DRAFT TECHNCIAL NOTE

FINANCE

Central Area & CBD Extension Node Local Area Plan

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This technical note represents the Phase Two Deliverable for the Central Area and CBD Extension Node Local Area Plan.

Contract No SCM 65 of 11/12

Prepared for
Msunduzi Municipality

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1 INTRODUCTION

1.1 PURPOSE AND APPROACH

The approach adopted by the Msunduzi Municipality for the refinement of its Spatial Development Framework (SDF) advocates a package of plans (hierarchy of plans) with varying degree of detail and application which commenced with the preparation of a consolidated SDF, followed by more detailed Area Based Management (ABM) SDF's, soon to be supplemented by Local Area Plans (Physical Development Frameworks) for selected areas with the option of precinct plans for development priority areas.

On adoption of the Consolidated SDF, the Municipality's Executive Committee resolved that that a Local Area Plan be produced for the Central Area and CBD Extension Node, and it being noted that the preparation of the Local Area Plans forms an integral component of the SDF review programme towards the formulation of a practical and implementable SDF, with measurable targets.

The intention of this situational analysis focusing on **Finance** is to provide the current reality and is to develop a detailed and integrated understanding of the strategic and local contextual attributes of the study area with respect to development trends, pressures, issues, problems, potentials and current development management systems etc. The introduction of the **financial** component into local area planning is meant to:-

- Assess how financial management and performance impacts development planning
- Assess how development planning impacts municipal financial management and performance
- Allude to getting the right mix of municipal and public finance, and using it to leverage private funding as well as household contributions

This technical note focuses on:

- A review of the state of municipal finance and its impact on local area planning for the Central Area & CBD Extension Node.
- An assessment of the rates and services base of the Central Area & CBD Extension Node.; financial management in relation to maintenance of infrastructure and investment in new infrastructure; and a review of existing by-laws and enforcement thereof.

1.2 THE STUDY AREA

The study area for the Central Area & CBD Extension Node is approximately 16km² in extent and incorporates the whole of the Pietermaritzburg Central Business District (CBD) and area immediately adjacent. The northern boundary extends around most of Town Hill Hospital and Greys Hospital, through a portion of Northern Park and includes the residential suburb of Chasedene, Liberty Midlands Mall and what is referred to as the CBD Extension Node. The eastern boundary extends along the N3 and incorporates the suburb of Manor, but excludes the Scottsville Race Course. To the south the boundary incorporates the recreational precinct area of Alexandria Park and the Harry Gwala Stadium, and the suburb of Napierville. To the west the boundary extends towards the suburb of Prestbury terminating just beyond the Rail Yard off Mayors Walk and then generally follows the Dorpspruit Stream towards the Royal Showgrounds. Wards 25, 26, 27, 32 and 33 are impacted by the project and the area falls within the Northern and CBD, Ashburton and Eastern Areas ABM boundaries.

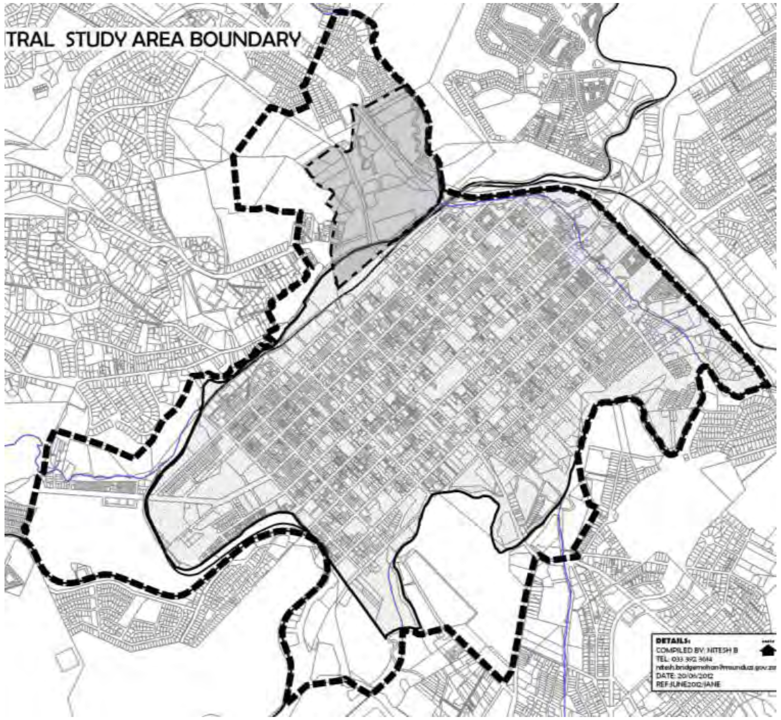

Figure 1: Central and CBD Ext Study Area

1.3 Sectoral Process and Methodology

The project process and methodology, including public meetings, workshops, stakeholder engagements is the focus of this sub section. The process and methodology used is a scan of the relevant documentation from the municipality that was provided to the project team, as well as municipal information specifically on the budget and financial management that is available from the official website of the municipality –this included the latest versions of the IDP, SDF and budget related documents. More specifically the municipal documents used for this report on Finance are:-

