

SHIFTING GEAR. First Steps to Budget Work at Local Government Level.

Shun Govender asks and answers questions about the local government budget work of the Budget Information Service (BIS) of IDASA

Does IDASA's Budget Information Service work directly with local communities on budget and resource issues?

We did not, but this changing. We have a Local Government Centre that works with local communities and municipalities on capacity development. Our local government finance work is linked to the Centre's municipal work.

Why did you not work directly with communities?

Initially our resource work did not start with local communities.

We began undertaking budget analysis work in 1995, a year into the liberation of South Africa. The new government of national unity and the South African state were undergoing far-reaching democratic transformation.

Government began the process of fundamentally overhauling a closed and secretive budget process. New budget institutions had to be built, new formulas developed for sharing nationally collected revenues equitably between the national, provincial and local spheres of government, and roles and responsibilities clarified. All of these developments were being guided by the dictates of the new constitution.

Our first steps in budget work as a civil society organ were directly influenced by these developments. We undertook budget analysis in relation to what was happening on the fiscal front in government. Two issues are relevant to consider in this regard:

- Firstly, in the executive branch of government: here we concentrated our work on examining and commenting on the type and quality of new budget information that government was producing. This happened largely at the national level, namely the national and provincial treasuries. We followed and tried to understand the new system of intergovernmental fiscal relations that was coming into being. We did this in terms of the four stages of the budget process: formulation, allocation, implementation, auditing and we considered how the principle of cooperative governance was impacting resource allocation – in fiscal terms this principle governs equitable resource sharing between national, provincial and local spheres of government (referred to as 'the vertical split') and between the nine provinces (referred to as 'the horizontal split'). This approach to our budget work highlighted issues which we considered important from a civil society perspective, namely, issues such as budget transparency, budget priorities, the equity, efficiency and effectiveness of spending. Also these considerations made it important for us to look at the budget in terms of what were government's publicly stated priorities and whether these priorities were being reflected in the amount of money government was allocating to the different sectors.

- Secondly, in parliament. This happened in two ways: (a) we took part in offering budget training to newly appointed members of the national assembly and the national council of provinces, and members of the provincial legislatures. And we developed a responsive campaign around national budget day when the minister of finance tabled the budget in parliament. (b) We released media statements and developed more reflective submissions on social spending aspects of the budget. And we made presentations to the departmental committees of parliament, especially the standing committee on finance, in which we advocated for more social spending.

What do you mean by ‘social spending aspects of the budget’?

We approach budget analysis from a pro-poor perspective, that is, we try to assess whether the budget promotes government’s pro-poor policies. Therefore at first we looked at spending on health, social welfare, and education. We have since expanded our focus to include children, gender sensitive budgeting and government spending for HIV/Aids.

If you do not have direct contact with poor communities, who benefits from this type of pro-poor budget work?

We have seen the value and relevance of our work through maintaining a balance between research/analysis and advocacy. Besides having an independent identity as an NGO in the public domain, other NGOs make use of our outputs for their own advocacy work. We also trained representatives of civil society organizations and media that operate at provincial and regional level.

The following aspects constitute important reasons for engaging in budget work.

- **The Contribution of Budget Analysis to Public Advocacy by Disadvantaged Sectors of society**

After 1994 the content and form of advocacy by disadvantaged sectors of society changed dramatically. A new context for advocacy emerged: of democracy, a developmental understanding of the role of the state in social and economic transformation, and the long-term reform of government institutions. This new context is especially noticeable in the realm of public finance and budget reform. Pro-poor advocacy work faces new challenges. In the realm of public finance, government departments and institutions of government have to be engaged and challenged with fiscal information generated independently and based on sound analysis.

Our work in the Budget Information Service (BIS) seeks to enhance the quality of research and analytical information available to civil society organisations for such advocacy interventions. Using the annual national, provincial and local government Budgets, Budget Speeches, the Division of Revenue Bill and budget related documentation such as the Budget Review, the Intergovernmental Fiscal Review, the Medium Term Budget Policy Statement, we examine budget issues such as government’s capacity to spend (overspending/underspending), the quality of such spending (inputs versus outputs/outcomes) and priority of spending allocations (real inflation adjusted

increments, conditional grants, new spending priorities with the introduction of new budget programmes)

Not only do we try to demystify technical, economic and budget language and tell the story behind the budget's apparently cryptic figures, but the value add of such research for doing advocacy work is that it raises the credibility and profile of civil society agents when they engage government. Armed with high quality information, calls by advocacy agents for changes in fiscal spending policy and expenditure allocations have a better chance of being taken seriously by government.

Our intention is thus to produce useful and useable information and research outputs that are available and can be used for advocacy purposes, as well as to develop techniques of analysis and research methodologies with which to build technical capacity among NGOs working with disadvantaged sectors of society.

