



FINANCIAL  
AND FISCAL  
COMMISSION

*For an Equitable Sharing  
of National Revenue*

# Are District Municipalities Necessary?

## EXECUTIVE SUMMARY

Local government has a key role to play in rural development, through the provision of basic services and infrastructure. However, infrastructure backlogs remain high in rural municipalities (because of under-spending of capital budgets), and the allocation of functions between district municipalities (DMs) and local municipalities (LMs) is ambiguous. The Financial and Fiscal Commission (the Commission) looked at how efficiently rural municipalities use intergovernmental transfers and how effective they are in driving rural development. The study found that LMs use resources less efficiently than DMs and have higher staff vacancy rates. Many of the functions that DMs should be performing are increasingly shifting to LMs, especially in urban areas. As cross-municipality authorities, the assumption is that DMs are able to cross-subsidise, which is not the case for many rural DMs that do not have abundant own revenues. The Commission recommends that National Treasury include more stringent expenditure supervision of grants to rural municipalities, and that the Department of Cooperative Governance and Traditional Affairs consider introducing a single-tier local government system in urban areas, while strengthening a two-tier local government system in rural areas.

# Policy Brief 8

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## BACKGROUND

The Constitution entrenches the developmental role of the local government sector, which is further underscored in the National Development Plan (NDP). In the NDP, rural local government in particular has a pivotal role to play in reducing poverty and inequalities through the provision of basic services and infrastructure. However, rural municipalities have limited revenue bases and so are heavily dependent on intergovernmental transfers (which have been increasing over the years). Ideally, increased resources to municipalities translate into improved service delivery, but this has not been the case, especially within rural municipalities. Rural municipalities are severely under-spending on their capital budgets (which they can ill afford given the relatively high infrastructure backlogs in rural areas) and are not prioritising maintenance spending. These problems are compounded by the ambiguous allocation of powers and functions between district municipalities (DMs) and local municipalities (LMs) that sometimes overlap. In view of these challenges, the Financial and Fiscal Commission (the Commission) looked at how efficiently rural municipalities use intergovernmental transfers and how effective they are in driving rural development.

## RESEARCH FINDINGS

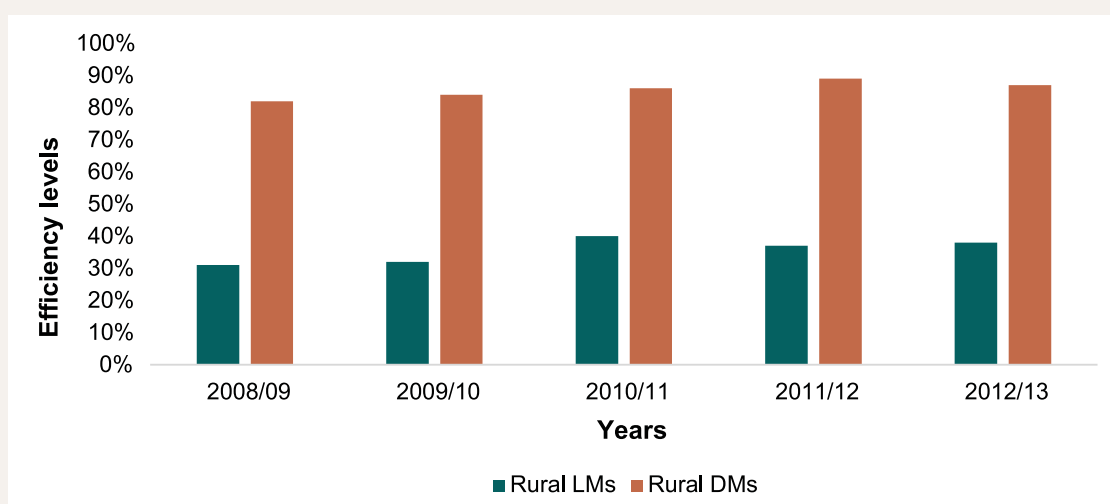
The research found that LMs use transfers more inefficiently than DMs. An analysis of 87 LMs found that rural LMs could produce more than 50% additional output without necessarily increasing available resources. The 18 DMs analysed are more efficient, producing between

83% and 87% of what is expected, given their resources. A plausible reason for the higher scores for DMs is that they have better capacity than LMs.