- The package of documents prepared by TMM for the National Treasury's Annual Budget and Benchmarking process which took place on 9 May 2013
  - Alignment of the SDF to the Budget 2013/14 for the medium term
  - Mid-Year Review and Budget Adjustment process for 2012/13
  - Alignment of the IDP and Budget 2013/14 including all financial compliance documents
- Annual Financial Statement of the TMM for 2011/12 and preceding 2 years
- The National Treasury Assessment of the TMM's budget preparation for 2013/14 based on the package of documents prepared by TMM for the National Treasury's Annual Budget and Benchmarking process which took place on 9 May 2013

The documents mentioned above will provide the overall financial context for the municipality, and this will need to be applied to the study area to see how it will impact the proposed LAP. An assessment of the income and expenditure for the study area will be used as the baseline with the development scenarios generated during the planning process providing estimates of the potential income and expenditure post the implementation of the LAP. The assessment specific o the study area will cover:-

- Rates and Tax Base for the study area relative to the rest of TMM
- Grants and transfers from national and provincial government and other Income sources for the study area
- By-Law enforcement
- Approved development applications
- Expenditure specific to the study area relative to the rest of TMM
  - Planned capital costs for 2013/14 – 2015/16
  - Planned operating costs for 2013/14 – 2015/16
  - Financing strategy

The data to be used for this section is being specially sourced from the Finance Department of TMM and will be inserted into the report as soon as it is received.

The initial desk top review will be followed by verification of the information and preliminary assessment with the relevant official/s from the Finance Department of TMM as well as relevant officials from National Treasury. The verification by the municipal finance department is in the process of being done since Finance officials were unable to attend the client workshop on 16-17 May 2013, and this will then also be verified by the relevant National Treasury officials and will be in line with the final approved budget which is required to have a council resolution by no later than 31 May 2013.

2 Policy Environment

The policy environment for Finance has been driven by a Fiscal Reform Agenda based on the principle of financial decentralization for metropolitan municipalities and other larger municipalities – there are 17 municipalities in the country that collectively account for approximately 70% of the total local government budget and expenditure. Furthermore these municipalities collectively account for a large proportion of the country's GDP and population. TMM is one of the 17 largest municipalities in South Africa and as such it is one of the 17 non-delegated municipalities that is subject to direct oversight by National Treasury (instead of the Provincial Treasury) in terms of the Municipal Financial Management Act, 2003 (MFMA) and Regulations.

From a local government policy perspective, 2 additional large municipalities were categorised as metropolitan municipalities in 2009 when it was expected that TMM would have been the third municipality together with Mangaung and Buffalo City to become metropolitan municipalities. However TMM was put under financial administration during 2009/10 and did not get metropolitan status. It is none the less one of the 9 cities that forms part of the South African Cities Network (SACN) and has status as a secondary city. City Regions and Growth Corridors as part of a national space economy has been given impetus by the adoption of the National development Plan (2012) giving TMM national-level significance in comparison to its regional role. There is a current initiative to develop an Integrated Urban Development Framework to guide urbanisation. All these initiatives indicate a dynamic urban agenda and it will be the decision of the TMM to decide how it will respond to these various initiatives.

Traditional CBD's in many cities in SA have been the focus of Inner City Regeneration initiatives - there have been fiscal instruments such as Urban Development Zones (UDZs) and Neighbourhood Development Programmes (NDPs) as well as sector specific instruments such as Social Housing Restructuring Zones. Specific subsidies such as the Public Transport Infrastructure Systems Grant have had a dominant impact on CBD's as Integrated Rapid Public Transport Networks (IRPTNs) have been implemented.

The government investment in CBD's mentioned above has been complemented in many instances by private sector commercial and business investment. Yet many CBD's have continued to decline in property value and functional significance due to a general decentralisation trend of traditional CBD functions as well as neglect of urban management functions by the municipality.

The MFMA and Regulations and related institutionalised processes managed by National Treasury are the most important and influential policy and legislation that impacts the financial management and performance of TMM.

2.1 Legislation/Policy

The key policies/legislation relevant to the Finance sector, including new or emerging directives and implications emanating from policy for this LAP are the following:-

- MFMA
- Division of Revenue Act (DORA) 2013
- (Provincial DORA)

The MFMA together with the related Regulations and Circulars provides comprehensive guidelines and compliance requirements for municipalities with regard to financial management. For example there are annual guidelines for budgeting and also specific circulars that deal with a particular issue such as 2013 Capital Planning Guidelines (discussed in the next sub-section). This legislation has a key impact on the formulation of the budget of TMM. Professional Teams working on Local Area Plans that are geared towards implementation of development projects would benefit is producing affordable and practical plans if they were aware of these financial parameters upfront rather than simply costing development projects at the end of the planning and design stages of the project.