- **The Interface between Budget Analysis and Poverty Alleviation**

In South Africa more than 60% of non-interest national expenditure is directed to social services intended to alleviate poverty, most of this expended via provincial and local government allocations to health, welfare and education. Budget analysis by civil society becomes important because of the enormity of this fiscal exercise and its potential to change the lives of poor people. It is important therefore to track the flow of these funds and monitor the quality and impact of the services that these funds purchase for vulnerable communities.

- **Budget Analysis to advance the cause of Economic, Social and Cultural (ESC) Rights Realisation**

The upholding, protection and promotion of a culture and practice of human rights is an area of robust civil society engagement with government. In recent years special attention is being focused on advancing the ESC rights of poor and vulnerable citizens.

In our work, especially on the rights of the child, we are trying to add value to this broad-based social movement for ESC rights through research into specific areas of the rights discourse. We examine the relations that exist between government policy that impacts resource allocations in the budget and the legal and constitutional obligations of the state relating to rights realisation. For example, we undertake research and analysis on budget allocations and the flow of funds to the Child Support Grant (CSG) in the overall social welfare budget, and funding that is targeted to poor learners in the poorest quintiles in education budgets; we evaluate these resource allocations in the light of constitutional court interpretations (e.g. the Grootboom case) of specific sections in the Bill of Rights. Another controversial area of attention for advocates of human rights and budget analysts is the roll out of anti-retroviral drugs to Aids sufferers and the actual flow of funds for this purpose in health budgets. Here too other community-based NGOs find our work useful.

Is there an enabling environment to undertake local government finance analysis in the local government sphere?

Yes. In the three spheres of government (National, Provincial and Local), the constitutional and legal role that local government is supposed to fulfill is spelt out as follows:

- a. Section 152 of the South African Constitution obliges local government: ‘to provide democratic and accountable government; to ensure the provision of services in a sustainable manner; to promote social and economic development and a safe and healthy environment; and to encourage the involvement of communities and community organizations in the matters of local government’
- b. Local government also has to perform certain minimum ‘developmental duties’ These are identified as the following: ‘to structure and manage municipal administration, budgeting and planning processes...give priority to the basic needs of the community...promote the social and economic development of the community and participate in national and provincial development programmes’
- c. A comprehensive process of policy reform in local government has been underway for the last ten years. As result some key legislation that defines and seeks to consolidate changes has been enacted, for example, the Municipal Structures Act (1998), the Municipal Demarcation Act (1998) and the Municipal Systems Act (2000). Government describes the impact of these policy initiatives a follows: ‘The consolidation and restructuring of local government has led to rebuilding institutions, reorganizing administration, establishing workable governance arrangements, relocating personnel, improving revenue management and broadening access to service and basic infrastructure.’
- d. Policy reform in local government finances is guided by legislation such as the Municipal Finance Management Act (2003) (MFMA) and the Municipal Property Rating Act (2004). The intention of this legislation is to ‘make municipalities more accountable, financially sustainable and capable of delivering essential services to the community’. There are now 284 municipalities, reduced from 843. These are categorized as follows: metropolitan, district and local municipalities. Of the 44 million people in South Africa, 14,6 million live in metros.

These are formal aspects. From a civil society point of view, what are challenges and possible entry points for doing budget work at local government/municipal level?

Firstly, local government structures have been in a state of transition for almost ten years now. The most recent municipal elections and re-demarcation of municipal boundaries have established the broad framework within which local government authorities will function for the foreseeable future. Currently emphasis in the local government sphere is gradually evolving away from concerns regarding the design of the local government system towards greater emphasis on its implementation and impacts upon local communities. This shift has consequences for both policy-makers and advocacy groups. Although critical evaluation of policy frameworks remains important, increasing emphasis is placed on issues of equity, efficiency and effectiveness in terms of

implementation strategies and the impact of service delivery on the position of various vulnerable groups including women, children and the elderly.

Secondly, there is need to expand the existing skills base within civil society by adding skills to undertake budget analysis. Presently there is a shortage of local government budget analysts within civil society organisations. The current state of South Africa's local government system in particular is complex and requires specialised skills.

Thirdly, there is the problem of access to information at municipal level. Local and municipal government budget and spending information contained in the public domain is more limited and fragmented compared to national and provincial budget documentation. Unlike provincial and national budgets, local government budgets are presently not programme-based. Most local government budgets are not linked to municipal Integrated Development Plans (IDPs) so they do not provide explicit policy statements of spending priorities and do not contain performance or output information to facilitate analysis. These information gaps imply that in order to make sensible statements about the extent and impact of pro-poor spending, extensive interviews with a range of officials in all sectors are required to ascertain whether the information exists in other forms. Should such information exist, it generally needs to be assessed for its integrity and usefulness and if proven valid, be compiled into a useable format. Budget data collection, verification and analysis is a time-consuming exercise that requires cultivating close and non-threatening working relations with local government officials, patiently explaining the intentions behind every request for data and information, and facilitating contact between officials, councilors and community leaders.

