PAPER 15

REVISING THE MUNICIPAL INFRASTRUCTURE GRANT TO IMPROVE EXPENDITURE & QUALITY OUTCOMES

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ABSTRACT

Municipalities are key agents of service delivery in South Africa, tasked with the provision of basic infrastructure services such as: solid waste management, roads, stormwater, electricity, water and sanitation to mention a few. Many municipalities are largely dependent on the Municipal Infrastructure Grant (MIG) to fund the development of this infrastructure. Notable progress has been made in increasing access (not necessarily reliability) to basic infrastructure, but four key problems plague municipal infrastructure development:

- Continued under expenditure on the MIG.
- Inappropriate and inefficient expenditure of the MIG.
- Poor quality of project delivery.
- Poor expenditure on repairs and maintenance of existing infrastructure, leading to infrastructure reliability issues.

Though these challenges are related this paper focuses on the last of these challenges with particular emphasis on water and sanitation infrastructure. The paper outlines planned reforms to better utilise grant conditions to incentivise sustainable municipal infrastructure development. With an allocation of R17.5 billion for 2023/2024 the MIG is the largest conditional infrastructure grant in South Africa. The MIG is a schedule 5(B) grant in terms of the Division of Revenue Act (DoRA). The MIG transferring department is the Department of Cooperative Governance and Traditional Affairs (CoGTA). Implicit in the grant conditions is the assumption that municipalities have the requisite capacity to effectively utilise the grant. A 5% provision is availed as relief for under capacitated municipalities. The assumed municipal capability is confirmed in part by the use of reallocations and stoppages as the sole support and consequence management measure for poorly spending municipalities. To date stopping and reallocation have not yielded any desirable outcomes and this highlights the need for a rethink. Furthermore, MIG expenditure has not exceeded 91% in the last thirteen financial years, with nearly R25,4 billion not spent in the same period. Closer analysis shows that many municipalities end up spending for the sake of spending (a form of fiscal dumping) to avoid under expenditure. Municipalities. With the same municipalities often delivering infrastructure that is not fit for purpose or value for money. Other municipalities have their funding stopped or reallocated, but in both cases the grant outcomes are undermined and the intended recipients (poor households) short changed. All this presents a clear case for an evaluation of the current framework and the proposition of innovative alternatives to ensure that government expenditure has the intended and desired impact of creating a resilient future for all.

INTRODUCTION

The planned revision of the MIG to improve expenditure outcomes is a long overdue implementation of the Local Government (LG) grants review process that was concluded in 2014. The review of the local government infrastructure grant system was initiated by the Minister of Finance in 2013. The purpose of the review was to assess whether or not the then Local Government infrastructure grant system was optimally structured to facilitate the efficient rollout of municipal infrastructure. Rather than limit itself to an impact assessment, the review used such evidence to structure discussions regarding the reform of the grant system (National Treasury, 2014). The review concluded and recommended implementable changes to improve the functioning of the local government infrastructure grant system.

The aim, method and proposed outcomes of the exercise are outlined below (NT, 2014):

- **Aim:** Review the efficacy (do we fund the right things) and then the efficiency (do we fund things right) of the Local Government (LG) infrastructure grants system. Then make evidence-based recommendations to improve both efficiency and efficacy.
- **Method**: Extensive data analysis to reveal where the system structure can be improved, coupled with stakeholder consultation to hear how implementation can be improved (similar to the Local Government Equitable Share review).
- **Proposed Outcomes**:
    - o Improve system *efficacy* by ensuring that the system meets the current municipal infrastructure needs.
    - o Improve system *efficiency* by ensuring that we get more value from the same quantum of funding.
    - o Improve system *sustainability* by ensuring that the system is sufficiently differentiated, dynamic and responsive to change in the short, medium and long-term.

The work culminated in four strategic recommendations:

i. Improving the structure of the grant system.
ii. Improving planning and asset management.
iii. Improving administration of the grant system.
iv. The role of incentives and allocation types.

The MIG was one of the grants that were carefully considered in this exercise (as it is one of the largest grants) but limited tangible change (as observed through expenditure outcomes/impact) is visible and the challenges persist for many reasons that are beyond the scope of this paper.