The DORA, the content of which changes annually, provides detailed allocations for the medium term (rolling 3 years) on all grants and allocations/transfers to all 3 spheres of government. Each provincial treasury is required to gazette its provincial DORA before 1 April every year. The gazetting of the national and provincial DORAs provides municipalities with the financial detail they require to do the planning of their budgets. Detailed grant information from the national DORA pertinent to TMM may be found on the following pages:-

- Pg. 31 for allocation of Local Government Equitable Share
- Pg. 47 provides information on the municipal systems improvement grant and the energy efficiency and demand side management grant in general rather than the specific allocations to TMM
- Pg. 208 shows allocations to TMM for the Local Government Equitable Share Grant, the Municipal Systems Improvement Grant and the Expanded Public Works Grant
- Pgs 101 and 105 provide details of grants transferred to local government (not municipal specific) for Infrastructure and Current transfers respectively while pg.256 provides this information for TMM as a total.

There are particular grants that are financial instruments provided by National Treasury – these are:-

- Local Government Equitable Share (operating grant provided for contributions to social package / poverty alleviation)
- Urban Development Zones (tax incentive)
- Neighbourhood Development Programme (Technical Assistance Grant and Capital Grant)
- Integrated City Development Grant (ICDG – performance based grant for sptail restructuring) for metros (in relation to missed opportunity of Categorisation of TMM as a metro)

There are other grants, both capital and operating that are managed by various sectors such as Human Settlements, Transport or Co-Operative Governance. A list of conditional grants transferred from national departments to municipalities as appears in Annexure 1 provides an indication of the number of grants available. TMM will have a specific section in their approved budget that will provide information on the specific grants and transfers they receive for their municipality – see Annexure 2. The draft budget 2013/14 and the current budget 2012/13 list the following grants in terms of funding source:

- **National**
  - Local Government Equitable Share (goes to Operating Budget for Free Basic Services)
  - MIG – Municipal Infrastructure Grant administered by COGTA
  - COGTA – Co-Operative Governance & Traditional Affairs for Municipal Systems Improvement Grant
  - DOT – Department of Transport for Public Transport Infrastructure (PTIG)
  - NDPG – Neighbourhood Development Programme Grant
  - DME- Department of Mineral and Energy for Energy Efficiency & Demand Side Management Grant

- DME- Department of Mineral and Energy for Integrated National Electrification Programme (INEP)
- DBSA – Development Bank of Southern Africa
- Department of Human Settlements - Rural household infrastructure grant
- Expanded Public Works Grant

- **Provincial**
  - DS&R – Department of Sport & Recreation
  - Department of Human Settlements Human Settlements Development Grant[1]
  - Airport Development Project
  - Corridor Development

The grant frameworks in the DORA provide information o the specific use of the grants. For example the conditions for the UDZs or the NDPG will be found in the grant frameworks in DORA. The amounts to each municipality will also be found in a different section of DORA.

There is a current initiative to establish a Standard Chart of Accounts (SCOA) for local government so that financial information for all municipalities will be comparable across the sector.

The budget of TMM is the financial component of the IDP and SDF that determines the extent to which the municipality has the financial resources to deliver on its planned priorities and targets.

2.2 Sectoral Planning for Study Area

The key local planning / strategy document relevant to the Central Area and CBD Extension Node LAP, that has been prepared and will have a bearing on what this LAP project is attempting to do, or where decisions have already been taken is the Budget 2013/14 – 2014/16 as informed by the Regulations and key circulars applicable to non-delegated municipalities in respect of the MFMA.

[1] This is the housing capital grant that does appear on the balance sheet of the municipality, and therefore not the budget. It is administered by the provincial department of Human Settlements.

The Draft Budget 2013/14 – 2014/16 should be approved and finalised by no later than 30 May 2013. The draft Budget has been used for the purpose of this exercise in terms of the timing of the project. Once the Budget is approved, this report can be amended where necessary.

The assumptions underlying the formulation of the budget should have been informed by the Regulations and key circulars related to the MFMA. The budget summary for 2013/14 is as per Table 1 below.

Table 1: BUDGET SUMMARY 2013/14[2]

	R '000
Total Revenue (excluding capital transfers and contributions)	3,272,534
Total Expenditure	3,205,947
Surplus/(Deficit)	66,586

The Capital Budget for 203/14 is approximately R476 million - of this total capital budget approximately R416million constitutes grants/transfers (that is money received by the municipality from national or provincial government rather than it being generated by the municipality's own revenue or investments)[3]. In other words the capital budget is 87% grant funded. The grants to be received by the municipality sorted by source from national and provincial government for the 2013/14 year are listed with amounts in Annexure 2[4].

Operational Repairs & Maintenance for 2013/14 has received an allocation of R95,314,000 or 1.3% of value of Property Plant and Equipment (PPE)[5].

The 2013/14 Budget presentation to National Treasury on 9 May 2013 highlighted a number of catalytic projects, many of which fall within the study area. However there is no explicit referencing to ABM areas in the Budget. However TMM made a presentation to National Treasury in April 2013 as part of the Mid-Year Budget (2012/13) Review where it had listed all the projects in the Inner City or Pietermaritzburg Urban renewal Programme (PURP as follows:-

- IRPTN
- Greater Edendale Mall
- Camps Drift Waterfront
- Liberty Midlands Mall (R500million)

[2] Source: TMM presentation of Budget 2013/14 – 2014/16 to National Treasury, 9 May 2013
[3] Ibid
[4] Ibid
[5] Source: National Treasury, Local Government Budget Analysis, 9 May 2013