The human and institutional capacities were evaluated by looking at the vacancy rates, which were found to be lower for DMs than for LMs. In 2014/15, the average vacancy rate for DMs was 2% compared to between 8% and 9% for rural LMs.

The study found that many urban DMs are not performing their core functions as envisaged in the Municipal Structures Act (MSA) of 1998. The MSA mandates DMs to provide services to end users, e.g. health services, sewage disposal systems, domestic wastewater and potable water supply systems, and bulk electricity. However, money is often spent on non-core services, such as administration and planning, rather than on core services. From as early as 2007, capacity assessments by the Municipal Demarcation Board (MDB) showed services being increasingly shifted from DMs to LMs. In 2014, only 45% of DMs were providing water and sanitation services (compared to 61% in 2008) and only 2% were providing refuse removal services (down from 23% in 2008). This shifting of services to LMs is more pronounced in urban than in rural areas. Between 2008 and 2014, the proportion of urban DMs providing water and sanitation services halved, from 22% to 11%, whereas for rural DMs the decline was 24% (from 71% in 2008 compared to 54% in 2014). Similarly, in the case of refuse removal services, urban DMs providing these services have declined by 100% compared to 90% for rural DMs.

**Figure 78. Average efficiency levels: rural LMs vs. DMs (2008/09–2014/15)**



Source: Global Insight (2014)

As cross-municipality authorities, the assumption is that DMs will facilitate the redistribution of resources from wealthy citizens/municipalities to poor citizens/municipalities (i.e. cross-subsidisation). Yet this may not be possible for rural DMs, as many rural municipalities do not contain a large anchor town whose wealth could be used to subsidise rural areas. The cross-subsidisation argument also presupposes that DMs have abundant own revenues to use in order to distribute wealth fairly and equitably. However, since the scrapping of the Regional Services Council (RSC) levies in 2006, DMs have no substantial own-revenue sources and remain grant dependent. As a result, DMs have no muscle to influence municipal spending and thus the overall distribution of wealth. Therefore, redistribution should be left to national government because the Constitution provides the national sphere with expenditure (e.g. transfers) and tax levers to redistribute income equitably.

## CONCLUSION

DMs do have a role to play in rural development and in supporting weaker rural municipalities, but DMs in urban areas are no longer playing the role envisaged in the MSA. Therefore, a single-tier local government system should be considered for urban areas in South Africa. The two-tier system would continue in rural areas where the capacity of DMs should be strengthened to enable better support to rural LMs. To achieve this, government agencies, such as the Municipal Infrastructure Support Agent (MISA), the Department of Cooperative Governance and Traditional Affairs and National Treasury, would need to develop the human and institutional capacity of rural DMs, to enable them to provide quality technical assistance to rural municipalities. DMs are also best placed to coordinate region-wide planning and intergovernmental relations issues and to act as a communication link between the LMs and other government spheres and entities.

With respect to turning LMs and DMs into useful vehicles for rural development, the Commission recommends that:

- National Treasury include, as part of the principles underlying grants to rural municipalities, more stringent expenditure supervision, in order to minimise wastage and improve efficiency. The national and provincial governments should evaluate the effectiveness of existing supervision methods with a view to strengthening them.
- The Department of Cooperative Governance and Traditional Affairs:
  - Pronounce on the role that urban district municipalities should play, with a view to introducing a single tier-local government system in urban areas and to strengthening a two-tier local government system in rural areas.
  - Review the accountability mechanisms of district municipalities in order to make them more accountable to citizens.
  - Provide clarity, as a matter of urgency, on the functions and powers of district municipalities. In line with the White Paper on Local Government, their powers and functions should encompass district-wide planning, coordination of strategic development and intergovernmental relations policy issues, provision of technical assistance to local municipalities, provision of district-wide services, and provision of bulk water, sanitation, refuse removal, and services to District Management Areas.
  - Ensure that the MISA prioritises the capacity-building of rural district municipalities in the areas of coordination and planning, so that they can in turn provide quality technical support to local municipalities.

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