard taps and yard tanks	In-house
Sanitation	Nothing, unimproved pit latrine, bucket toilet	VIP	Simple waterborne or septic tank	Waterborne
Electricity	Unelectrified	Solar panel or limited supply	20 Amp supply	60 Amp supply
Solid waste	Nothing or on-site	Communal dumping site	Communal bins	Curbside

5.1 District (DC22)

**Table 2:
DC22 Population**

	DC22 pop	DC22 hholds	%
Urban	466,624	114,094	60%
Dense	102,053	16,544	9%
Villages	22,376	4,057	2%
Scattered	182,476	29,369	15%
Farmland	121,929	27,629	14%
TOTAL	895,458	191,693	100%

DC22 has a predominantly (60%) urban population of 895 458 people in total living in 191 693 households.

**Table 3:
DC22 Income Distribution (Percentages)**

	R0 – R800	R801 – R1500	R1501 – R2500	R2501 – R3500	> R3500
Urban	45	14	11	7	23
Dense	70	16	7	3	4
Village	70	16	7	3	4
Scattered	70	16	7	3	4
Farmland	70	14	6	2	8

	R0 – R800	R801 – R1500	R1501 – R2500	R2501 – R3500	> R3500
District Total	55%	15%	9%	5%	16%

Most of this population is poor, with levels of poverty most pronounced in the non-urban categories where 70% of households earn less than R800 per month.

**Table 4:
DC22 Service Provision**

Service and Category	None/inad	Basic	Int	Full
URBAN				
Water supply	5%	27%	10%	58%
Sanitation	11%	27%	12%	50%
Roads (level 5)	0%	0%	0%	0%
Solid waste	20%	13%	1%	66%
Electricity	28%	0%	27%	46%
DENSE SETTLEMENTS				
Water supply	53%	23%	8%	15%
Sanitation	68%	31%	1%	0%
Roads (level 5)	0%	0%	0%	0%
Solid waste	97%	2%	0%	1%
Electricity	82%	0%	13%	5%
VILLAGES				
Water supply	56%	14%	12%	18%
Sanitation	61%	20%	19%	0%
Roads (level 5)	0%	0%	0%	0%
Solid waste	84%	2%	0%	14%
Electricity	82%	0%	14%	5%
SCATTERED SETTLEMENTS				
Water supply	61%	24%	9%	6%
Sanitation	77%	21%	2%	0%
Roads (level 5)	0%	0%	0%	0%
Solid waste	96%	2%	0%	2%
Electricity	92%	0%	7%	1%
FARMLAND				
Water supply	34%	12%	30%	24%
Sanitation	57%	15%	29%	0%
Roads (level 5)	0%	0%	0%	0%
Solid waste	76%	12%	1%	11%
Electricity	83%	0%	11%	6%

It is only in the urban category where the majority of households have access to an adequate level of service. In the rural categories, most households do not have access to even a basic level of supply. Water provision appears to be the service with the least severe backlogs.

5.2 Large Urban (KZ225)

**Table 5:
Large Urban Population**

	KZ225 Pop	KZ225 hholds	%
Urban	388,029	96,400	82
Dense settlements	54,673	7,929	7
Villages	0	0	0
Scattered settlements	79,061	12,346	11
Farmland	3,185	822	1
Total	524,948	117,497	100%

Most of the people living within the large urban category live in the urban areas of Pietermaritzburg/Msunduzi. As can be seen from the table the new local municipality is dominated by the city, with a small proportion of scattered and dense settlements in relatively close proximity to the urban core.

Compared to the district average as well as the two other local municipalities, households within this municipality are financially better off, with a minority earning less than R800 per month and a significant percentage (about 25%) earning more than R3 500 per month.

**Table 6:
Large Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	3%	29%	10%	58%
Sanitation	1%	27%	12%	50%
Roads	0%	0%	0%	0%
Solid waste	20%	14%	1%	66%
Electricity	27%	0%	27%	46%
Dense Settlements				
Water	37%	40%	8%	15%
Sanitation	65%	34%	1%	0%
Roads	0%	0%	0%	0%
Solid waste	98%	2%	0%	0%
Electricity	67%	0%	23%	10%
Scattered				
Water	30%	52%	11%	7%
Sanitation	74%	24%	2%	0%
Roads	0%	0%	0%	0%

	None/inadequate	Basic	Intermediate	Full
Solid waste	97%	1%	0%	2%
Electricity	85%	0%	12%	2%
Farmland				
Water	11%	5%	46%	37%
Sanitation	23%	7%	71%	0%
Roads	0%	0%	0%	0%
Solid waste	57%	6%	1%	35%
Electricity	70%	0%	19%	11%

Households living within the urban category have relatively good access to services, with a small proportion having no services in all the categories.

5.3 Small Urban (KZ223)

**Table 7:
Small Urban Type Population**

	KZ223 pop	KZ223 hholds	%
Urban	8401	1689	36
Farmland	17414	3044	64
Total	25815	4733	100%

The new KZ223 local municipality is a predominantly farming area with the small town of Mooi River as its urban core. About a third of its population live in Mooi River, which services the surrounding farming communities and has its own limited industrial and tourism base.

**Table 8:
Small Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	2%	17%	12%	69%
Sanitation	19%	8%	15%	59%
Roads	0%	0%	0%	0%
Solid waste	6%	2%	0%	92%
Electricity	29%	0%	24%	41%
Farmland				
Water	47%	2%	28%	23%
Sanitation	62%	12%	27%	0%
Roads	0%	0%	0%	0%
Solid waste	85%	13%	0%	1%
Electricity	84%	0%	10%	6%

Access to services follows the settlement types, with a relatively high level of service in the urban areas, apart from electricity where almost a third of urban residents still have an inadequate service. The farmlands have a large backlog in all services with only water being provided at an adequate level to more than half the residents.

5.4 Rural (KZ224)

**Table 9:
Rural Population**

	KZ224 pop	KZ224 hholds	%
Urban	358	54	1
Dense settlements	15,720	2,786	45
Scattered settlements	12,137	2,121	34
Farmland	7,130	1,220	20
Total	35,345	6,181	100%

All except one percent of households live in dense and scattered settlements and farmland. The new local municipality includes tribal authorities, as well as some commercial and subsistence farming. There is essentially no urban core with only the small TLC of Impendle having a tiny 'urban' population.

**Table 10:
Rural Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	9%	11%	11%	69%
Sanitation	26%	74%	0%	0%
Roads	0%	0%	0%	0%
Solid waste	70%	30%	0%	0%
Electricity	100%	0%	0%	0%
Dense				
Water	28%	15%	20%	37%
Sanitation	65%	34%	0%	0%
Roads	0%	0%	0%	0%
Solid waste	96%	4%	0%	0%
Electricity	90%	0%	7%	3%
Scattered				
Water	44%	5%	30%	20%
Sanitation	73%	23%	4%	0%
Roads	0%	0%	0%	0%
Solid waste	95%	2%	0%	2%
Electricity	94%	0%	5%	1%
Farmland				
Water	63%	2%	19%	16%

	None/inadequate	Basic	Intermediate	Full
Sanitation	62%	20%	18%	0%
Roads	0%	0%	0%	0%
Solid waste	93%	6%	0%	2%
Electricity	89%	0%	7%	4%

Most households do not receive any formal services. Even the urban area of Impendle can only provide very limited services to its residents, primarily water supply and basic sanitation. The major backlog in the municipality is electricity, with a somewhat higher level of water supply and sanitation services at a basic and intermediate level.

6 EXISTING POWERS AND FUNCTIONS—WHO PROVIDES WHAT?

The following table gives an indication of services that the municipalities *currently* provide. Following the table there is some discussion on the allocation of the services provided.

**Table 11:
Services: Who Provides What?**

Key	
X	Most towns provide service DC provides service for most areas
x	Most towns don't provide service DC provides service only in limited number of areas

	District (DC22)	Large urban (KZ225)	Small urban (KZ223)	Rural (KZ224)
Economic and trading services				
Solid waste: landfill	x	X	X	
Solid waste: collection		X	X	x
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	
Roads, transport and traffic				
Airports		X		
Public Transport				
Taxi Ranks	X	X	X	x
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	
Health and emergency services				
Disaster management	X		X	
Health services	x	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	
Amenities and works				
Child care facilities				X
Libraries		X	X	

	District (DC22)	Large urban (KZ225)	Small urban (KZ223)	Rural (KZ224)
Museums		X	X	
Cultural matters		X	X	
Parks and recreation	X	X	X	
Sport facilities	X	X	X	x
Swimming pools		X		
Municipal halls	X	X	X	
Technical and scientific services	X	X	x	
Cemeteries and crematoria		X	X	x
Protection services				
Municipal police				
Civil defense/protection	x	X		
Planning and regulation				
Planning and architectural services	X	X	X	x
Housing				
Housing		X	X	
Local economic development	X	X	X	

This table is based on services currently provided by the IRC and TLCs. Tribal Authorities do not provide services directly. They are represented on the regional council and the representatives assist in the prioritisation of expenditure from the IRC.

The table does not reflect other service providers. These are mentioned, where appropriate, in the text that follows. As discussed above the primary focus of this research brief was on current expenditure arrangements of local government. Naturally when considering the provision of services the role, and expenditure, of all service providers will need to be considered. In the IRC there is a service providers forum which meets regularly to coordinate the provision of services. Key members of the forum are Umgeni Water Board, DWAF, DoT, Eskom, Dept. of Agriculture, Dept of Local Government and Housing and Telkom.

A degree of subjectivity was required in order to complete the table. Some of the items are not listed specifically on the financial statements, but are included as a result of discussions with officials at the municipality concerned. Further, the table does not give an indication of the quality or extent of the service provided.

6.1 District (DC22)

As with most district councils countrywide the IRC's annual operating budget is largely allocated to the funding of capital projects. It does also play some role in the provision of operating services to the district as a whole, notably in the provision of fire and emergency services for which it is the sole provider of the service in areas outside of Pietermaritzburg. It also plays some role in the ongoing provision of district-wide services such as planning, local economic development and tourism promotion.

Almost all public transport is provided by the private minibus taxi industry. No public transport services are offered by the regional council or by any of the TLCs (until recently Pietermaritzburg (PMB) provided a municipal bus service). The IRC supports the development of taxi ranks in the region. The regional airport is currently run by PMB but is being transferred to the regional council.

The IRC provides bulk water and sanitation support. It is currently taking over responsibility for 6 sanitation works from the province. It also supports some operating and maintenance of water-works which is largely out-sourced to private contractors.

The IRC does not have a specific roads department but does spend a significant proportion of its budget on roads, which are contracted to private contractors to construct. At the moment the IRC co-funds rural roads with the Province. The IRC says that it has insufficient funds to provide the required level of rural roads in the region but does not know where these funds will come from.

The IRC does not manage health services at the moment, although it does provide capital funding for community clinics. It is discussing the transfer of the primary health care clinics from the TLCs to the regional council, in essence to begin developing a district health system. The council funds creches throughout the district. All ambulance services are provided by the province.

The IRC funds a district fire and emergency service. It contracts the service to a private firm, Midlands Fire and Rescue, which runs 8 satellite fire stations in the region. This has been a successful public-private partnership and may be extended.