Does the national government also see problems and budgetary challenges facing local government?

Yes. In a recent publication, the National Treasury has identified three areas where local municipalities are challenged in their ability to raise finances and provide services. The three areas are:

- **Revenue Collection**

Municipalities have poor capacity to bill and collect revenue from their own sources, and are consequently in dire financial straits. Treasury estimates the total consumer debt owing to municipalities at R28 billion. Many of the households that are in arrears with their payments are poor households, with little prospect of ever being able to settle their debts

- **Pro-Poor Policies**

The second set of challenges relate to national government's poverty alleviation policy. Municipalities are not yet able to expand the benefits of free basic services – especially water and electricity – to more households. Government estimates that of the 27 million people who are benefiting, only 12 million people are poor. Required is adequate and better infrastructure, better targeting to poor families and minimizing leakage, and the ability to match revenues with the cost of services. The national Treasury is encouraging municipalities to develop municipal indigency policies.

- **Budget Reforms**

Municipal finances need to be modernized. This relates to issues of financial governance (roles and responsibilities of mayors and council officials, their remuneration packages, transparency and accountability), develop strategic long-term planning and consultative processes, and measuring its service delivery success rates and performance.

What exactly are you doing in your local government budget analysis work?

Below are three examples of the type of work we undertake in this regard.

- **Examining Budget Documentation through Desk-based analysis**

Firstly, we work with published budget information, and with selected local municipal officials to gain information on revenue and expenditure in their municipality. We examine the nature of revenue raising and spending in local government as this is reflected in government budget documentation - guided by investigative questions about how much money is raised and allocated, and on what priorities this money is targeted. For instance, the (national government generated) tables below give us a perspective on expenditure and revenue trends in local government budgets between 1996 and 2004.

Budgeted Municipal Expenditure 1996/07 to 2003/04

R'bill	1996/97	1997/08	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Operating	34,0	38,2	41,1	44,4	48,1	52,7	61,5	69,3
Capital	11,8	10,8	13,7	13,7	13,7	11,7	13,1	16,7
Total	45,8	49,0	54,8	58,1	61,8	64,4	74,6	86,0
%								
Growth								
Operating		12,4	7,6	8,0	8,3	9,6	16,7	12,7
Capital		-8,5	26,9	0,0	0,0	-14,6	12,0	27,5
Total		7,0	11,8	6,0	6,4	4,2	15,8	15,3

Source: Trends In Intergovernmental Finances 2000/01 – 2006/07, National Treasury 2004, p22

The underlying spending trend we see is that the total combined budget of all municipalities has nearly doubled over the past 8 years. In 2003/04 the estimated total combined municipal budget is R86,0 billion. We can see that this has grown in nominal terms from R45,8 billion in 1996 and R61,8 billion in 2000/01. The 2003/04 combined budget grows by 15,3% when compared to 2002/03.

This is money that comes to municipalities as direct transfers from national government as well as locally raised revenues. Of the R86 billion, R12,4 billion comes from national government as transfers to municipalities and the rest is raised by municipalities themselves.

The following table shows the distribution of the combined budget by category of municipality:

Budgets by Category of Municipality, 2003/04

R million	Operating	Capital	Total	% Operating	% Capital
Category A (Metros)	42 677	7 889	50 565	84,4	15,6
Category B (Local)	23 905	6 286	30 190	79,2	20,8
Category C (District)	2 705	2 513	5 218	51,8	48,2
Total	69 286	16 687	85 974	80,6	19,4

Source: Trends in intergovernmental Finances 2000/01 – 2006/07, National Treasury 2004, p23

Metropolitan municipalities make up 58,8% of the combined budget of municipalities, spending 84,4% on operating expenditures and 15,6% on capital/infrastructure expenditure. Is the capital spending adequate, given the rapid rate of movement to urban centres? Which groups benefit more? What are the challenges being faced in investing in infrastructure in poor black areas in these urban centres? What costs are being passed onto poor consumers? What problems do local municipalities face in negotiating for funds from district municipalities, from provincial and from national governments?

Budgeted Municipal Operating Income, 2001/02 to 2003/04

R billion	2001/02	2002/03	2003/04
User Charges	25,0	28,0	31,0
Property Rates	11,5	12,5	14,3
RSC Levies	3,9	4,4	5,2
Intergovernmental Grants	3,6	6,7	8,1
Other	54,3	10,0	14,3
Total		61,6	72,9
% Growth			
User Charges		12,0	10,7
Property Rates		8,7	14,4
RSC Levies		12,8	18,2
Intergovernmental Grants		86,1	20,9
Other		-2,9	43,0
Total		13,4	18,3

Source: Trends, p26

Government's view on these trends is that local government income is generated from four major sources: user charges, property rates, Regional Services Levies and intergovernmental transfers (from National and provincial spheres). 'Other' income is generated from: traffic fines, rental of housing stock, interest on investments, debt

recovery, and previous years,' surplus. The growth in revenue from this source shows a significant increase of 43% for 2003/04, which may be due partly to improved collection systems.