- Mpushini Business Park (R1.6billion investment value)
- Edenvision Private Hospital (R300million investment value)
- Hlatshana Retirement Village (R15million investment value)
- Hayfields Hotel & Residential (R200million investment value)
- Sirius Residential –Mixed Income residential (R600million investment value)
- Polocrosse Site commercial development (R200million from the sale of land)
- Cleland Road / Caravan Park site (R300million from the sale of land)
- Super Spar (R100million investment value)
- Imbali Township Regeneration Programme funded by NDPG
- Hillcove Hills residential and commercial development
- Freedom Square Tourism Hub funded by COGTA grant of R21,4million (cost is R27million)
- Legislature Precinct Development (R2billion projected cost)
- Dale Park in relation to IRPTN station and accommodating small businesses
- Pieter Maritz Street – clean-up and pedestrianization
- Safe City Project run via municipal entity (non-profit) called safe City with 70 CCTV cameras, sms programme for reporting suspicious and unwanted behaviour, panic alert system. Safe City has a partnership with Business Against Crime, SAPS, NPA and Community Policing Forum (constraints with capital budget allocations noted). It is also responsible for metered parking and has been able to recover over R4million rand!

Cautionary Note: During the Budget and Benchmarking engagement between TMM and the National Treasury on the 9 May 2013 there were a number of discrepancies identified in the detail of the budget and TMM provided an undertaking to correct this before tabling the budget for Council approval before 30 May 2013. As a result the figures used in this report which are from TMM's budget package to National Treasury are likely to change and will need to be revised in this report.

2.3 Key Development Principles/Directives

Fiscal and financial policy has developed since the introduction of the MFMA in 2033 and the regulations in 2009.

Financial regulation provides for a better balance between investment in new infrastructure in relation to providing adequate resources for the maintenance, repairs and upgrading of existing infrastructure and related revenue and expenditure streams. There has been a comprehensive focus on Asset Management from the Office of the Accountant General in National Treasury since 2009/10.

Guidelines for Capital Planning have been established by the National Treasury in 2012 and 2013 – the guidelines are the same for all projects although there is a categorisation of capital projects by project cost. The objective of these guidelines is to provide efficiency in infrastructure planning and budgeting, supporting a better allocation of resources across government. [6]

Financial regulation is focused on a credibly funded budget - a municipality has to plan within the constraints of its financial resources with a particular focus on the management of its own resources as compared to grant funding.

The municipality should formulate realistic ffinancial growth prospects that contribute to city revenue while grants are used for marginalised households within financial and institutional capacity.

Metros and large cities should run the city on sound municipal financial rules using public funds to leverage private investment as well as household contributions

Public expenditure has spatial implications – it can either contribute to spatial restructuring or work against it. Urban expansion and development of areas such as the SEDIs should not be prioritised over efforts for infill and densification in the central areas and CBD Extension Node thus making for effective and efficient use of limited public resources.

Fiscal instruments such as the Urban Development Zones (UDZs) and Neighbourhood Development Programme (NDP) are managed by National Treasury for use by municipalities. The UDZs is a tax incentive intended to stimulate private sector investment in inner-cities or CBDs while the NDP has a precinct level focus on the development of public spaces. These fiscal instruments have been in existence for more than 5 years.

More recent fiscal reform has seen the evolution of MIG to MIG-Cities and then to the Urban Settlements Development Grant (USDG) in respect of metros only. TMM still receives MIG since it is not a metro. The USDG in comparison to the MIG-Cities enabled metros to spend capital on land and infrastructure (rather than just infrastructure) and it had less conditions (providing greater discretion on use by the municipality).

Fiscal reform has also had the effect of speeding up the sectoral processes for the devolution or accreditation and assignment of key built environment functions – that is

[6] 2012 and 2013 Capital Planning Guidelines, National Treasury

for the Public/Land Transport and Human Settlements functions. This has been complemented by the constitutional court judgement that clarified the contestation between the provincial and municipal spheres on development planning and land use management. The National Treasury manages the Cities Support Programme for metros that focuses on the functional integration and alignment of Transport and Human Settlement as supported by the alignment of funding for these functions within the context of sound governance and institutional readiness. The CSP has developed the most recent fiscal instrument for metros, which is the Integrated City Development Grant (ICDG) that was introduced in 2013 and which is a performance-based grant that rewards metros that achieve spatial restructuring outcomes. While this grant is only available to metros there is nothing stopping TMM from adopting the planning approach for spatial restructuring advocated by this grant based on Urban Networks and Hubs within Integration Zones.

Significant pressure and change has made the Central Area and CBD Extension Node LAP an opportunity to assess and re-align the current PURP and explicitly link it to the spatial restructuring of the city as is currently being done with metros.

3 ASSESSMENTS

The assessments presented below provide very little assessment specifically for the study area due to lack of area-based financial data – the assessment is thus focused at a municipal level until the date is sourced from TMM as mentioned above in this Report.

The assessment of the general state of municipal finance provided hereunder is a selective use of factual data to outline the general the state of municipal finance in TMM.

TMM was placed under Administration in 2009/10 and it is not yet conclusively evident that the implementation of the Financial Recovery Plan has succeeded. Audit Results for last few years have not yet indicated a significant enough change to sound financial management: qualified 2009/10 and 2010/11; unqualified with emphasis of matters for2011/12.