The IRC takes significant responsibility for planning in the region, including water services, transport, land reform and development planning. It also supports waste management and environmental planning. The IRC has also assumed responsibility for tourism promotion. This includes marketing, better signage and information provision.

It must be stressed the majority of the IRC's funding is directed at capital projects at the local level which fall into a wide range of service categories. However these services are only funded, not operated, by the IRC.

6.2 Large Urban (KZ225)

KZ225, primarily in the form of Pietermaritzburg, carries out almost all municipal functions. It provides the bulk and reticulation functions of all the trading services, only buying in water and bulk electricity from Umgeni Water and Eskom respectively.

The city of Pietermaritzburg currently runs a fire and emergency service which it will transfer to the regional council to become part of the regional fire service. The city has reason to believe that the sharing of the fire services will significantly reduce costs. They believe that a similar sharing of community health services, which has also been proposed, will also reduce costs.

The local authority currently carries out some functions that are better placed at the regional level. For example, Pietermaritzburg manages Oribi airport, as well as a sub-regional landfill site. It is likely that these functions will be allocated to the new district municipality. As with other local municipalities with a large city at its core the new local authority will probably have more capacity in most areas than the regional council (and the new DC22) will have.

6.3 Small Urban (KZ223)

There is only one TLC, Mooi River, making up the small urban core of KZ223. At the moment Mooi River provides a wide range of municipal services. They manage bulk water and sanitation as well as reticulation. They reticulate electricity, buying the bulk electricity from Eskom. The authority collects solid waste and manages a landfill site, and services the towns internal roads.

A small traffic department is run in Mooi River, as well as a vehicle licensing and testing ground which also provides valuable income to the town. Some environmental health functions are carried out, such as food hygiene inspections. The city also runs two cemeteries.

There are local community health clinics managed by the town but fully subsidised by the provincial government. A range of amenities are currently provided including a library service, a small museum (partly funded by the province), 2 sports fields, and a TV relay station. The town also manages a taxi rank.

Mooi River has recently suffered a severe economic setback with the closure of the main employer in the town, Mooi River Textiles. This has spurred the local authority to consider other local economic development opportunities. In this regard they are establishing a local tourism office, to be self-financing with some funding from the IRC. Other options are also being examined through the integrated development plan.

Mooi River has the capacity to deliver municipal services to the urban population of KZ223. However it is unlikely that they will have sufficient spare capacity to address the services backlog in the farming hinterland that will surround the town in the new local municipality. Even with sufficient financing it is not clear that there is sufficient expertise in the local authority to manage an area with three times the current population and a severe services backlog.

6.4 Rural (KZ224)

There is only one TLC in KZ224, Impendle, which is probably one of the smallest TLCs in the country. The TLC has about 50 households in total. Aside from Impendle there is no other local authority providing services in the area of KZ224, with the other service providers being the IRC and external providers.

The TLC currently provides a very limited range of services. It provides reticulated water to the residents which it abstracts, stores and treats. Refuse removal is also provided, with a small dump site being locally managed. The TLC also manages a sports field, and carries out general municipal functions such as managing a sports field and a taxi rank. The TLC has constructed a creche the management of which is carried out on a voluntary basis by the local community.

The maintenance and extension of roads in the area is a high priority but there is no available budget at the TLC level. When grant funding is available from the IRC and province the TLC carries out as much local roadwork as possible.

The TLC relies on the IRC supported fire services. They also rely on the provincial ambulance service, the nearest ambulance being stationed about 40 minutes away from Impendle. The provincial department of health assists with health inspections and other environmental health services when required.

The new local municipality of KZ224 clearly has inadequate capacity to manage even a limited range of municipal functions. The only local capacity lies within Impendle which already relies on the regional and provincial levels of government for support. Any extension of services will have to come with the support of the new DC22.

7 EXISTING MUNICIPAL FINANCING

This section of the report provides a “snap-shot” of operating and capital expenditure for the 1998/99 financial year.

7.1 Operating Expenditure

7.1.1 District Municipality

**Table 12:
DC22 Operating Expenditure**

	DC22 (Rands)	DC22 (%)
Overheads	7,197,080	36%
Economic & trading services	350,000	2%
Roads, transport & traffic	104,000	1%
Health & emergency services	3,702,000	18%
Amenities & works	4,100,000	20%
Protection services	200,000	1%
Planning & regulation	701,000	3%
Housing	0	0%
Local economic development	3,737,138	19%
Total	20,091,218	100%

Most district level operating expenditure is currently allocated to overheads, which includes project management costs. This is followed by amenities and works and health and emergency services, the latter mainly made up of the contract costs of the privatised fire and emergency service provided to the district. Amenities and works refer in the case of IRC almost exclusively to general rural infrastructure costs and only minimally to any true district-wide amenities.

7.1.2 Local Municipalities

The current (1998/99) operating expenditure of the three case study local municipalities is shown in the table below. For each local municipality this expenditure is made up of a *sum* of the current TLC’s expenditure in the geographical area that will make up that new local

municipality. The proportional expenditure on the various categories is compared in the graph following.

Table 13:
Category B Operating Expenditure (%)

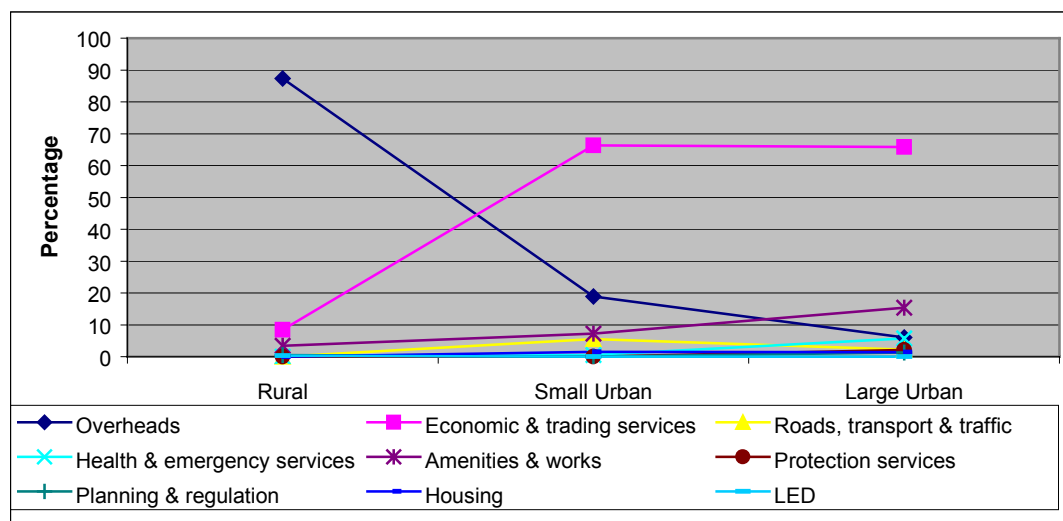
	Rural (R0.35 mil)	Small urban (R17.1 mil)	Large urban (R687.2 mil)
Overheads	87	19	6
Economic & trading services	8	66	66
Roads, transport & traffic	0	6	2
Health & emergency services	0	0	6
Amenities & works	3	7	15
Protection services	0	0	2
Planning & regulation	1	0	1
Housing	0	2	1
Local economic development	0	0	0

Table 14:
Category B Operating Expenditure (Rands/Capita)

	Rural (R0.35 mil)	Small urban (R17.1 mil)	Large urban (R687.2 mil)
Overheads	1,015	363	73
Economic & trading services	98	1,271	786
Roads, transport & traffic	0	106	26
Health & emergency services	0	10	68
Amenities & works	39	138	183
Protection services	0	0	25
Planning & regulation	6	0	16
Housing	0	30	17
Local economic development	0	0	0
Total	1,158	1,918	1,193

(The *per capita* expenditure shown here is for the currently served populations i.e. the TLC populations)

**Figure 2:
Category B Operating Expenditure**



A comparison across the different types of local municipalities is instructive when assessing expenditure patterns of local authorities. The percentage expenditure on overheads decreases from rural to large urban with percentage expenditure on economic and trading services and amenities and works increasing from rural to large urban. The main difference is between rural and urban, with an approximately constant percentage spent on trading services at the small and large urban levels. With respect to overheads there is a large drop in overheads from rural to urban, with a lesser drop from small to large urban.

Table 14, which provides information on a per capita basis, demonstrates clearly the different expenditure patterns of the different settlement types. Although there is a reasonably similar amount spend by the municipalities per capita (on their *current* populations), a substantial proportion of this is spent on overheads at the rural level, leaving little for service provision. The high expenditure on overheads at the smaller local authority scale may be partly due to an artifact of the accounting practice used, where some service delivery functions are ‘hidden’ in the overheads category. However the general trend is likely to be correct. The concern with this pattern is that when much expenditure is on overheads, the ability to spend money on the provision of services is limited.

Aside from overheads, recurrent expenditure on economic and trading services is dominant. As one moves from rural to larger urban municipalities expenditure is allocated to a wider range of services. As would be expected, these expenditure patterns mirror the service provision functions discussed in section 0.

7.2 Operating Income

The focus of this report is on expenditure patterns and therefore operating income is not dealt with to a significant extent. What is interesting, however, is the percentage of operating income made up from the equitable share allocation.

Table 15:
Category Bs: % Income from Equitable Share

	Large urban	Small urban	Rural
% income from Equitable Share	6%	11%	61%

While Equitable Share income is insignificant for the large urban category, it plays an important role in the small urban category and is the mainstay of the rural category. Despite this there is still some confusion about the equitable share at the local level. The smaller TLCs expressed concern about the consistency and clarity of the equitable share revenue stream. Based on their previous allocations they were unsure about the exact amount which they could depend on for the next financial year, and hence felt unsure about medium term financial planning.

7.3 Capital Expenditure

There are limits to looking at capital expenditure for one particular year as it is by its very nature “lumpy”. The figures that follow should be read with this in mind.

7.3.1 Category C

Capital expenditure for the IRC in the table below deals with expenditure for projects within all the areas of the district. It does not include an amount of R1.4 million that was spent on capex associated with the IRC itself. It also excludes some carr-over funding from previous years (these are however relatively minor amounts).

Table 16:
Category C Capital Expenditure (Projects)

	DC22 (Rands)	DC22 (%)
Overheads	0	0%
Economic & trading services	20,284,482	31%
Roads, transport & traffic	16,591,156	26%
Health & emergency services	881,264	1%
Amenities & works	26,666,157	41%
Protection services	0	0%
Planning & regulation	51,704	0%
Housing	0	0%
Local economic development	51,704	0%
Total	64,526,467	100%

Most finances for projects funded by the IRC is allocated to amenities and works. Within this category the two major items are recreational facilities, which makes up about 40% of that category (mainly sportsfields), general rural infrastructure works, about 55% of the category, which is hard to disaggregate further, and creches and halls. The next largest areas of

expenditure are trading services, mainly water supply at the bulk and reticulation level, and roads repair and construction. Other expenditure is insignificant.