In 2020 a process of intentionally implementing the 2014 recommendations in the MIG was initiated by CoGTA (Transferring Officer) through their agency (Municipal Infrastructure Support Agent -MISA).

This resulted in the 2021 MIG framework having the following additions in its makeup:

- **Strategic Goal**: Subsidize the development of asset management plans for infrastructure servicing poor households.
- **Grant Purpose**: To provide specific funding for the development of asset management plans for infrastructure servicing the poor.
- **Outcome Statements**: Improved access to basic services infrastructure for poor communities, through the use of Labor-Intensive Construction (LIC) methods where it is technically feasible and improved reliability of basic services infrastructure for poor communities.

At a framework design level these seemingly minor changes set the scene for greater reform that sought to move local government from expenditure fixation to an outcome or impact mindset as argued for by Webber (2004). These reforms were also a response to the Cabinet approved CoGTA 2021 State of Local Government (SoLG) Report, which underscored the urgent need for an improvement in Local Government service delivery generally and infrastructure service delivery in particular.

DETAILING THE REFORM

The Need for Change

The MIG is a schedule 5(B) grant in terms of the Division of Revenue Act (DoRA) overseen by CoGTA. Prior to 2021 the grant only existed to eradicate basic municipal infrastructure backlogs with the desired outcome being improved access to basic services infrastructure for poor communities.

Implicit in the grant conditions were the following assumptions:

i. All municipalities have the required technical skills to plan for infrastructure expenditure as funded through the equitable share and own revenue generation.
ii. All municipalities have the required technical skills to effectively procure and deliver the infrastructure as financially provided for in the equitable share and own revenue generation.
iii. All municipalities have the required technical skills to effectively operate, repair and maintain their infrastructure as financially provided for in the equitable share and own revenue generation.
iv. Where municipalities do not have the requisite skills, the existing provisions in the framework are adequate to cover any additional requirements that a functional municipality would have i.e. 5% allocated for project management.
v. All municipalities are appropriately capacitated and understand (and are able to fulfil) their mandate. No municipality directly or indirectly intends to misuse the infrastructure grant funding.

When the assumptions listed in (i) to (v) above (infrastructure lifecycle activities) are valid the result would be a significant reduction in backlogs (specifically for poor households) and the provision of reliable and sustainable infrastructure as envisaged in the Redistribution and Development Programme (RDP). However, this is not the case and the extent of this challenge is demonstrated through: the low grant expenditure levels, under-expenditure on repairs and maintenance, limited technical skills availability at local government and the poor quality of infrastructure service delivery in many municipalities (CoGTA, 2021).

It must be noted that this MIG revision was not and is not a motivation for additional funding, but a reform to improve the quality of expenditure outcome and in-fact save government funds while ensuring the provision of reliable infrastructure services.

Conditional Grant Expenditure

While the monitoring of just expenditure is problematic it is still a useful exercise for budgeting purposes. For this purpose the seven largest conditional infrastructure grants are considered (MIG, RBIG, WSIG, USDG, IUDG, PTNG and the INEP). From Figure 1 below we see that a total of R238,6bn was allocated, with R210,8bn (89%) spent and R24,8bn (11%) not spent in the last five financial years (FYs).

FIGURE 1: *An overview of the 7 largest infrastructure grants.*

It is important to also consider the MIG alone and Figure 2 below presents MIG expenditure from 2004 to 2022. A total of R208,1bn was transferred and R181,4bn (89%) was spent, with R26,7bn (11%) not spent. While the MIG is large, its total transfers (R208,1bn) from inception in 2004 are comparable to the last five financial years spending (R210,8bn) of the seven large conditional grants.

FIGURE 2: *An overview of MIG performance from 2004 to 2022.*

With this expenditure record in mind, some key questions to consider are:

- Can the poor afford for so much money to not be spent?
- In instances where the money is spent, has value for money been realised?

The answer to both questions is likely no. If one is in doubt you simply need to consider the various reports (2022 SAICE Infrastructure report card, 2022 Green and Blue Drop Reports etc.) on the state of public and municipal infrastructure. However, more important than lamenting status quo are proposals towards resolving the very complex issues on the ground. The ongoing revisions of the MIG seek to progressively contribute towards the creation of an environment that enables the desired change.