There was a new CFO appointed in in 2012, and many new appointments within the Top Management Team – this usually has a disruptive effect on internal processes. When this is coupled with a change in political leadership as will be the case in 2015, this will more than likely impact service delivery.

The National Treasury opinion on whether budget is funded; multi-year; credible and sustainable in terms of content, compliance and verification has been that the budget is not funded and not multi-year; t is not credible or sustainable; and there is poorcash flow/liquidity. However TMM has been afforded an opportunity to correct this before the final tabling of the budget for Council approval by 31 May 2013. On the positive side the National Treasury has noted some improvements in comparison to previous years e.g. R60m of internally generated funds have been contributed towards the capital budget of R476m making the budget less reliant on grants as compared to other years.

TMM has acknowledged that "… Whilst the technical aspects of projecting the assessment rates revenue have been taken into account, specific challenges attached to the billing and collection of this revenue still remains" and "Specific risks such as undelivered bills, enforcement of the credit control and debt collection policy and other procedural difficulties are receiving priority." These are all aspects of financial management that are within the direct control of management and TMM has correctly given priority to the following:-

"In strengthening the Revenue Framework the following aspects are given priority:

- Policy Imperatives – Rates Policy, Tariff Policy, Indigent Policy and the Credit Control and Debt Management Policy
- Processes and Procedures within the Revenue Business Unit
- Revision of the organisational framework and structure of the Revenue Business Unit
- Review of the billing system to ensure integrity of data."[7]

The National Treasury's Benchmarking exercise indicates that while there are some financial characteristics of TMM that are similar to some metros (Tshwane, Nelson Mandela Bay, Buffalo City, and Mangaung), there are more characteristics that show similarity to other secondary cities.

The National Treasury Mid-Year Review of the 2012/13 Budget had a specific focus on the Inner City which is part of the study area. The Inner-City focus was based on the emphasis for the need to balance the addressing of service backlogs through grant funding in relation to the national and local economic strategy by optimising economic potential in the inner-cities or town centres. The assessment was based on the following:-

[7] Source: TMM presentation of Budget 2013/14 – 2014/16 to National Treasury, 9 May 2013

- General look and feel of built environment
- R&M as well as capital investment
- By-laws and related enforcement
- IRPTN
- Urban renewal: NDP &UDZ
- Partnerships with the private sector
- Alignment with spatial transformation agenda of the city

The National Treasury Report submitted to TMM raised the issue that TMM itself acknowledged that some By-Laws needed to be reviewed for the city to be functional (e.g Informal Street Trading) while other By-Laws such as Parking Meter, Cemeteries, Water Services and Advertising signs and Fireworks were approved ready for enforcement. It was noted that TMM is struggling with electricity and water losses due to inadequate repairs and maintenance (as noted by Treasury in their assessment of the Budget 2013/14). A positive initiative has been the Safe City project where the Safe City entity has, amongst other successes, collected R4million through the enforcement of traffic and parking enforcement. The Treasury observed a lag of time between producing a range of plans (SDF, sector plans, Inner City Urban Renewal Programme) and getting the plans implemented and thus getting the inner city challenges addressed on the ground. The report concluded that TMM needed to strengthen the initiatives for the inner city to leverage private sector investments and to take precautions to protect its asset base thus implying a greater focus on repairs and maintenance of existing infrastructure.

The assessment of the study area indicates that if repairs and maintenance of the existing infrastructure in the study area is not adequately performed, and if visible and tangible service delivery and management of public spaces is not given a priority, then TMM will lose its basis for any urban renewal partnerships. One way of ensuring adequate R&M allocations on budget is to ensure that all services in the study area are correctly and completely billed and the resulting revenue collected. Another way is to minimise technical losses for electricity and water (reduce accounted for water and electricity). These are examples that have an impact on the operating budget and processes and procedures within the city administration rather than an automatic translation into capital funds for new infrastructure assets. All new projects should be subjected to the Guidelines for Capital Projects as established by National Treasury in 2012 and 2013 so as to focus on the financial viability of the projects.

4 Key Findings

The key findings of the assessment of the study area from a financial perspective are outlined below in terms of the identification of key issues and problems, as well as opportunities and constraints, and trends. This subsection of the report will conclude with the identification of potential issues that may emerge as the pressure for the development of the Central Areas and CBD Extension Node increases.

Key Issues & Problems

The assessment of the finances of the city show that the city is not financially sound at this point in time – this is the opinion of both the Auditor General as well as the National Treasury (who has direct oversight of the finances of the city in terms of the MFMA Regulations 2009). Hence it is more than likely that any development finance institution, commercial or investment bank would price the risk of lending to the municipality at a premium. This is something that TMM can ill afford given the development pressures it faces now or is likely to face going into the future (pressure of urbanisation and increasing poverty and inequality).

The fact that the capital budget is 87% grant funded is clearly indicative of the ability of TMM to fund service delivery linked to growth and development. A further indictment is that continuous under spending on capital expenditure and the more than significant proportion of conditional grants that have to be refunded to the national fiscus.