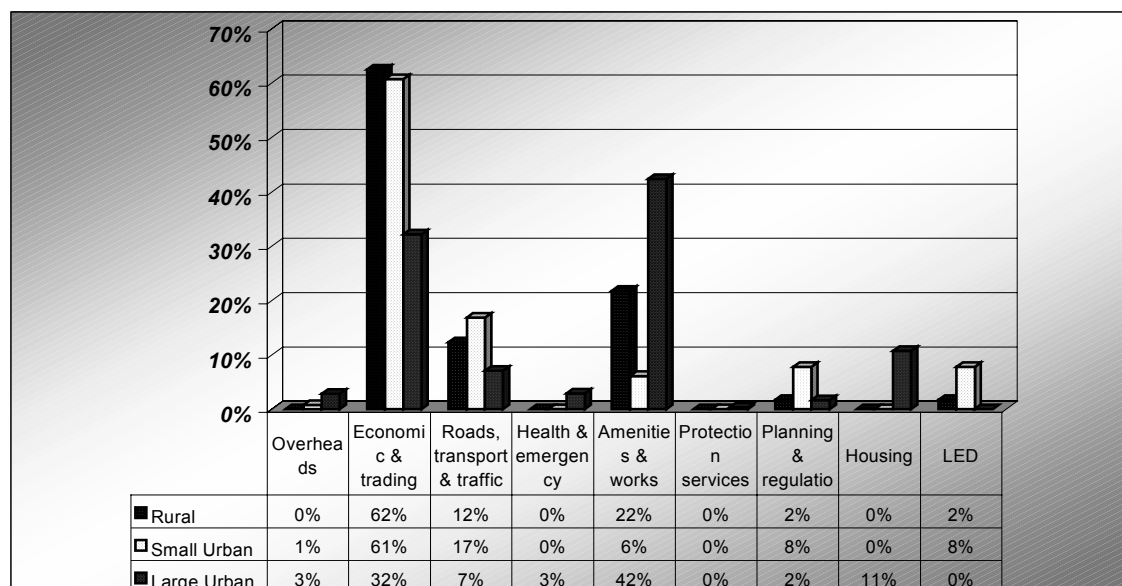
7.3.2 Local Municipalities

As with the operating expenditure the current capital expenditure in the geographical area making up the new local municipalities was summed. In the case of capital there is a significant contribution from the Regional Council. The expenditure of the new local municipalities shown in the table below thus includes that expenditure of the IRC going to the area that will fall within the boundaries of the new local municipality, as well as the current TLC capex. A comparative graph of this expenditure is shown below.

**Table 17:
Category B Capital Expenditure**

	Rural (R1.8m)	Small urban (R4.1m)	Large urban (R160m)
Overheads	0%	1%	3%
Economic & trading services	62%	61%	32%
Roads, transport & traffic	12%	17%	7%
Health & emergency services	0%	0%	3%
Amenities & works	22%	6%	42%
Protection services	0%	0%	0%
Planning & regulation	2%	8%	2%
Housing	0%	0%	11%
Local economic development	2%	8%	0%

**Figure 3:
Category B Capital Expenditure**



In all categories, most capex is spent on economic and trading services. The second highest capital expenditure items are amenities and public works and roads. This is not necessarily indicative of the required expenditure on these services. For example the health services backlog may be extensive but because the service is not primarily a local government responsibility they spend relatively little on its provision.

The large urban municipality spends relatively less on trading services, with a large amount accounted for under the amenities and works category. This is because of the more diverse range of services provided with the works category functioning as a ‘catch-all’ for a range of capital expenditure on the upgrading and provision of a range of urban amenities.

The key concern is that the overall amount of capex going to rural areas is very small. The capex flowing to KZ224 is about 1% of that in KZ225 while the population of the rural municipality is about 6.5% of the large urban one. There is also a greater service backlog in the rural area. In the case of the small urban municipality, KZ223, it receives 2.5% of the capex of KZ225, while having only 1.6% of the larger municipality’s population. It thus receives relatively more capital expenditure than the large urban example.

In this light the new demarcation may assist in a more equitable distribution of resources across the district municipality. However, it must be borne in mind that although the larger municipalities do spend relatively more on new infrastructure their current budgets are not necessarily adequate to extend such levels of infrastructure into their rural hinterlands. The scale of the funding gap is looked at in section 8 below.

7.4 Issues Arising from Previous Three Sections

The above three sections quantify the difference in expenditure patterns between the different types of local municipality. Although there is clearly an absolute difference in expenditure,

with by far the majority of spending being carried out in the large urban areas, there is also a difference in spending patterns. A more diverse range of expenditure, in line with the greater diversity of services provided, is carried out in the larger urban municipalities.

What is not clear from an analysis of the financial statements alone is whether the inadequate expenditure on basic services is due to a lack of available finance or due to insufficient capacity to spend available resources. From an assessment of the case study areas it is likely that part of the problem is inadequate capacity to build and operate services at the TLC level in the rural municipality. However with particular regard to capital expenditure the main constraint is financial. There is probably adequate capacity to identify, contract and fund projects at the District level if there were funds available. However there may well be inadequate capacity to manage the resultant services and infrastructure on an ongoing basis.

A comparison across the municipal types in DC22 suggests that there is a larger gap between the rural and urban municipalities than between the two urban categories. This is indicative of the fact that currently most local government capacity (financial and human resource) lies within the TLCs and that those new local municipalities lacking strong TLCs will be at a significant disadvantage.

Some services deserve specific mention. The regional supply of fire fighting services through a private company has been a successful arrangement and manages to address the lack of capacity to manage such a service at the TLC level. It also is a successful method of the regional council supporting, and effectively subsidising, the smaller TLCs in the district.

During the interviews general concern was expressed at the level of funding available for roads in the district. At both the TLC and regional council level it was felt that there was insufficient funding available to meet the current backlog.

8 MEETING THE BACKLOG

In order to assess the financial implications of addressing services backlogs, a small spreadsheet model was developed which assessed the required operating and capital expenditure in each local municipality studied. From this it becomes possible to compare the current expenditure in the local authority area with the projected, post-demarcation, expenditure.

The expenditure assessment was done on the basis of typical costs of service delivery and current service levels in the new local municipality. This is referred to as the *year 1 expenditure* (in other words the expenditure that will be required in the new local municipality in its first year of operation).

A package of service targets, common to all the three case studies, was used to assess the expenditure requirements over a ten-year period, given that local municipalities will be attempting to improve levels of service for their citizens. A fairly conservative ten-year service delivery package was used. The capital costs derived over the ten year period, as well as operating costs in year ten, is referred to as the *year 10 expenditure*.

The hypothetical and future expenditure are compared against the *current expenditure* already described in the sections above. This gives an indication of the funding gap likely to be experienced in each local municipality.

8.1 Financial Implications—Operating

8.1.1 District Scale

Given the current service levels and based on the projections to meet the backlog, the following table indicates the total operating costs for the district as a whole. These figures are from the District Services Model and indicate the total operating costs for providing services to all households within the boundaries of the DC22.

**Table 18:
Implications of Targets: District Scale Operating Costs (R000's)**

	Year 1	Year 10
Water supply	68,872	140,638
Sanitation	33,186	75,655
Electricity	110,736	230,585
Roads (level 3 & 4)	16,745	19,104
Solid Waste	4,499	12,497
Total	234,038	476,469

Meeting the backlogs will require a large increase in operating expenditure.

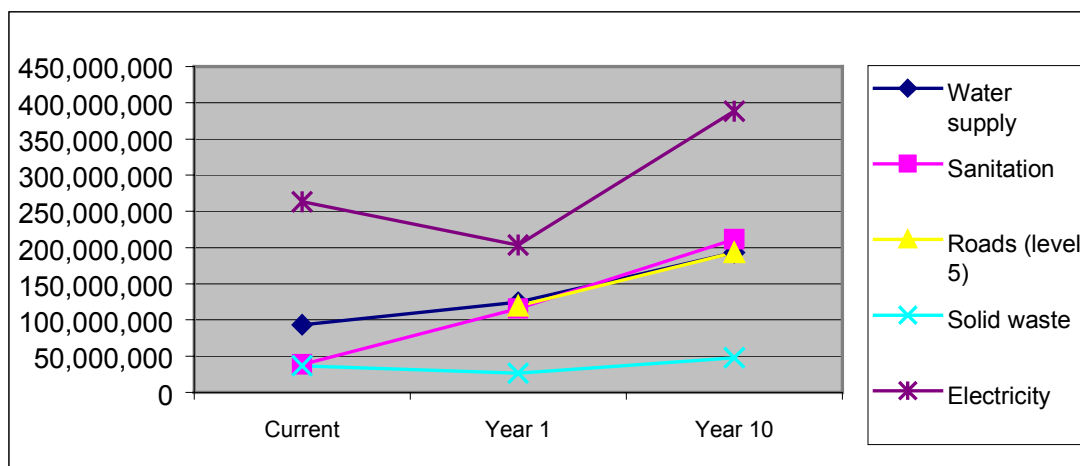
8.1.2 Category Bs

The following tables and graphs highlight how the difference between current expenditure on services versus future required expenditure to meet the backlogs increases most significantly in the rural category and less significantly in the large urban category.

**Table 19:
Implications of the Targets: Opex Within Large Urban (KZ225)**

	Current	Year 1	Year 10
Water supply	93,230,982	124,663,995	192,895,694
Sanitation	38,580,984	115,747,015	211,441,365
Roads (level 5)		119,413,082	192,906,160
Solid waste	37,032,585	26,359,151	47,843,861
Electricity	263,235,203	203,519,979	388,510,493
Total	432,079,754	589,703,222	1,033,597,573

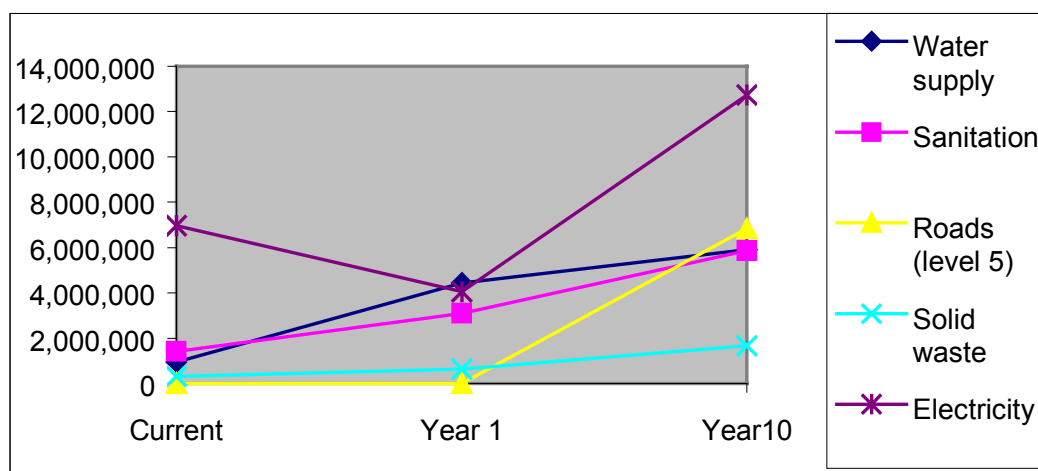
(the hypothetical amounts have been adjusted upwards by 50% from the category B model to take into account non-residential expenditure in Pietermaritzburg)



The model predicts an increasing expenditure for water and sanitation services, and a decreasing expenditure for solid waste and electricity. However the predicted changes can partly be ascribed to the uncertain proportion of current expenditure on non-residential service provision (probably accounting for the fact that more money is currently spent on electricity than the model (based on household requirements) predicts is needed. The predicted changes in spending requirements are probably manageable within the current budget of the local municipality (R680m).