MIG Revision Design Overview

The structural changes to the MIG framework are evident in the changes to the strategic goal, grant purpose and outcome statement. These changes are significant shifts in government thinking and an appreciation of the municipal infrastructure development and management challenges. Equally interesting is the DoRA Section 20 application in the framework. In-line with considerations from DoRA S20(2) a part B of Schedule 6 (MIG-6B) has been created. MIG-6B is premised on the desire to prevent under expenditure while improving the level of infrastructure service delivery.

The MIG-6B intention is most obvious when one considers the criteria set-out in the MIG framework as summarized in Table 1 below and the planned corresponding support action in Figure 3 below. Applying the MIG-6B criteria produces the picture painted by Figure 4 below for the Free State province. The critical performance of the Free State is not isolated as many other provinces are also performing poorly. This raises a question on the efficacy and quality of support provided by National and Provincial government to municipalities and highlights the scale of the problem in local government.

TABLE 1: *An overview of the MIG-6B performance criteria.*

NO	INDICATORS	SOURCE	WEIGHTING*
1	MIG expenditure above 70% for the last 4 financial years	DCoG	20% or 25%
2	Expenditure on repairs and maintenance above 1%	Audited AFS	20% or 25%
3	Non-revenue water below 30%	Audited AFS	20% or 25%
4	No DWS NWA Non-compliance notices	DWS	20% or 25%
5	No DFFE NEMA non-compliance notices	DFFE	20% or 0%

*in the instance of Districts 25% is applied as waste management is a local function.

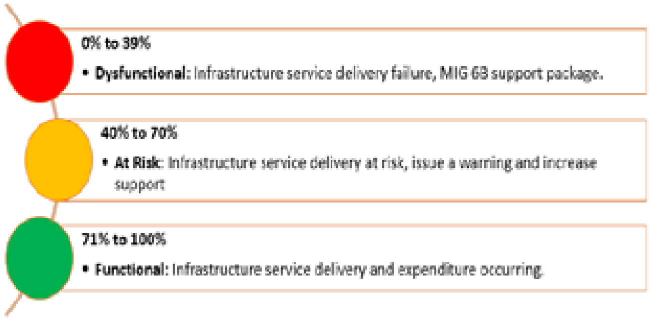

FIGURE 3: *An overview of the support action corresponding to each assessment status.*

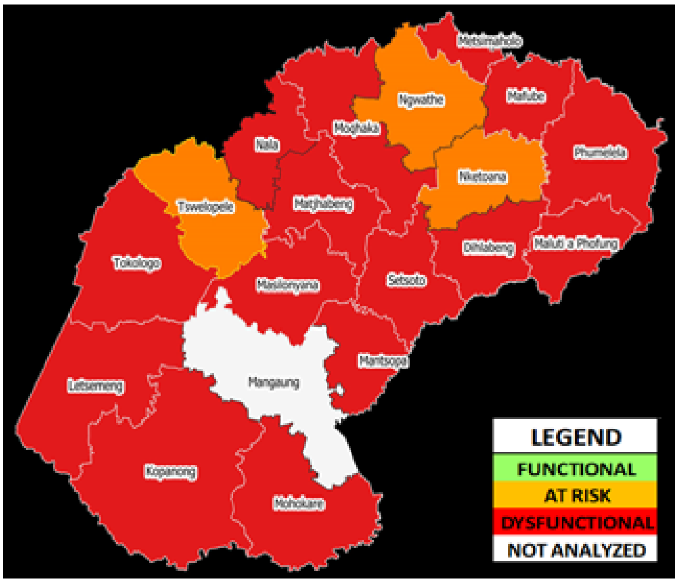

FIGURE 4: *FS provincial performance against the MIG-6B criteria.*

The MIG-6B component is a last resort preceded by clear support efforts in compliance with the Section 154 Constitutional obligation to support and strengthen the capacity of municipalities first and foremost. Support is also a pre-requisite within the DoRA (S20(2)). A prerequisite for conversion is evidence of a demonstrable effort to support by the Transferring Officer. This planned proposal is therefore not just punitive, but designed to strengthen accountability and cooperation between the three spheres of government.