An assessment of the operating budget indicates that there is too little budget allocation for R&M, or that the amounts are incorrectly allocated. If R&M is neglected or underfunded it poses a serious risk for effective service delivery in that there may be huge technical losses and/or service interruptions with e resultant loss of services revenue. If R&M is adequately budgeted and spent, and services are correctly and completely billed for, then revenue collection has to be done optimally to enable TMM to fund its budget sustainably year-on-year.

Billing and revenue collection for Rates also requires a similar focus to the one outlined above for basic services.

Opportunities & Constraints

TMM has been designing and implementing an IRPTN with the support of the national department of Transport via the PTISG. This is part of a national programme by the department of Transport to delegate the function for land transport and public transport to particular municipalities. It is a sectoral initiative that is complimented by a fiscal instrument of directly transferring the grant allocations to the municipality (instead of via the provincial department). The devolution of this function for public transport is based on the principle that TMM has to lead the planning, design and implementation of the IRPTN.

TMM is currently receiving support from the national department of Human Settlements via the National Upgrading Of Informal Settlements Programme (NUSP) to manage the development of informal settlements in the city with a specific focus on in-situ upgrading.

Furthermore TMM is in the process of being accredited for the Human Settlements function. TMM had already received Level One accreditation (essentially planning projects and programmes) and is geared to achieving Level Two accreditation during 2013/14 (administrating national programmes by the municipality instead of the provincial department) and Level Three by 2015/16 (determining municipal priorities by itself rather than it being done by the provincial department). The drive for accreditation has resulted in TMM establishing and capacitating a specific unit for Human Settlements rather than having it as a sub unit of Planning.

Accreditation means that TMM has greater control over the Programmes and Projects that are funded by the Human Settlements Capital Subsidy. This provides the opportunity to begin addressing the functional integration of housing programmes that are totally reliant on public funds (grants) to key projects such as the IRPTN that structure the urban form of the city. With both functions (housing and public transport) being delegated to TMM it is now up to the Planning department of TMM to use these 2 key functions to begin restructuring their urban form.

The constraints faced by TMM are not just budgetary or expenditure performance as outlined in the subsection above on Key issues and Problems. It also relates to constraints within the sectors of Human Settlements and Public Transport, that is issues within each sector.

Trends

TMM has prioritised Urban Renewal in the 2013/14 Budget – this is clearly evident in the Budget presentation made to National Treasury on the 9th May 2013 in the section that outlined the Catalytic Projects, and as outlined in section 2.2 above. In addition TMM's presentation made to National Treasury during the Mid-Year Budget Review in April 2013 acknowledged challenges specific to the Inner City and its response in terms of the Inner-City Management and PURP.

Many of these projects are grant funded and as such are driven by sectoral priorities rather than being informed by local area based planning that should respond directly to local needs. Furthermore spending on projects can be improved to reach 100% of budget and be fiscally effective and efficient but could end up being spent in physical locations that do not support the spatial restructuring of the city. TMM has sufficient control over key built environment functions to achieve spatial restructuring *if the planning department drives the functional integration* of these 2 sectors.

Implications for Development of the LAP for the Central Areas and CBD Extension Node

The LAP to be developed has to take into account all of the projects currently in the PURP and the rest of the study area and on budget. The LAP will need to consider balancing social and economic development priorities – it will need to retain and grow exiting revenue sources in the study area while also investing scarce capital resources to bring new revenue streams on line.

Raising private sector contributions for CA & CBD Partnerships (private and household investments) will be severely hampered if there is a perceived reduction in service delivery standards or inadequate attention paid to R&M to at minimum maintain exiting levels of services.

A small grant funded capital budget (it is fact that the Capital Budget is 87% grant funded with 13% own funds) implies that budget priorities and delivery could be more aligned to grant conditions and sectoral outputs rather than municipal priorities while under-spending on the capital budget implies reduced service delivery (or an under achievement of IDP priorities or community needs). Under-spending also implies that any new projects are more than likely to also suffer from under spending.

A s a result all scenario planning for the LAP should be subjected to a rigorous assessment in terms of the National Treasury Guidelines on Capital Projects to ensure amongst other criteria that the LAP leads to :-

- Protecting and growing the revenue base of the study area and ultimately the city (rates revenue and property value)
- Attracting private and household investment
- Positively contributing to the financial recovery of city (balance revenue generating investment with social benefits that don't)
- Contributing to more a more compact city (5 spatial principles) and urban lifestyle

The key questions to be asked would be:

- If the LAP requires capital investment, will it be within the affordability of TMM?
  - Will it be funded by grants?