**Table 20:
Implications of the Targets: Opex Within Small Urban (KZ223)**

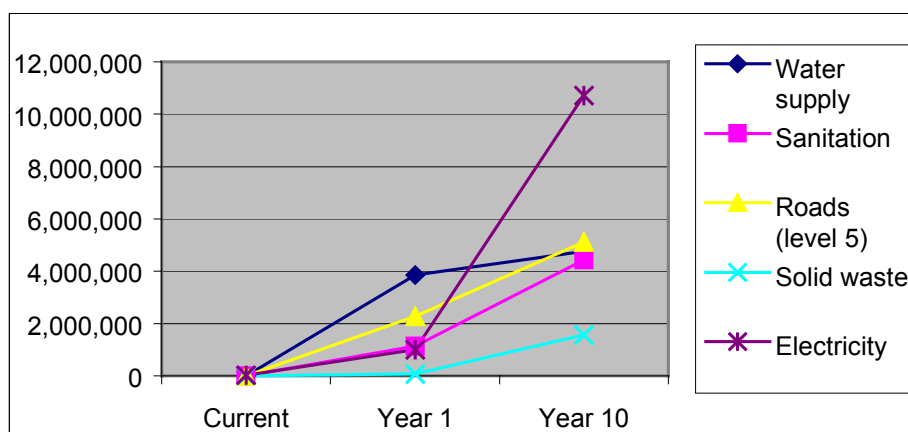
	Current	Year 1	Year 10
Water supply	947,634	4,449,411	5,899,273
Sanitation	1,419,553	3,096,805	5,869,990
Roads (level 5)	951,112	4,194,033	6,402,751
Solid waste	313,323	630,367	1,670,124
Electricity	6,955,341	4,048,688	12,722,940
Total	10,586,963	16,419,305	32,565,079



In the small urban setting there is also a predicted increase in opex from the current to the new (hypothetical) local municipality. The decline in electricity predicted is again probably due to an under-assessment of expenditure on non-residential consumers.

**Table 21:
Implications of the Targets: Opex Within Rural (KZ224)**

	Current	Year 1	Year 10
Water supply	1,081	3,850,056	4,765,265
Sanitation	0	1,134,971	4,426,778
Roads (level 5)	0	2,276,524	5,107,569
Solid waste	1,000	77,701	1,560,641
Electricity	27,273	1,006,576	10,710,689
Total	29,354	8,345,828	26,570,941



As can be seen in the graph, the rural local municipality faces a dramatic increase in expenditure requirements from practically a zero base of expenditure on the main engineering services to a needed expenditure in the starting year of the new municipality of R8m rising to R26m over a ten-year period.

8.2 Financial Implications—Capital

Because of its “lumpy” nature, the capital expenditure implications for meeting the backlogs are not reported in the same way as for operating. Rather the total figures to meet the backlogs over a ten year period are reported.

At the district scale a substantial cost in meeting the backlogs relate to electrification. Because Eskom’s electrification programme is a major input into rural electrification it is not certain that all this expenditure would have to be borne by local government.

Although the backlogs are greatest in the rural and small urban categories, the greatest absolute capital costs will be incurred in the urban category. This is because this is where most households live (mainly in the urban category) and also where service level targets are

slightly higher. There is a somewhat greater capex need in the rural local municipality commensurate with its slightly greater population and backlog.

**Table 22:
Implications of Targets: Total District Scale Capital Costs**

	Capex required R'000s
Water supply	361,174
Sanitation	661,888
Electricity	554,262
Solid waste	88
Roads (level 3 & 4)	1,090,944
Total	2,668,356

**Table 23:
Capex Within KZ225 (Large Urban)**

	Capex required R'000s
Water supply	238,203
Sanitation	426,142
Roads (level 5)	467,721
Solid waste	0
Electricity	339,931
Total	1,471,998

**Table 24:
Capex Within KZ223 (Small Urban)**

	Capex required R'000s
Water supply	8,279
Sanitation	11,296
Roads (level 5)	25,996
Solid waste	0
Electricity	34,203
Total	79,775

**Table 25:
Capex Within KZ224 (Rural)**

	Capex required R'000s
Water supply	8,708
Sanitation	11,632
Roads (level 5)	10,049
Solid waste	0
Electricity	34,203
Total	64,593

9 ISSUES ARISING

The expenditure patterns analysed in the DC22 district reflect the current financial and managerial capacity of the local municipalities looked at rather than the service needs of the areas. The constraints currently experienced will only intensify once the newly demarcated local municipalities are constituted. All the local municipalities looked at will be expanding their populations with very little commensurate expansion of their rates base or of other income streams.

This situation is particularly severe in the case of KZ224 where a tiny TLC serving 350 people at present will form the core of an area with 35 000 inhabitants. The only significant rates base that the new local municipality may have will be commercial farmlands, however the levying of rates on this land is unclear at present. From this it is apparent that significant district level support will be needed to make the new KZ224 municipality a viable local authority that can maintain and extend services.

At present the area encompassed by the KZ224 boundaries receives a relatively low amount of capital funding, given its population size. Thus in the future it will require not only management support but also an increased slice of the district 'pie' if district inequalities are not to continue to grow.

Given the backlog in services in the rural and urban areas of DC22, and the limited management resources, other service providers may well need to assist. There is a precedent in the area of a successful public-private partnership in the provision of fire services to the district. Other service providers, such as Eskom and the Provincial government, are also important in the area and a continuation of a well run service providers forum to co-ordinate service delivery also appears necessary to support emerging local government structures. Given the extensive capacity in the large urban municipality there may be opportunities for the larger local municipalities to assist others in the district with service provision. However, care will have to be taken to avoid disrupting the needed urban management in the large urban municipalities.

In some new local municipalities around the country there is a concern as to how to integrate the previous TLCs now forming the core of a new single municipality. In the case study area this was not really a problem – in KZ224 there was a single TLC that is so small as to

obviously be dependent on district and other support; in KZ223 there is a single medium to small TLC which does not have to integrate with other municipalities; and in KZ225 Pietermaritzburg is so large and dominant that it will obviously be the over-riding force in the new local municipality. Small concerns may arise in the last case, such as the concern of Ashburton TLC that their community library will be forgotten in the changeover, but these are relatively minor.

It appears that a more important concern, and a more important driver of future expenditure patterns, is the allocation and redistribution of locally derived income streams in the District. It is unclear whether the current levy-based system of district-wide capital grants will continue, managed by DC22, or whether local municipalities will have to provide significant support to their rural hinterlands. In the latter case, as has been shown above, the small urban, and particularly the rural local municipalities will face a huge expenditure burden to supply even basic levels of services. Their current local revenue base does not seem adequate for this task and district, provincial or national grants (greater than the current equitable share) will probably be required to ensure that these local municipalities are financially sustainable.

SA LOCAL GOVERNMENT FINANCIAL REFORM PROJECT:
Task 4: Evaluation of Alternative Arrangements of Powers and Functions—Mpumalamga
Case Study – DC32

Evaluation of Alternative Arrangements of Powers and Functions—
Mpumalamga Case Study – DC32

Final Report

10 September 2001

Prepared by Palmer Development Group



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1 INSTITUTIONAL OVERVIEW

1.1 Old and New Municipalities

The current LEDC has a total of 18 council structures, i.e. 10 Transitional Local Councils (TLCs) and 8 Transitional Regional Councils (TRCs). There will be no significant changes in the number of these structures under the new municipal demarcations. All the 10 TLCs and 6 of the 8 TRCs will make up the newly established District Council (DC 32). No TLCs or TRCs have been added from the neighbouring district councils.

Similarly, no major changes in the boundaries of the current LEDC will be made (Figure 1). There will be alignments only to the east of the district council to exclude some portions of the Nsikazi/White River TRC, and to the northeast to exclude the Kruger National Park TRC. The northern boundary of MP324 has also been aligned with the Crocodile River.

At the category B level, these changes effectively reduce the number of the TLCs from 18 to 4 category B's. As shown in Table 1, each of these category B's comprises a combination of TLCs and TRCs.

In terms of impact on the demographics, these changes mean that only one percent of the population will be excluded from the new DC32. Moreover, with regard to the finances of the new DC32, the new boundaries will have a very minimal effect, if any, since the areas to be excluded are primarily rural and therefore likely to contribute a very negligible percentage to the DC's income.

Table 1 :
Category B's: Old and New

New Category B	TLCs	TRCs
MP321 (small urban) – A	Sabie	Lydenburg Rural
	Graskop	Pilgrims Rest
	Lydenburg	
MP 322 (large urban)	Nelspruit	Nelspruit
	Hazyview	Portion of White River/ Nsikazi
	White River	
MP 323 (small urban) – B	Barberton	Barberton Rural
MP324 (rural)	Malelane	Nkomazi West
	Marloth Park	Nkomazi East
	Komatipoort	

**Figure 1:
Map of DC32**



1.2 Other Service Providers

There are other providers that play a role in the delivery of services in the LEDC area. These are the Provincial Department of Health and the Department of Public Works; the Regional Office of the Department of Water Affairs; Eskom; White River Estates Water Board; and Mats Trans bus operators.

2 SOCIO-ECONOMIC OVERVIEW

This section presents the socio-economic profile of the district council as a whole and each of the category B's. It looks at the household and population distribution, household income and the existing state of service provision. With regard to the latter, only four municipal services are covered, i.e. water, sanitation, solid waste and electricity. Table 2 provides the service levels that have been used to assess current service provision.

**Table 2:
Definition of Levels of Service**

	None/ Inadequate	Basic	Intermediate	Full
Water	No reticulation, communal standpipes greater than 200 metres from house	Communal standpipes within 200 metres from house	Yard taps and yard tanks	In-house
Sanitation	Nothing, unimproved pit latrine, bucket toilet	VIP	Simple waterborne or septic tank	Waterborne
Electricity	Unelectrified	Solar panel or limited supply	20 Amp supply	60 Amp supply
Solid waste	Nothing or on-site	Communal dumping site	Communal bins	Curbside

2.1 District (DC32)

DC32 is primarily rural in character, as shown by the 79% of the population in Table 3 below. The majority of the population, however, is concentrated in the dense settlements, with the scattered settlements having the least number of people.

**Table 3:
DC32 Population**

	Population	Households	%
Urban	176,028	41,872	21
Dense	462,975	87,946	56
Villages	60,126	12,402	7
Scattered	4,769	792	2
Farmland	117,893	36,772	14
TOTAL	821,791	179,784	100

Table 4 shows the income profile of the households in DC32. Except for the urban settlements where there are more households earning more than R3 500 per month (about 39%), the majority of the households in the district council live in poverty with salaries of less than R800 per month. The village category is more notable with the highest percentage of poor households and the lowest earning more than R3 500.