User Charges make up the largest portion of local Government income. Consumers pay for water, sanitation, electricity and refuse removal. We need to investigate further which municipalities are better able to expand their revenue base, what their main sources of income are, why more than 30% of the 284 municipalities are in dire financial straits and unable to meet their basic resource requirements and what assistance is being offered to them by national and provincial governments. What charges are being directly and indirectly passed onto poor households? We always convert budget figures to real figures in order to adjust for inflation when considering trends in budgets and spending over time.

- **Case Studies in Selected Municipalities**

We are currently investigating the extent of community participation in the budget process and the design of municipal integrated development plans in selected metro, district and local municipalities.

- **Training of Women in Budget Analysis**

Our gender budget work undertakes training in budget analysis and gender sensitive resource allocation in local communities in Cape Town. We have worked closely with a group of organizations based in the Black township of Khayelitsha who were keen on using gender budget analysis as a tool to monitor government's response to violence against women. The group consisted of both women and men who underwent a total of five days of training on how to monitor government budgets and use local government as a forum to advocate for effective responses to violence against women.

What Challenges are you facing?

- **More of the same, but with a local flavour**

Our budget work needs to take note that the local government sphere is the most critical, problematic and challenging area that requires concentrated civil society attention.

- **Learning and Keeping the link and creative tension between research and community-driven advocacy initiatives. How can we do rigorous analysis and at the same time serve communities?**

The following anecdote illustrates the challenge:

'Two years ago I received a letter from a women's group in Loskop. It was hand-written: "We've heard about what you do from the newspapers in Durban. We want you to show us. Most people in urban areas don't want to come to rural areas. Please come. We have many problems."

A year or so later we began to work with the Loskop group. As an organiser I train people to approach officials with an attitude of power and to approach problems in the

same way. We had a meeting with the municipal manager for the area. A big problem was that the community hadn't had water for ten years.

The manager said: "You don't have water? I didn't know that. Someone should have told me." The next day water was delivered by truck. However, a short while later it stopped arriving. So again we arranged a meeting, this time with the top municipal services official in the district. We travelled with people from Loskop to Ladysmith. When we arrived we were told the official couldn't meet us. The women were well trained and demanded a meeting with the second in charge.

It is a typical response from government officials to treat organisations like ours, with a church identity, with a certain amount of contempt. This is a problem with our democracy. But if you've been an organiser for many years, especially during the struggle, you know that people get organised around what they are passionate about. We start from the basis of faith; it's the core if you want influence the world.

Eventually we had the meeting with the right people in Loskop. An official arrived with all his maps and designs and statistics and laid them out. "This is how local government works. These are our plans." The leader of the community group, an older woman, finally banged the table and said: "We do not need the plans for the whole municipality. All we want to know is when we are going to get water." She had learnt to ask for concrete information. The official asked: "Are these church people?" He expected church people to be less demanding.

Eventually in December last year the Loskop people received communal taps. In January the water stopped once more. We started all over again. Now the water has been turned on and it has stayed on. Organising around such issues often takes a lot of time and determination. It takes the mind-set that we won't be treated as victims or as insignificant anymore.'

Terrance Jacobs, Durban-based national director of Church-based Community Organisation (CBCO)

- **Making More Use of 'Fiscal Space' at the Local Level**

'Where space had been given for citizens to influence the budgeting process, they had often failed to take advantage of this. The Medium-Term Expenditure Framework (MTEF) was an example. There had been some initial frustration with the MTEF, but it provided space to influence longer-term priorities. It was important to maximise the opportunities available in the system.

Who checks on the spending of the budget? This was where civil society could play an important oversight role, Fast said. If government expenditure did not tally with the budget, then the budget itself would be undermined.

It was at local level that the greatest opportunities existed for citizens to influence budgets. In fact public participation in the budgeting process was required by law. There were formal opportunities to influence the process through ward committees and Integrated Development Planning (IDP) forums'

(Dr Hildegard Fast, of the Financial and Fiscal Commission, a statutory body)

- **Working to build the capacity of Local Councilors and Municipal Officials**

‘Finance people tend to see themselves only as bean-counters. They are chosen because they understand figures, not because they know how to deal with people. We need financial managers who know how to communicate and relate information to the community.’

(Tanya Ajam, Applied Fiscal Research Centre, University of Cape Town)