  - Will it be funded by own funds
  - Will TMM loose grants due to underspending?
  - What is the borrowing capacity of TMM and the risks attached to borrowing?
- If LAP requires operating funds for R&M, will it have sufficient allocations

The lack of area based financial data is a key gap in information that hampers the following assessment:-

An assessment of the income and expenditure for the study area to be used as the baseline with the development scenarios generated during the planning process providing estimates of the potential income and expenditure post the implementation of the LAP. The assessment was anticipated to cover:-

Income/Revenue

- Rates and Tax Base for the study area
- Grants and transfers from national and provincial government and other Income sources for the study area – check specifically for By-Law enforcement
- Approved development applications and projects implemented including pipeline projects

Expenditure

- Planned capital costs for 2013/14 – 2015/16
- Planned operating costs for 2013/14 – 2015/16
- Financing strategy

5 Sources of Information

Contact with officials

1. Sixtus Gwala, Budget Manager, TMM. Meeting on 15 May, and telephone conversations and emails prior to 15 May
2. Bernard Mokgabodi and Johan Botha, National Treasury, Local Government Budget Analysis. Meetings on 9 May and 14 May

Source Documents

1. Budget Package submitted to National Treasury for 2013 Budget and Benchmarking which included:-
    1. Annual Financial Statement for 2011/12
    2. Budget 2013/14
    3. IDP 2013/14
    4. SDF 2013/14
    5. Presentation prepared by municipality on all of the above documents
2. National Treasury Assessment of Budget Package listed in 1. above.
3. National Treasury Press Release, 8 March 2013, Local Government Revenue and Expenditure: Second Quarter Local Government Section 71 Report for the period: 1 July 2012 to 31 December 2012.
4. National Treasury Report on inner City Visit as part of the 2013 Mid-Year Budget Review, April 2013.

ANNEXURE 1

Source: National Treasury Press Release, 8 March 2013, Local Government Revenue and Expenditure: Second Quarter Local Government Section 71 Report for the period: 1 July 2012 to 31 December 2012.