**Table 4:
DC32 Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2500 – R2501	> R3500
Urban	37%	9%	9%	6%	39%
Dense	55%	10%	7%	3%	25%
Village	72%	14%	6%	2%	6%
Scattered	58%	11%	5%	1%	25%
Farmland	67%	9%	4%	2%	18%

Table 5 presents a percentage breakdown of the existing state of service provision within DC32 for each of the services mentioned under the five settlement types. As shown, higher levels of service are mainly in the urban settlements.

Depending on the type of rural settlement, the spread of services ranges from a fair distribution across (e.g. water in dense settlements and farmland) to a more concentration of services on the basic level (e.g. solid waste in dense and scattered), and on inadequate services (e.g. electricity in the villages).

**Table 5:
DC32 Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	4%	9%	19%	68%
Sanitation	7%	7%	20%	67%
Roads	0%	0%	0%	0%
Solid waste	5%	15%	1%	79%
Electricity	24%	0%	30%	45%
Dense				
Water	21%	27%	26%	25%
Sanitation	15%	39%	44%	1%
Roads	0%	0%	0%	0%
Solid waste	13%	84%	2%	2%
Electricity	57%	0%	18%	25%
Village				
Water	29%	32%	24%	15%
Sanitation	26%	62%	11%	0%
Roads	0%	0%	0%	0%
Solid waste	22%	67%	1%	10%
Electricity	66%	0%	27%	6%
Scattered				
Water	18%	11%	36%	35%
Sanitation	7%	50%	42%	0%
Roads	0%	0%	0%	0%
Solid waste	12%	84%	3%	1%

	None/inadequate	Basic	Intermediate	Full
Electricity	42%	0%	33%	25%
Farmland				
Water	24%	23%	26%	27%
Sanitation	21%	39%	40%	0%
Roads	0%	0%	0%	0%
Solid waste	21%	39%	6%	33%
Electricity	44%	1%	37%	18%

2.2 Large Urban (MP322)

In terms of the settlement classification, the majority of the population in this municipality is considered to be in dense settlements as shown in Table 6. However, it is important to note that many of the households in these settlements are not necessarily in a rural setting but part of the Nelspruit TLC. This is a big municipality with a relatively sound economic base, and has a total of about 41 000 households.

**Table 6:
Large Urban Population (MP322)**

	Population	households	%
Urban	115,217	26,893	27
Dense	257,200	51,203	60
Villages	8,730	1,726	2
Scattered	3,488	709	1
Farmland	44,249	13,129	10
TOTAL	428,884	93,660	100

As shown in Table 7 the MP322 municipality has a significant number of poor households earning less than R800 per month, averaging to about 46% of the total number of households. The rural areas in particular have a large number of households falling in the lower income categories.

Although the scattered settlements have a distinguishable number of wealthier households (about 47% earning more than R3 500), this remains very low in relation to the total since these scattered settlements have the least number of households (709) as shown in Table 6.

**Table 7:
Large Urban Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2500 – R2501	> R3500
Urban	29%	9%	9%	6%	47%
Dense	56%	14%	11%	4%	15%
Village	50%	33%	5%	3%	9%
Scattered	36%	14%	2%	1%	47%
Farmland	59%	8%	4%	3%	26%

Table 8 shows that in terms of current service provision, the households in urban areas are well served compared to rural households. However, in all the settlements, electricity seems to be the only service with the highest number of households that are inadequately served.

**Table 8:
Large Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	5%	9%	14%	71%
Sanitation	5%	5%	20%	70%
Roads				
Solid waste	6%	20%	1%	74%
Electricity	23%	0%	31%	46%
Dense				
Water	19%	25%	31%	25%
Sanitation	7%	18%	73%	1%
Roads				
Solid waste	10%	87%	2%	0%
Electricity	66%	0%	20%	13%
Villages				
Water	33%	27%	23%	17%
Sanitation	9%	36%	54%	1%
Roads				
Solid waste	10%	89%	0.6%	0.4%
Electricity	78%	0%	22%	0%
Scattered				
Water	19%	13%	39%	28%
Sanitation	8%	45%	45%	2%
Roads				
Solid waste	13%	83%	3%	1%
Electricity	73%	0%	27%	0%
Farmland				
Water	22%	19%	25%	34%
Sanitation	12%	44%	44%	0%

	None/inadequate	Basic	Intermediate	Full
Roads				
Solid waste	11%	51%	6%	31%
Electricity	45%	1%	55%	0%

2.3 Small Urban (MP321) – A

The majority of the population in MP321 is concentrated in the farmland, followed by the urban areas and villages as shown in Table 9. The urban population is mainly in the former TLCs of Graskop, Sabie and Lydenburg.

**Table 9:
Small Urban Population (MP321)**

	Population	Households	%
Urban	22,497	5,960	30
Dense	4,744	1,472	6
Villages	19,388	4,051	26
Scattered	1,281	83	2
Farmland	26,468	10,038	36
TOTAL	74,378	21,604	100

The households in urban and dense settlements are relatively well off compared to the other three settlements, with the highest number of households earning more than R3 500 and the lowest in the less-than-R800 income category, as shown in Table 10. There is a stark contrast in these last three settlements between the lowest and highest income groups which on average, have 78% of households earning less than R800 and only 8% earning more than R3 500.

**Table 10:
Small Urban Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2500 – R2501	> R3500
Urban	27%	8%	8%	6%	51%
Dense	38%	8%	4%	1%	48%
Village	83%	5%	5%	2%	5%
Scattered	80%	8%	7%	0%	5%
Farmland	71%	8%	3%	2%	15%

Table 11 shows that except for the urban areas where the majority of households have a full level of service, the other settlements have a fair mix of service levels ranging from basic to intermediate and full. It is only in villages and farmland where there is a significant number of households with poor electrical services.

**Table 11:
Small Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	2%	0%	31%	67%
Sanitation	2%	2%	28%	67%
Roads				
Solid waste	2%	2%	1%	95%
Electricity	12%	0%	35%	53%
Dense				
Water	1%	0%	56%	43%
Sanitation	2%	0%	78%	20%
Roads				
Solid waste	2%	0%	1%	97%
Electricity	26%	0%	44%	29%
Villages				
Water	21%	53%	18%	8%
Sanitation	3%	97%	0%	0%
Roads				
Solid waste	18%	81%	1%	0%
Electricity	54%	0%	46%	0%
Scattered				
Water	1%	0%	6%	93%
Sanitation	0%	95%	5%	0%
Roads				
Solid waste	4%	95%	1%	0%
Electricity	12%	0%	88%	0%
Farmland				
Water	25%	17%	30%	29%
Sanitation	18%	31%	51%	0%
Roads				
Solid waste	22%	33%	4%	41%
Electricity	44%	1%	55%	0%

2.4 Small Urban (MP323) – B

The MP323 does not have settlements categorised as dense and scattered. Table 12 shows that a large number of the population is in the urban areas and in farmland, with only 1% in villages.

**Table 12:
Small Urban Population (MP323)**

	Populatio n	Households	%
Urban	24,865	6127	57
Villages	280	88	1
Farmland	18,153	5324	42
TOTAL	43,298	11,539	100

Like in MP321, which is also a small-urban type municipality, the urban category has more households in the highest income category than the rural. However, as shown in Table 13, the majority of the households in the urban category, like in the rural, live in poverty.

**Table 13:
Small Urban Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2500 – R2501	> R3500
Urban	43%	12%	12%	6%	27%
Village	82%	9%	8%	0%	1%
Farmland	65%	12%	6%	2%	15%

As is the pattern, most of the urban households have a full level in all services as shown in Table 14. In the farmland, where the second highest number of people live, access to basic services is fairly evenly spread, except for electricity where about 70% of the households have no access.

**Table 14:
Small Urban Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	3%	15%	14%	68%
Sanitation	18%	7%	7%	68%
Roads				
Solid waste	5%	7%	1%	87%
Electricity	33%	0%	27%	40%
Villages				
Water	93%	0%	7%	0%

	None/inadequate	Basic	Intermediate	Full
Sanitation	19%	81%	0%	0%
Roads				
Solid waste	91%	9%	0%	0%
Electricity	100%	0%	0%	0%
Farmland				
Water	30%	36%	16%	19%
Sanitation	29%	42%	29%	0%
Roads				
Solid waste	30%	38%	9%	24%
Electricity	70%	2%	28%	0%

2.5 Rural (MP324)

Unlike in the other three category B's which are more urban, about 95% of the population in MP324 are in rural areas. The majority (73%) is concentrated in dense settlements as shown in Table 15. The urban component of the municipality can be found in the Malelane, Marloth Park and Komatipoort TLC areas, while the rural is located mainly in the 25 or so towns falling under the current Nkomazi East and Nkomazi West TRCs.

No settlements have been categorised as scattered in this municipality.

**Table 15:
Rural Population (MP324)**

	Population	Households	%
Urban	13,449	2,892	5
Dense	201,031	35,271	73
Villages	31,728	6,537	12
Farmland	29,023	8,281	10
TOTAL	275,231	52,981	100

Looked at individually, all the settlements in MP324 have a high percentage of households earning less than R800 per month. However, in comparative terms, Table 16 shows that the urban component has the least number of households earning below R800 and more earning above R3 500.

**Table 16:
Rural Income Distribution**

	R0 – R800	R801 – R1500	R1501 – R2500	R2500 – R2501	> R3500
Urban	49%	7%	7%	5%	31%
Dense	71%	8%	6%	2%	13%
Village	75%	7%	5%	2%	11%
Farmland	71%	5%	2%	1%	20%

Like in the other municipalities, much of the backlog is in electricity, as shown in Table 17. With regard to other services, the urban areas are well served compared to the rural. However, a significant number of rural households do have access to a very basic level of service.

**Table 17:
Rural Service Provision**

	None/inadequate	Basic	Intermediate	Full
Urban				
Water	5%	6%	45%	45%
Sanitation	5%	33%	35%	28%
Roads				
Solid waste	4%	21%	1%	74%
Electricity	40%	0%	24%	35%
Dense				
Water	25%	32%	25%	17%
Sanitation	27%	71%	1%	0%
Roads				
Solid waste	16%	82%	1%	0%
Electricity	77%	0%	14%	9%
Villages				
Water	32%	21%	28%	19%
Sanitation	46%	47%	7%	0%
Roads				
Solid waste	28%	53%	1%	18%
Electricity	82%	1%	17%	0%
Farmland				
Water	21%	30%	28%	20%
Sanitation	32%	40%	28%	0%
Roads				
Solid waste	31%	28%	8%	33%
Electricity	71%	0%	29%	0%

2.6 Current State of the Roads

Although there was no information available which is specific to the municipal categories, the road condition in the LEDC is generally in a poor state. According to the Provincial Department of Public Works, Roads and Transport (April, 2000), about 60% to 70% of the roads are considered to be in a very poor condition. It has been acknowledged therefore that there is an urgent need to rehabilitate and maintain these roads to avoid further deterioration.

3 EXISTING POWERS AND FUNCTIONS – WHO PROVIDES WHAT?

Table 18 below gives an indication of services that the municipalities currently undertake. Following the table there is some discussion on the services provided.

