

ENHANCING FISCAL AND OPERATIONAL SUSTAINABILITY IN WESTERN CAPE LOCAL MUNICIPALITIES

This fact sheet is based on a research study on the impact of the Covid-19 pandemic on municipal fiscal sustainability in the Western Cape (WC), which was completed in April 2021. The study was commissioned by the Department of Local Government in the Western Cape, and was conducted by the School for Public Leadership at Stellenbosch University in partnership with the Hanns Seidel Foundation.

The local municipalities in the sample included Stellenbosch, Drakenstein (large municipalities), Bergrivier, Hessequa (medium sized municipalities) and Swellendam, Kannaland and Laingsburg (small municipalities).

This fact sheet offers some recommendations which could improve the resilience of the response of Western Cape municipalities to the pandemic. Many of these could have relevance to municipalities in other provinces as well.

Funding of capital programmes:

Municipalities should:

- review their systems of capital project prioritisation in the face of tightening capital budget constraints to ensure that they balance social infrastructure (e.g. informal settlement backlogs) with economic infrastructure that can generate revenues and grow the tax base, and balance new infrastructure with rehabilitation and upgrades.
- build a pipeline of shovel ready projects in a pipeline and aim to deliver early in the financial year to order to take advantage of additional unplanned capital funding grant opportunities.
- build up their internal reserves to help finance their capital expenditure and facilitate borrowing once the pandemic has ended. This has implications for tariff setting in order to generate operating surpluses.
- consider project finance and other forms of off-balance sheet lending where bankable projects can be identified. Cooperation among municipalities with provincial government support to help identify and package bankable projects may be required for projects which transcend the boundaries of any single municipalities like dams, and renewable natural gas projects from municipal solid waste landfills and wastewater treatment facilities.
- explore innovative lending arrangements should be explored e.g. green bonds and concessionary financing from the World Bank's Climate Investment Fund.

Example: The City of Cape Town, has already issued green bonds, and its current small scale embedded generation programme could be scaled up as a bases for a tradeable renewable certification scheme. This would establish markets for both renewable energy and tradeable green energy certificates.

- consider the feasibility of generating their own renewable energy since sales renewable energy and revenue from selling green certificates could ensure the sustainability of this form of borrowing.

National Government should:

- further streamline capital grants to reduce their administrative burden, in a differentiated, risk-based approach which recognises municipalities' track record in delivery and good financial management.

Optimising existing revenue sources: balancing affordability and sustainability

Municipalities should:

- enhance the attractiveness for targeted categories of households to relocate to the municipality and thereby build municipal tax bases. For instance, internet supported work from home practices may make rural municipalities more attractive to high income telecommuters.
- expand capacity for data management and consider the mechanisms for increasing revenue from property rates proposed by the South African Cities Network 2018 State of City Finances Report.
- better utilise dormant capacity in service systems or reducing costs through constraint management combined with alternative delivery models.
- optimise the revenue streams from tradeable services through expanding capacity for data management and analysis in order pursue a differentiated service affordability strategy for the basket of services provided by Western Cape Municipalities, with provincial support if required.
- *National government should:*
- investigate the feasibility of municipal re-demarcation with a view to amalgamate small rural municipalities, or create single tier rural municipalities.
- review the Municipal Property Rates Act and related legislation with a view to make allowance for affordable repayment arrangements for businesses affected by the pandemic.

Exploring new revenue sources:

Municipalities should:

- apply to National Treasury via the Municipal Fiscal Powers and Functions Act to pilot revenue instruments which have been proposed (congestion charges etc) to more accurately gauge their feasibility in terms of impacts, potential revenue and administrative costs.
- should investigate the feasibility of implementing land value capture mechanisms, within a transparent and predictable governance framework (especially those municipalities with property portfolios).

- set up “virtual municipalities” simulation based on actual data to enable sensitivity analyses to test the viability and impact of new sources of revenue, and potential behavioural responses of various categories of service users and rate payers. National and provincial government could provide the necessary technical support to low capacity municipalities.

Managing costs of employment pressures

Municipalities should:

- apply for exemption if they cannot fund nationally negotiated agreements on costs of employment.
- should conduct productivity studies at least once every five years, resulting in recommendations to inform the review of staff establishments, organizational design and delegations. These should be tabled at Council which should be required to explain how they intend to respond to the recommendations.
- develop good practice productivity benchmarks for municipality as a whole and individual services e.g. to balance administrative and core delivery spending. This could not only improve internal efficiency but promote civil society oversight.
- conduct an impact evaluation of the 2018 upper limits on the remuneration for senior management, with a view to improving the effectiveness of these regulations and minimising unintended consequences.
- where practical, maintain work-from-home and online meeting practices developed during the pandemic, in order to attract and retain staff with scarce skills and reduce travel and subsistence costs (especially for the more distant, rural municipalities). These can also facilitate the sharing of human resources among municipalities, since travel time between municipalities and travel costs could be vastly reduced.

Providing Free Basic Services

Municipalities should:

- ensure that their projected increases in indigent households are realistic.

Provincial and national government should:

- create a consolidated provincial data set on households receiving FBS to assist in identifying vulnerable households in the event of a national disaster such as a pandemic, and to track the impact of the free basic services policy, with a view to impact evaluation.

Affordability of political support structures

National government should:

- by issue guidelines and norms to control the cost of political structures and support services and, as a last resort, consider prescripts where these are excessive compared to own revenue, population size and other guideline benchmarks.

Ensuring Revenue certainty of agency funding arrangements

Provincial governments should:

- formalized all agency agreements, to be duly gazetted with the aim of providing at least a minimum degree of funding certainty for municipalities over the MTREF period and avoid audit queries.

Promoting Public-private partnerships (PPS)

To promote PPPs as alternative service delivery models where appropriate and sustainable, national and provincial government should:

- remove or reduce regulatory impediments to PPS (national reform, implementing National Treasury recommendations).
- implement national reform for strengthening consequences for council, the political executive and senior management of service delivery failure.
- institutionalise outcomes evaluation.
- provide capacity (including grant funding for feasibility studies) for successfully configuring a PPP as a viable option.
- creating a community of practice and safe space for small-scope “sandbox”-type controlled experiments on PPPs which bring together highly experienced local government practitioners, sector professionals, legal experts and researchers to jointly develop innovative solutions (Local and provincial government, regional offices of national departments and research institutions).