In simpler terms the reform is designed in such a way that it is a last resort (there's support) and when it is used the municipality should be getting support to exit the said intervention (restorative rather than punitive). CoGTA has done this through the following:

- Allowing municipalities to voluntarily spend up to 5% of their allocation on infrastructure asset management related activities.
- Allowing municipalities to spend up to 10% of their allocation dealing with DWS non-compliance notices.
- Co-designing a comprehensive support package working with other stakeholders to assist said municipalities prior to a MIG-6B even being considered.

The "demonstrable effort to support" DoRA prerequisite is potentially contentious and to overcome this a comprehensive Intergovernmental Relations (IGR) process is being applied in the context of the District Development Model (DDM). This has the following aspects:

- Initially using a sectoral pilot approach, where only MIG receiving Water Services Authorities (WSAs) are assessed and eligible (to manage initial scale). Then scaling up to all other MIG funded infrastructure in future. The final stage being all conditional infrastructure grants received by Local Government.
- Utilising the sectorally (water and sanitation) accepted DWS Municipal Strategic Self-Assessment (MuSSA) and Municipal Priority Action Plans (MPAPs) to determine support needs, design a support package and assess the efficacy and adequacy of the support.
- Making provisions to deal with wastewater pollution through the 10% (preventing environmental pollution and avoidable costly litigation, while increasing expenditure on repairs and maintenance) and the 5% towards asset management (improving infrastructure asset management practices and the credibility of Local Government infrastructure asset knowledge).

The approach thus far has not been opposed as it has something in it for everyone, while moving us all in a direction of improved municipal infrastructure management. This is all done without using additional funding (efficiency) and pilots incentives and disincentives for the three spheres. The approach also considers three of the four 2019 to 2024 Medium-Term Strategic Framework (MTSF) targets for municipal water and sanitation services, which are:

- Improving MuSSA scores (WSA vulnerability).
- Improving wastewater treatment works functionality.
- Improving reliability of municipal water services provision.

The above better positions government in the attainment of its collective targets for the current administration (while implementing an "all of government approach" as envisaged in the DDM). What is perhaps most intriguing about the design of the revision is that it embodies the Constitutional ideals of the spheres working together collaboratively, each with their defined roles and responsibilities towards many of the government's goals and objectives.

MIG Revision Alignment to the 2014 Review Outcomes

Government is often accused of slow implementation characterised by a lack of consistency and continuity ("forever changing plans"). It is for this reason that it is important to know how this particular undertaking is not conceived outside of (or contradicting) the 2014 review. Table 2 below summarizes how this reform complements the 2014 review.

TABLE 2: *A summary of the reform alignment to the 2014 grant review.*

No	2014 Intended Outcome	Summary of MIG Revision Alignment
1	Improving Efficacy	• Enabling improvement in municipal infrastructure asset management and planning, that will also benefit other sectors working within a municipal space. • Allowing for flexibility and differentiation between municipalities as challenges and their causes are not always the same in all municipalities.
2	Improving Efficiency	• Incentivises the reduction of non-revenue water. • Incentivises an increase in expenditure on repairs and maintenance.
3	Improving Sustainability	• Enabling a collaborative approach in supporting and capacitating local government. • Imbedding the reform within the current Monitoring and Evaluation framework, to force multi-stakeholder engagement and collaboration. • Disincentivising environmental pollution and providing a special dispensation to deal with environmental pollution.