**Table 18:
Services: Who Provides What?**

Key	
X	Most towns provide service DC provides service for most areas
x	Most towns don't provide service DC provides service only in limited number of areas

	District (DC32)	Large urban (MP322)	Small urban (MP321)	Small urban (MP323)	Rural (MP324)
Economic and trading services					
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	x	X	X	X	X
Water: reticulation		X	X	X	X
Electricity		X	X	X	X
Market and abattoirs			x		
Commercial property					
Roads, transport and traffic					
Airports		x	x	x	
Public transport					
Road traffic regulation		X	X	X	X
Vehicle licensing		X	X	X	X
Pontoons, ferries, jetties, piers and harbours					
Roads	x	X	X	X	X
Traffic and parking		X	X	X	X
Health and emergency services					
Disaster management		X	X	X	X
Health services		X	X	X	X
Firefighting services		X	X	X	X
Ambulance services		X	X	X	x
Facilities for accommodation, care and burial of animals (usually a pound)		X	X	x	x
Licensing and control of undertakings that sell food to the public (environmental health)		x	x		
Amenities and works					
Child care facilities			x		
Libraries		X	X	X	X
Museums			x		
Cultural matters					
Parks and recreation		X	X	X	X
Beaches and amusement facilities					
Sport facilities		X	X	x	
Swimming pools		x		X	
Municipal halls		x	X	X	
Technical and scientific services		x			
Cemeteries and crematoria		X	X	X	x
Protection services					

	District (DC32)	Large urban (MP322)	Small urban (MP321)	Small urban (MP323)	Rural (MP324)
Municipal police		x			
Civil defense/protection		x	x	x	x
Planning and regulation					
Planning and architectural services	x	x			
Housing					
Housing		X	X		x
Local economic development					

As the table shows, there is a very limited role played by the LEDC in service provision. These are functions provided mainly by the TLCs. The TRCs play a very limited role in service provision, which is more on the operation and maintenance of some of the services in their areas of jurisdiction. The precise roles of each of these municipalities are discussed below.

3.1 District (DC32)

The LEDC currently plays a limited role in the provision of services to TLCs and TRCs. With regard to TLCs, it only provides funding for capital projects. The TLCs submit requests for funding and based on criteria related to the Masakhane initiative, allocations are made to the different TLCs.

Similarly, in the TRCs, the LEDC is responsible for capital projects. Specifically, the services the LEDC is involved in are water and roads. Although the LEDC keeps the year-end financial records of the TRCs, the latter are responsible for basic service delivery and maintenance in their areas. However, given their limited capacity, the TRCs do not perform any other function beyond this. In terms of water provision, the LEDC acts mainly as an implementing agent for DWAF funded projects but also provide capital finance for some. Sanitation in the TRC areas is provided through a programme administered by DWAF. Electricity, both bulk and reticulation, is Eskom's responsibility.

With regard to roads, the LEDC provides capital finance for new roads and upgrading. The main priority though is the district roads which link the various villages to increase accessibility. The maintenance of the roads, particularly local village roads, is undertaken by the TRCs themselves.

The traffic services are mainly a provincial function in areas outside of the TLCs. Similarly, with health and emergency services, the LEDC does not play a role. Health in the TRC areas is the responsibility of the Provincial Health Department. The LEDC can only assist with disaster management in cases of major emergencies.

Public amenities in the TRC areas are usually provided by the Provincial Department of Public Works. Insofar as planning is concerned, the LEDC, through the appointment of consultants, is responsible for Integrated Development Plans and Water Services Development Plans for the TRC areas. The TLCs prepare their own plans.

3.2 Large Urban (MP322)

All the three TLCs in MP322 provide most of the municipal services to consumers. Two of the TLCs, Hazyview and White River, are responsible for all trading services (water, sanitation, solid waste and electricity) within their areas of jurisdiction. Water and sanitation in Nelspruit are provided by a private utility company. With regard to electricity, they all buy in bulk from Eskom and then retail to consumers.

As for roads, the TLCs are responsible for local roads within their municipal boundaries. The TLCs have no role to play in the provision of public transport, except to provide space to operate it (i.e. ranks and termini). Public transport is provided by taxis and private bus operators (Mats Trans buses operated by the Northern Province Government - Old Lebowa Government). The traffic services are also provided by the TLCs.

On health, the TLCs operate clinics that are funded by the Provincial Department of Health. White River also has a mobile clinic functioning in the area. In essence, these TLCs play an agency role for the Department.

Emergency services (protection services, fire fighting and disaster management) are provided by the TLCs. The Forestry Act requires the TLCs in this area to have disaster management equipment because of the surrounding cliffs and forests. This was initially the responsibility of the LEDC, then the Provincial Department of Health which is now under-resourced, hence the take over by the TLCs.

The cemeteries, libraries, cultural centres, parks and recreational facilities are the responsibility of the TLCs and are fully funded by them.

In White River, planning is driven by the City Secretary's Department which sometimes uses consultants to do some of the work. Nelspruit has an Urban Planning Department which does all the planning work. There are old by-laws and building regulations which were developed jointly by the TLCs. These are uniform except for the tariff charges which are determined by the individual TLCs.

Under the new boundaries the three TLCs, with a current collective population of about 205 000, will more-than-double this figure to 428 000, with the addition of the Nelspruit TRC and portions of the Nsikazi/White River TRC. These TLCs will inherit a very limited budget from the TRCs and therefore face major challenges on service delivery. For this reason, there is likely to be an increased need for the Category C to intervene financially in this category B municipality.

For instance, in 1998/99 the three TLCs together had an operational expenditure of about R220.3 million, and a capital expenditure of R26.9 million. This is quite substantial compared to the TRCs' capital expenditure of R8.4 million and operational expenditure of only R700 thousand for the same population number. In both the TLCs and the TRCs, capital expenditure includes capital projects undertaken by LEDC.

3.3 Small Urban (MP321) – A

Like in the large urban, all the three TLCs in MP321 provide most of the municipal services to consumers. These TLCs are responsible for all trading services within their areas of jurisdiction. With regard to electricity, the Lydenburg TLC also has a hydropower station to supplement the Eskom supply. This, however, still needs to be fixed in order to work properly.

Lydenburg also has solid waste skips which are rented out for garden refuse and to businesses. These are also placed at strategic points for communities.

The TLCs are also responsible for local roads within their municipal boundaries and have no role to play in the provision of public transport, except to provide space to operate it (i.e. ranks and termini).

In terms of health provision, there is some co-operation between Graskop and Sabie TLCs. For instance, in Graskop, the TLC provides the physical infrastructure in the form of a clinic and medication is provided by the neighbouring Sabie TLC, which claims back the costs from the Provincial Department of Health. This Department also pays the salaries of the two nurses who operate the Graskop clinic. In essence, these TLCs play an agency role for the Department.

Furthermore, the Environmental Officer/Health Inspector from Sabie also works in Graskop and gets paid on a time-cost basis. The two clinics and a hospital in Lydenburg are also the responsibility of the Provincial Department.

Emergency services (fire fighting and disaster management in particular) are provided by the TLCs. In Graskop, these are done with the assistance of two volunteers from the community. The other three TLC staff members responsible are not personnel specifically tasked with this responsibility, they perform other functions in the absence of disasters.

The cemeteries, libraries, parks and recreational facilities are the responsibility of the TLCs. In Lydenburg, these include a nature reserve.

The TLCs do not have Town Planning Departments and therefore use consultants to undertake their IDPs, rezoning and sub-division of land.

Like in the large urban municipality, the future expenditure implications will have to be thoroughly assessed in relation to the additional population that the TLC will have to provide services to, considering that the TRC budgets are very limited. Currently the CAPEX and OPEX for the 3 TLCs is R4.6 million and R55.7 million respectively for a combined population of 27 000. For the TRCs, the CAPEX and OPEX are R2 million and R693 thousand respectively for a population of 48 000.

3.4 Small Urban (MP323) – B

The Barberton TLC is the only TLC in MP323. It currently provides virtually all the municipal services to consumers in its area of jurisdiction. It is only in the health services where the TLC is assisted by the Provincial Department of Health.

Although there is a Planning Department within the municipality, this is responsible primarily for development control and rezoning applications. The preparation of IDPs and township establishments are undertaken by consultants.

Being the only TLC in MP323 with a population of about 48 500 under the new boundaries, the TLC is likely to face major challenges in the provision of services in future. This is considering that currently the TLC provides services to 24 865 people, almost half the population size under the new municipal arrangements.

3.5 Rural (MP324)

Of the three TLCs in MP324, Malelane and Komatipoort are currently responsible for most of the service provision functions in their areas. They are playing roles similar to the TLCs in the large and small urban category B's.

Marloth Park, however, which is a very small TLC of about 580 people, also relies on the neighbouring TLCs for a number of services. For instance, the households in this TLC use clinics in Malelane or Komatipoort. The same applies to emergency services except for fire fighting equipment which Marloth Park had to acquire for veld fires.

With regard to electricity, the majority of households are provided directly by Eskom. The TLC provides to a few households. There are also no cemeteries and libraries in Marloth Park, and people make use of facilities in Komatipoort.

With regard to Komatipoort itself, it is only emergency services that are not provided by the TLC. In times of major emergencies, assistance is sought from neighbouring Malelane. On development planning, all the TLCs are responsible for rezoning, development controls and building regulations. The detailed IDPs/LDOs are prepared by consultants.

For this predominantly rural environment, it is equally important to note that these three TLCs will together be taking over an additional 231 700 people from the Nkomazi East and Nkomazi West TRCs (6 times more than their current population figures). There are clearly major financial implications for service provision in this new arrangement.

The three TLCs, with a combined population of about 38 700, had an operational expenditure of R36 million in 1998/99 and capital expenditure of R7.5 million. The two TRCs, on the other hand, expended only R2.2 million on operational costs and R14.6 million on the capital account. Looking at the extent of rural services backlogs shown in Table 17 and the current expenditure patterns in relation to consumers served, this means that the new category C will have to play an active role in service delivery in this category B, either through direct provision or substantial transfer of funds for this municipality to function more effectively.

For instance, according to a senior traffic official in Malelane, the three TLCs currently have 21 staff servicing these areas and under the new boundaries, they will need about 92 personnel.

4 EXISTING MUNICIPAL FINANCING

This section of the report provides a “snap-shot” of operating and capital expenditure for the 1998/99 financial year.

4.1 Operating Expenditure

4.1.1 Category C

As it has been mentioned earlier, the LEDC plays a very limited role in the delivery of specific municipal services in the TLCs and TRCs. It focuses mainly on funding capital projects, which will be covered in the next section on capital expenditure. As a result, much of the operational expenditure (87%) is on local authority functions as shown in Table 19.

**Table 19:
DC32 Operating Expenditure (DC32)**

Local authority functions	38,863,175	87%
Administration (incl. Levies income)	5,603,322	12%
Regional functions	12,400	1%
Total	44,478,897	100%

4.1.2 Local Municipalities

Table 20 shows that in all the four types of municipalities, much of the expenditure is on economic and trading services. The average expenditure across all municipalities on this item is about 55% of their operating budgets. However, the highest expenditure is in the small urban category, followed by the large urban and then the rural.