Conditional grants transfers, payments and expenditure as at 31 December 2012

2nd QUARTER ENDED 31 DECEMBER 2012

CONDITIONAL GRANTS TRANSFERRED FROM NATIONAL DEPARTMENTS AND ACTUAL PAYMENTS MADE BY MUNICIPALITIES: PRELIMINARY RESULTS

AGGREGATED INFORMATION FOR ALL MUNICIPALITIES

					Year to date		First Quarter		Second Quarter		YTD Expenditure		% Changes from 1st to 2nd Q		% Changes for the 2nd Q		Approved Roll Over	
R thousands	Division of revenue Act No. 5 of 2012	Adjustment (Mid year)	Other Adjustments	Total Available 2012/13	Approved payment schedule	Transferred to municipalities for direct grants	Actual expenditure National Department by 30 September 2012	Actual expenditure by municipalities by 30 September 2012	Actual expenditure National Department by 31 December 2012	Actual expenditure by municipalities by 31 December 2012	Actual expenditure National Department	Actual expenditure by municipalities	Actual expenditure National Department	Actual expenditure by municipalities	Exp as % of Allocation National Department	Exp as % of Allocation by municipalities	Total Available 2012/13	YTD expenditure by municipalities
National Treasury (Note 10)																		
Local Government Financial Management Grant	402 753	-		402 753	402 753	402 753	99 332	88 063	93 216	89 386	192 548	177 449	(6.2%)	1.5%	47.8%	44.1%		
Infrastructure Skills Development Grant	75 460	-		75 460	29 030	28 530	11 449	11 253	7 859	1 445	19 308	12 698	(31.4%)	(87.2%)	25.6%	16.8%		
Neighbourhood Development Partnership (Schedule 6)	578 132	-		578 132	327 231	326 961	70 874	76 401	77 927	141 876	148 801	218 277	10.0%	85.7%	25.7%	37.8%		
Neighbourhood Development Partnership (Schedule 7)	80 000	-		80 000	49 316	-	-	-	-	-	-	-	-	-	-	-		
Sub-Total Vote	1 136 345	-	-	1 136 345	808 330	758 244	181 655	175 716	179 002	232 708	360 657	408 424	(1.5%)	32.4%	34.1%	38.7%	-	-
Cooperative Governance (Note 8)																		
Municipal Systems Improvement Grant	230 096	-		230 096	230 096	230 096	10 651	44 736	17 005	56 178	27 656	100 913	59.7%	25.6%	12.0%	43.9%		
Disaster Relief Fund	14 200	-		14 200	14 200	14 200	-	-	-	-	-	-	-	-	-	-		
Internally Displaced People Management Grant	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Sub-Total Vote	244 296	-	-	244 296	244 296	244 296	10 651	44 736	17 005	56 178	27 656	100 913	59.7%	25.6%	11.3%	41.3%	-	-
Transport (Note 37)																		
Public Transport Infrastructure and Systems Grant	4 988 103	-		4 988 103	1 821 484	1 811 484	358 714	376 164	927 176	846 175	1 285 890	1 222 340	158.5%	124.9%	25.8%	24.5%		
Rural Transport Grant	37 295	-		37 295	37 295	37 295	10 902	4 987	10 561	13 042	21 463	18 039	(3.1%)	161.5%	57.5%	48.4%		
Sub-Total Vote	5 025 398	-	-	5 025 398	1 858 779	1 848 779	369 616	381 151	937 737	859 217	1 307 353	1 240 378	153.7%	125.4%	26.0%	24.7%	-	-
Public Works (Note 6)																		
Expanded Public Works Programme Integrated Grant (Municipality)	596 240	-		596 240	419 447	443 532	29 782	114 925	100 219	156 734	130 001	271 659	236.5%	36.4%	21.7%	45.6%		
Sub-Total Vote	596 240	-	-	596 240	419 447	443 532	29 782	114 925	100 219	156 734	130 001	271 659	236.5%	36.4%	21.7%	45.6%	-	-
Energy (Note 29)																		
Integrated National Electrification Programme (Municipal) Grant	1 151 443	-		1 151 443	1 052 530	959 036	127 655	219 342	140 589	249 560	268 244	468 902	10.1%	13.8%	23.3%	40.7%		
National Electrification Programme (Allocation in-kind) Grant	1 879 368	-		1 879 368	1 598 187	-	-	-	-	-	-	-	-	-	-	-		
Backlogs in the Electrification of Clinics and Schools (Allocation in-kind)	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Electricity Demand Side Management (Municipal) Grant	200 000	-		200 000	147 000	118 000	-	11 828	-	13 906	-	25 734	-	17.6%	-	12.9%		
Electricity Demand Side Management (Eskom) Grant	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Sub-Total Vote	3 230 811	-	-	3 230 811	2 798 017	1 077 036	127 655	231 170	140 589	263 466	268 244	494 636	10.1%	14.0%	19.8%	36.8%	-	-
Water Affairs (Note 38)																		
Backlogs in Water and Sanitation at Clinics and Schools Grant	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Implementation of Water Services Projects	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Regional Bulk Infrastructure Grant	2 516 641	-		2 516 641	2 015 063	-	-	-	-	-	-	-	-	-	-	-		
Water Services Operating and Transfer Subsidy Grant (Schedule 6)	562 434	-		562 434	391 935	323 705	83 513	182 011	110 262	152 654	193 775	334 665	32.0%	(16.1%)	34.5%	59.5%		
Water Services Operating and Transfer Subsidy Grant (Schedule 7)	132 598	-		132 598	99 432	-	-	-	-	-	-	-	-	-	-	-		
Municipal Drought Relief Grant	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Sub-Total Vote	3 211 673	-	-	3 211 673	2 506 430	323 705	83 513	182 011	110 262	152 654	193 775	334 665	32.0%	(16.1%)	34.5%	59.5%	-	-
Sport and Recreation South Africa (Note 19)																		
2010 World Cup Host City Operating Grant	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
2010 FIFA World Cup Stadiums Development Grant	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-		
Sub-Total Vote	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Human Settlements (Note 31)																		
Rural Households Infrastructure Grant	479 500	-		479 500	348 000	-	-	-	-	-	-	-	-	-	-	-		
Sub-Total Vote	479 500	-	-	479 500	348 000	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-Total	13 927 263	-	-	13 927 263	8 963 298	4 695 692	802 872	1 129 719	1 484 814	1 720 957	2 287 686	2 850 578	84.9%	52.7%	25.9%	32.0%	-	-
Cooperative Governance (Note 8)																		
Municipal Infrastructure Grant	13 881 633	-		13 881 633	9 806 949	10 047 227	2 321 958	2 135 281	2 519 951	2 700 609	4 841 909	4 835 870	8.5%	26.5%	34.9%	34.8%		
Sub-Total Vote	13 881 633	-	-	13 881 633	9 806 949	10 047 227	2 321 958	2 135 281	2 519 951	2 700 609	4 841 909	4 835 870	8.5%	26.5%	34.9%	34.8%	-	-
Sub-Total	13 881 633	-	-	13 881 633	9 806 949	10 047 227	2 321 958	2 135 281	2 519 951	2 700 609	4 841 909	4 835 870	8.5%	26.5%	34.9%	34.8%	-	-
Total	27 808 896	-	-	27 808 896	18 948 248	14 742 919	3 124 830	3 264 981	4 004 765	4 421 566	7 129 595	7 686 548	28.2%	35.4%	31.4%	33.8%	-	-

Annexure 2:

Source - Budget Package submitted to National Treasury for 2013 Budget and Benchmarking

CAPITAL TRANSFERS AND GRANTS

Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Capital Transfers and Grants										
National Government:		123,699	73,225	138,340	208,599	160,485	160,485	409,408	205,680	250,172
Municipal Infrastructure Grant (MIG)		91,369	48,348	138,340	150,999	150,170	150,170	151,312	159,211	170,000
Public Transport and Systems		1,757	11,653		48,000	–	–	100,846	–	–
Neighbourhood Development Partnership					100	70	70			
Rural Households Infrastructure					4,500	–	–			
Dept of Minerals/Electricity			3,757			5,000	5,000	5,000	5,000	10,000
Integrated National Electrification Programme					5,000	5,000	5,000	143,000	30,000	12,000
Other capital transfers/grants [insert description]		28,573	9,467			245	245	8,250	11,339	58,332
Provincial Government:		–	11,429	11,838	21,415	58,234	58,234	12,500	–	–
Airport Development Project			11,429	11,838	19,315	18,760	18,760	–	–	
Sport and Recreation					2,100	2,100	2,100			
Corridor Development						37,289	37,289	12,500	–	–
KZNPA						85	85			
District Municipality:		–	–	–	–	–	–	–	–	–
[insert description]										
Other grant providers:		–	–	–	–	135	135	–	–	–
Carnegie						135	135			
Total Capital Transfers and Grants	5	123,699	84,654	150,178	230,014	218,854	218,854	421,908	205,680	250,172