TABLE 3: *An overview of the key risks and their planned mitigation measures.*

NO	RISK	PLANNED MITIGATION
1	Proposal addresses the symptoms and not the root causes	Multistakeholder approach in the design and it is comprehensive. Proposal is not isolated but is part of a suite of other government proposals and plans for LG.
2	Political rejection at Local Government level	Championing by political leadership at CoGTA, SALGA, NT and DWS. Correctly presented as support vs "taking money from municipalities".
3	Lack of capacity at national to execute effectively	Start at a manageable scale (MISA selected poor performing municipalities) vs implementation everywhere all at once. Then scale while building appropriate capacity at national and provincial.
4	Inability to sustain momentum in the short to medium term	Align programme to MTSFs 2019 – 2024 and 2024 – 2029. Included in Annual Performance Plans of key partners. Use MISA and Water Boards and link to the DWS National Water Services Improvement Programme / Plan.
5	Project implementing agent (MISA or DWS) failure	Take on smaller projects with high impact (lower risk). Put in place Service Level Agreements (with penalties), monitored jointly between DCoG (Transferring Officer) and SALGA.
6	Project implementation risks including: Construction Mafia, Community protests etc	Develop and implement programme and project risk implementation plans.
7	Community Protests	Councillor buy-in for support (money will go elsewhere if not used).
8	Compliance Challenges (environmental etc)	National and provincial government to collaborate to expedite approvals.
9	Transferring Officer not spending the converted funding by end March 2024	National Treasury agree with the Transferring officer on the conditions for roll-overs of converted funding.
10	Lack of cooperation and coordination between DCoG, MISA, DWS, NT and SALGA.	Engaging to agree on a common approach before going to municipalities. Developing a framework of clear roles and responsibilities for all.

Managing Risk in a Complex (Socio-Technical) Environment

A risk management plan has been developed to mitigate the impacts of some obvious pitfalls. The risks and their corresponding planned mitigation measures are summarised in Table 3.

In the consultation process a need to specify which projects would and would not be appropriate was identified and Figure 5 below presents a summary of this. It is already concerning the there is a focus on projects and not the other aspects of the reform. The timing is also not ideal with national government elections on the horizon.

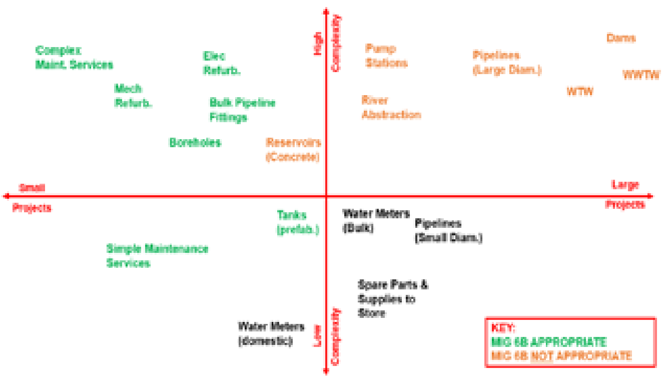

FIGURE 5: *A preliminary guide on which projects are most appropriate for MIG-6B implementation.*

Ultimately, while every effort can be made to manage and mitigate risk if there is no will or desire to change within Local Government, nothing will succeed. While officials can put in place programmes and interventions the will and agency of Councillors and Communities has no substitute.

CONCLUSIONS

The expenditure, management and outcomes of municipal infrastructure investment have not been desirable and there is a clear need for change. We have known this as far back as 2014 as evidenced by the review which sought to resolve matters of efficacy, efficiency and sustainability. The MIG reforms present an opportunity to try and stem the tide of what is becoming extremely sub-optimal expenditure of public funds through conditional infrastructure grants. In a system that is becoming increasingly ineffective, inefficient and unsustainable.

The reforms stem the tide by not just focusing on spending (something we have tried and failed at) but by trying to improve municipal capacity and capability, while putting in place incentives and disincentives that would make the reform sustainable and scalable.

The collective government goals were and still are to:

- Improve system *efficacy* by ensuring that the system meets the current municipal infrastructure needs.
- Improve system *efficiency* by ensuring that we get more value from the same quantum of funding.
- Improve system *sustainability* by ensuring that the system is sufficiently differentiated, dynamic and responsive to change in the short, medium and long-term.

In this particular reform, the typical punitive approach is being avoided and municipalities are being invited to the proverbial table where each stakeholder has a clear role and responsibility towards a common outcome. Only time will tell if this approach will succeed, but there is a clear sense that we are nearing a point of no-return (a total collapse of municipal infrastructure) and can ill-afford to continue missing opportunities to create a resilient municipal infrastructure future.

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