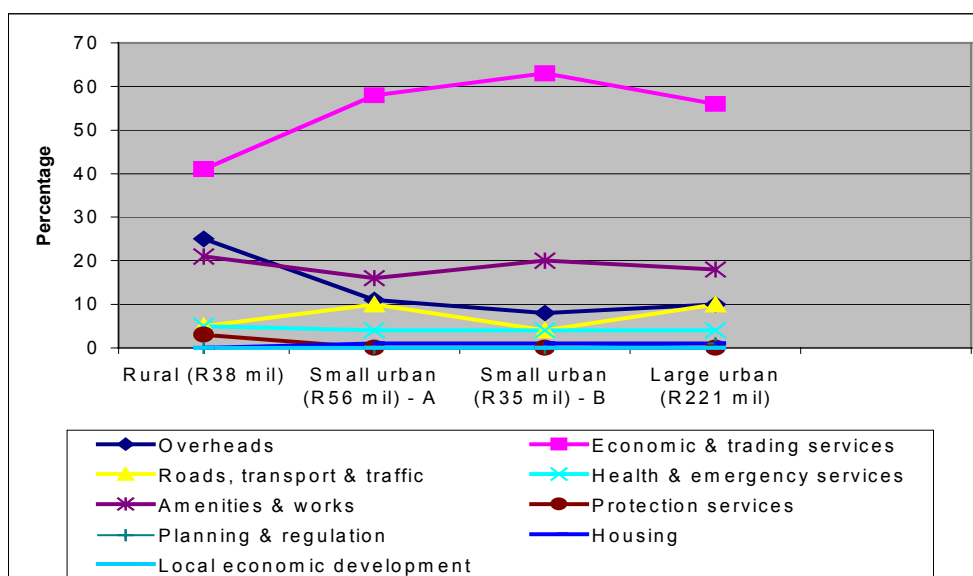
**Table 20:
Category B Operating Expenditure**

	Rural (R38 mil)	Small urban (R56 mil) – A	Small urban (R35 mil) – B	Large urban (R221 mil)
Overheads	25%	11%	8%	10%
Economic & trading services	41%	58%	63%	56%
Roads, transport & traffic	5%	10%	4%	10%
Health & emergency services	5%	4%	3%	4%
Amenities & works	21%	16%	20%	18%
Protection services	3%	0%	0%	0%
Planning & regulation	0%	0%	0%	1%
Housing	0%	1%	1%	1%

Local economic development	0%	0%	0%	0%
Total	100%	100%	100%	100%

All the municipalities seem to have similar expenditure patterns (Figure 2), with the highest being on economic and trading services; followed by amenities and works; overheads; roads, transport and traffic; health and emergency services; housing; protection services; as well as planning and regulation. None of them has allocations to local economic development. This clearly shows the relative significance to municipalities of the different services across DC32.

**Figure 2:
Category B Operating Expenditure**



In the rural category there is a significant amount spent on overheads. This is more than double all the overhead expenditures in other categories. With regard to protection services, only the rural category has allocations to this item. On housing, however, the opposite is the case. It is only the urban categories that spend on this and not the rural.

Spending on planning and regulation is only in the large urban category, which has a fully functional Urban Planning Department. Only one percent though of the total expenditure goes to this item.

Table 21 illustrates the operating costs per capita in each of the municipalities. Similarly, most of the per capita cost is in the economic and trading services, followed by amenities and works.

**Table 21:
Category B Operating Expenditure (Rands/Capita)**

	Rural (R38 mil)	Small urban (R56 mil) – A	Small urban (R35 mil) – B	Large urban (R221 mil)
Overheads	34	85	68	52
Economic & trading services	57	439	511	287
Roads, transport & traffic	7	75	35	51
Health & emergency services	7	32	22	23
Amenities & works	29	119	158	92
Protection services	5	0	3	1
Planning & regulation	0	0	0	7
Housing	0	8	9	3
Local economic development	0	0	0	0
Total	138	759	806	515

4.2 Operating Income

Although the analysis of income does not fall within the purview of this exercise, it is important to note that much of the municipal income comes from trading and economic services. Electricity is the main contributor to municipal income, except in Marloth Park (in MP324), where the service is provided directly by Eskom to the majority of households. Only a few houses are provided by the TLC and therefore much of the trading services revenue comes from water.

Of particular interest to this study, however, is the income from equitable share. In all the urban categories, this income ranges from 3 to 5 percent of the total income as shown in Table 23. In the rural areas it is about 10%. Given the significant percentages of households earning less than R800 in the category B's, there might be a need for increased equitable share allocations to boost their operating income.

**Table 22:
Category Bs: % Income from Equitable Share**

	Large urban	Small urban	Small urban	Rural
% income from Equitable Share	5	3	4	10

4.3 Capital Expenditure

4.3.1 Category C

The capital expenditure in Table 24 below is for capital projects that the LEDC funds in the TLCs and the TRCs. Of the R40 million spent in 1998/99, 62% was on the TRCs and the remaining 32% on the TLCs. However, this was not evenly spread across all the TRCs, with 34% going to the White River/Nsikazi TRC, 32% to the Nkomazi West TRC and 26% to the Nkomazi East TRC.

As the table indicates, about 61% of the total expenditure is allocated to economic and trading services, followed by amenities and works which take up about 22%. A total of 11% goes to roads, transport and traffic.

Table 23: Category C Capital Expenditure (Projects)

	Rands	%
Overheads	996,608	2%
Economic & trading services	24,086,458	61%
Roads, transport & traffic	4,400,910	11%
Health & emergency services	695,000	2%
Amenities & works	8,611,479	22%
Protection services	0	0%
Planning & regulation	833,345	2%
Housing	0	0%
Local economic development	0	0%
Total	39,623,800	100%

4.3.2 Local Municipalities

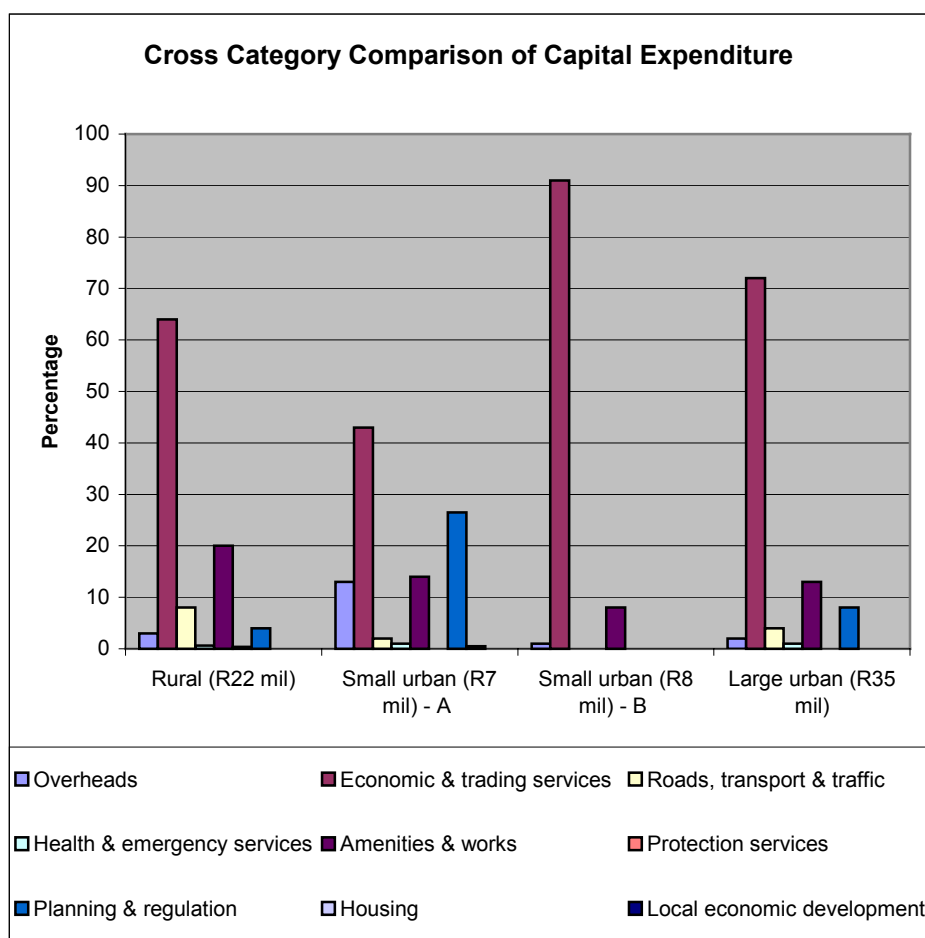
In all the categories, most of the capital expenditure is allocated to economic and trading services, which are the services considered most critical for consumers. After this item, the allocations vary depending on the municipality, as Table 24 shows. In the rural category, the next highest expenditure item is amenities and works, followed by transport and roads.

In one of the small urban categories (A), the next highest expenditure item is planning and regulation and then amenities and works. The rest is spread across roads, health and housing. In the other small urban (B), the next expenditure item after economic and trading services is amenities and works and then overheads. These are the only three items for capital expenditure.

A pattern similar to the other categories occurs in the large urban, with economic and trading services followed by amenities and works, planning and regulation, roads, overheads and health.

**Table 24:
Category B Capital Expenditure**

	Rural (R22 mil)	Small urban (R7 mil) – A	Small urban (R8 mil) – B	Large urban (R35 mil)
Overheads	3%	13%	1%	2%
Economic & trading services	64%	43%	91%	73%
Roads, transport & traffic	8%	2%	0%	4%
Health & emergency services	0.6%	1%	0%	1%
Amenities & works	20%	14%	8%	13%
Protection services	0.4%	0%	0%	0%
Planning & regulation	4%	26.5%	0%	8%
Housing	0%	0.5%	0%	0%
Local economic development	0%	0%	0%	0%
Total	100%	100%	100%	100%



4.4 Capital Income (Sources)

Sources of capital income range from government subsidies and grants, contributions from the municipality's income and borrowing. The focus in this report is on expenditure reflected on either the district or local government's financial statements. With the larger, well-capacitated municipalities, sources for capital expenditure are usually clearly stated. However, with the smaller, less capacitated TLCs and TRCs, sources for capital expenditure and the capital expenditure itself is not always reflected on the financial statements.

5 MEETING THE BACKLOG

In order to assess the financial implications of addressing services backlogs, a small spreadsheet model was developed which assessed the required operating and capital expenditure in each local municipality studied. From this it becomes possible to compare the current expenditure in the local authority area with the projected, post-demarcation, expenditure.

The expenditure assessment was done on the basis of typical costs of service delivery and current service levels in the new local municipality. This is referred to as the *year 1 expenditure* (in other words the expenditure that will be required in the new local municipality in its first year of operation).

A package of service targets, common to all the three case studies, was used to assess the expenditure requirements over a ten-year period, given that local municipalities will be attempting to improve levels of service for their citizens. A fairly conservative ten-year service delivery package was used. The capital costs derived over the ten year period, as well as operating costs in year ten, is referred to as the *year 10 expenditure*. The hypothetical and future expenditure are compared against the *current expenditure* already described in the sections above. This gives an indication of the funding gap likely to be experienced in each local municipality.

5.1 Financial Implications—Operating

5.1.1 District Scale

Given the current service levels and based on the projections to meet the backlog, Table 25 indicates the total operating costs for the district as a whole. Meeting the backlogs will require a large increase in operating expenditure, with the total costs increasing by about 67% in year 10.

Table 25:
Implications of targets: district scale operating costs

	Year 1	Year 10
Water supply	54,546,000	79,340,000
Sanitation	18,321,000	36,757,000
Roads (level 3 & 4)	21,868,000	29,264,000
Solid waste	6,742,000	7,949,000
Electricity	94,950,000	175,080,000
Total	196,427,000	328,390,000

5.1.2 Local Municipalities

Tables 25 to 28 (and the associated graphs) show how the operational expenditure increases from year one to year ten. As illustrated, the total costs double over the investment period. The rural category is even more noticeable with an almost three-fold increase.

Of interest to note in the graphs is the trend in the manner in which similar services compare between the different municipal categories. In all of them there is a significant increase in expenditure on electricity, followed by water and sanitation. The expenditure for solid waste and roads seem to be fairly constant across all the municipalities.

Table 26:
Implications of the Targets: Opex Within Large Urban (MP322)

	Current	Year 1	Year 10
Water supply	17,677,170	69,877,696	87,990,661
Sanitation	17,382,610	70,745,380	87,274,804
Roads (level 5)	0	0	103,973,300
Solid waste	12,393,678	17,245,933	25,118,132
Electricity	75,465,477	79,933,148	190,187,491
Total	122,918,935	237,802,157	494,544,388

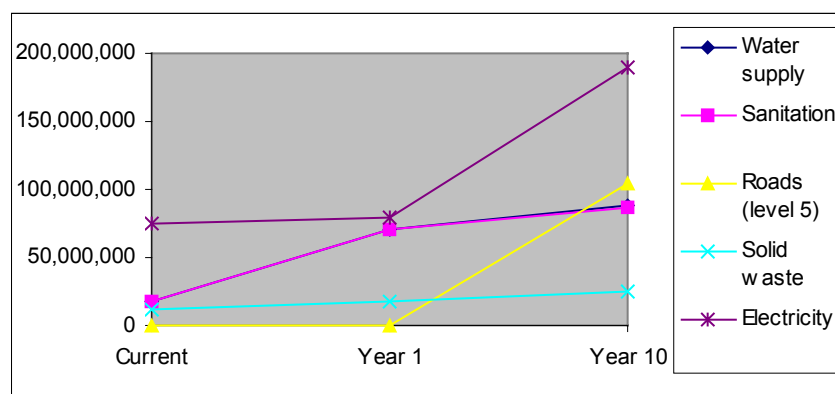


Table 27:
Implications of the Targets: Opex Within Small Urban (MP321) – A

	Current	Year 1	Year 10
Water supply	4,692,777	17,437,495	20,522,579
Sanitation	4,116,213	15,942,966	20,456,055
Roads (level 5)	0	0	24,155,360
Solid waste	2,545,843	4,851,978	5,962,052
Electricity	20,196,252	22,521,502	44,247,895
Total	31,551,885	60,753,942	115,343,941

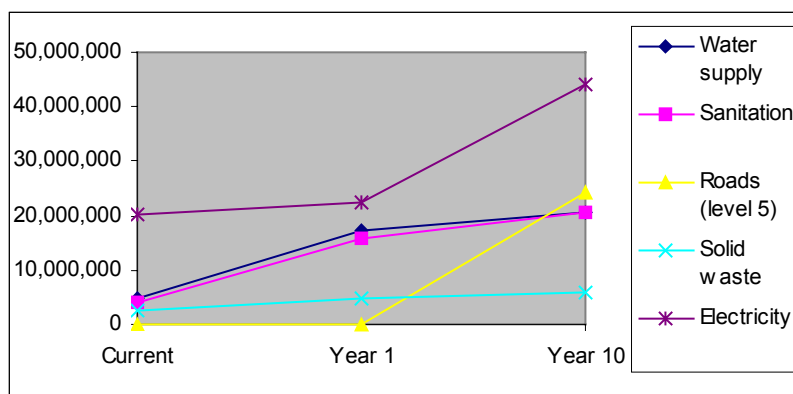
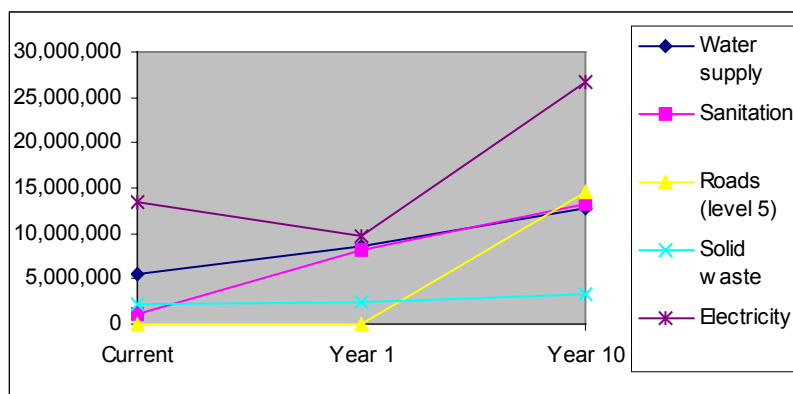


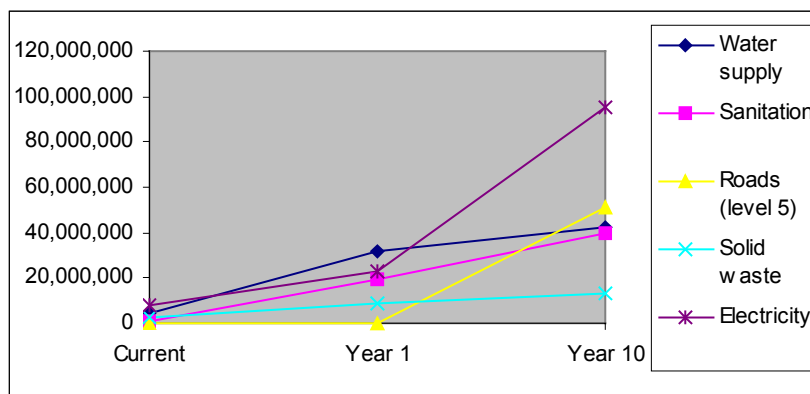
Table 28:
Implications of the Targets: Opex Within Small Urban (MP323) – B

	Current	Year 1	Year 10
Water supply	5,497,021	8,526,596	12,741,654
Sanitation	1,004,695	8,140,867	13,278,008
Roads (level 5)	0	0	14,631,757
Solid waste	2,194,574	2,407,040	3,378,674
Electricity	13,419,720	9,623,100	26,629,605
Total	22,116,010	28,697,603	70,659,697



**Table 29:
Implications of the Targets: Opex Within Rural (MP324)**

	Current	Year 1	Year 10
Water supply	4,345,530	31,524,202	42,426,086
Sanitation	895,983	19,270,229	39,414,852
Roads (level 5)	0	0	51,536,349
Solid waste	2,482,553	8,568,390	13,356,785
Electricity	7,860,651	23,095,076	95,533,913
Total	15,584,717	82,457,897	242,267,986



5.2 Financial Implications—Capital

Due to the extent of the service backlogs in the district, there are major capital costs that will be incurred. The total cost for addressing these backlogs in the district as a whole over the ten-year period is about R3 billion, which is likely to be a major challenge given the budgetary constraints under which municipalities often operate.

About 50% of this total is a cost to the large urban category not only because 50% of the population is concentrated here but also because this settlement type, by its very nature, requires higher levels of service.

Similarly, as shown in Tables 29 to 33, the capital cost allocations to the other three category B's also relate to the population sizes to a large extent.

In both the district and the category B's (except rural), most of the expenditure is taken by roads, followed by electricity. This is primarily because of the current state of the roads within the district and the electricity backlogs mentioned earlier in the report. Moreover, the scenario modelled assumes that all the backlogs will be addressed by year ten. In the rural category, the opposite is the case – much of the capital expenditure requirements are in electricity which is then followed by roads.

**Table 30:
Implications of Targets: Total District Scale Capital Costs**

	Capex required
Water supply	183,659,000
Sanitation	248,138,000
Roads (levels 3 and 4)	2,325,690,000
Solid waste	43,000
Electricity	371,998,000
Total	3,129,528,000

**Table 31:
Capex Within MP322 (Large Urban)**

	Capex required
Water supply	155,443,000
Sanitation	190,751,000
Roads (level 3 & 4)	761,415,000
Solid waste	0
Electricity	469,893,000
Total	1,577,502,000

**Table 32:
Capex Within MP321 (Small Urban) – A**

	Capex required
Water supply	35,871,000
Sanitation	37,322,000
Roads (level 3 & 4)	117,762,000
Solid waste	0
Electricity	112,428,000
Total	303,383,000

**Table 33:
Capex Within MP323 (Small Urban) – B**

	Capex
Water supply	23,066,000
Sanitation	31,407,000
Roads (level 3 & 4)	88,826,000
Solid waste	0
Electricity	70,129,000
Total	213,428,000

**Table 34:
Capex Within MP324 (Rural)**

	Capex
Water supply	83,318,000
Sanitation	35,054,000
Roads (level 3 & 4)	340,235,000
Solid waste	0
Electricity	361,442,000
Total	820,049,000

5.3 Concluding Comments

This analysis has shown that with regard to the current state of service provision, the urban areas in all category B's are relatively well served compared to the rural components. Within each category B, the urban settlements have the largest numbers of households with a full level of service, and a lower extent of the backlogs than the small urban categories. This is followed by the dense settlements which have a substantial number of households with at least a basic service level.

As one moves to the three other settlements on the lower levels of the settlement hierarchy (i.e. village, scattered, farmland), there is a high percentage of households without a basic

level of service. This raises the need to ensure that these areas are included in the priority areas for service delivery by the future municipalities.

Related to this, however, is the issue of resources (financial, human and institutional), given the fact that these new municipalities will be doubling their current population sizes (the rural is even more with a six-fold increase). Moreover, the TRCs have always had limited capacity to deliver services. Thus there will be a need for an audit of the existing capacity within the TRCs to assess the extent of intervention required from the TLCs in the areas currently administered by them.

Furthermore, the future District Council might have to play a significant role in the delivery of services in these areas, either in the form of support functions to the municipalities and other existing service providers, or providing services directly.

In terms of the provincial government involvement, there are instances where some services, for example health, have been provided by the department itself or the TLCs as agents of the department. These roles may have to be reviewed so that the best approach to delivering such services is adopted.

Given the skewed income distribution in these municipalities, especially the small urban and rural categories, the issue of ability to pay for services to ensure long-term sustainability becomes critical. The equitable share finance is the source of operating income that can be utilised to subsidise households who cannot afford service charges. The critical issue that requires attention here is that of targeting, since the municipalities can use this income at their own discretion, and not necessarily use it to subsidise basic services.

In the final analysis, it is the ability of the new municipalities to deliver services efficiently that will indicate the degree to which the new municipal arrangements are workable. This will be bearing in mind the new areas that the TLCs have to inherit and therefore the support that will be expected from other spheres of government, given the added responsibilities of these TLCs.