



**SALGA**  
*South African Local Government Association*

# **PROPOSAL FOR EXTENSION OF URBAN SETTLEMENTS DEVELOPMENT GRANT TO ADDITIONAL NON-METRO LOCAL MUNICIPALITIES**

**February 2015**

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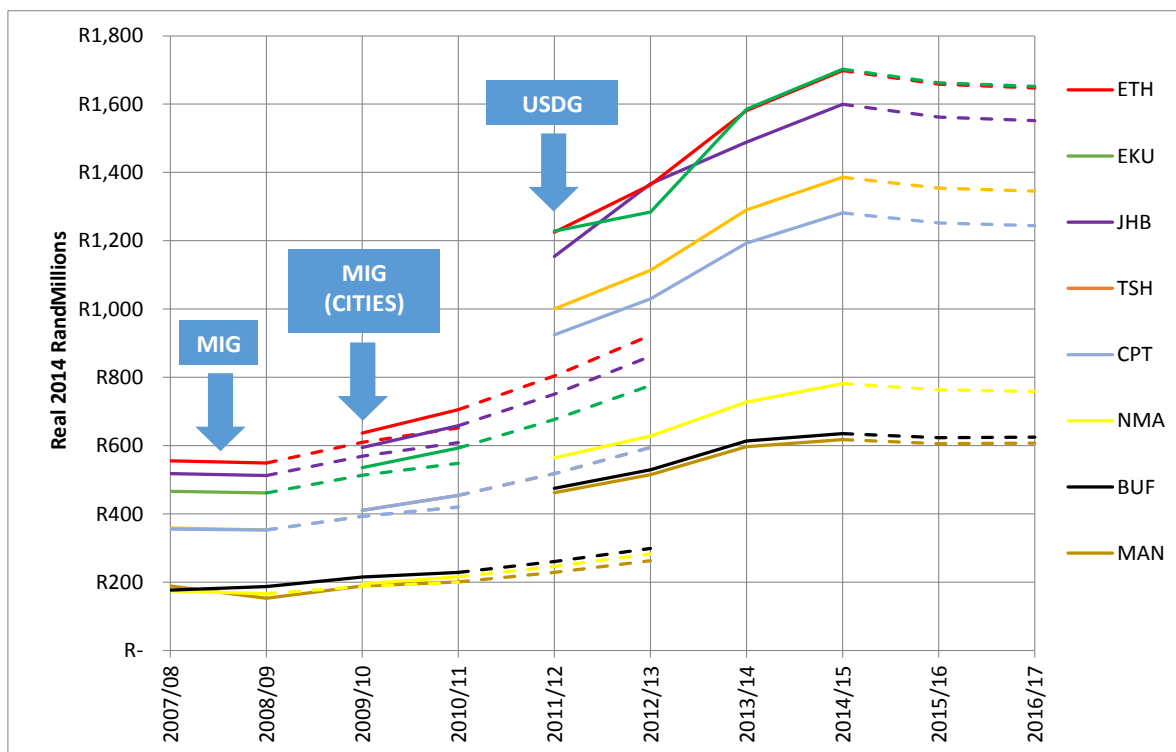
## Background

- Introduced in 2011/12; administered by NDHS; classified as a **Schedule 4** grant to metros to supplement their capital budgets.
- **Purpose:** To assist metro municipalities to improve urban land production to the benefit of poor households, and to improve spatial integration and densities by supplementing the budgets of metros
- **Outcome-based** grant which is spent as per the metros' multi-sectoral Built Environment Performance Plan (BEPP).
  - Grant design and administration gives metros more space to identify spending priorities themselves and to plan and report on the basis of their overall capital programme, as opposed to more intensive project-based reporting required for MIG.
- As larger cities experience human settlements pressures due to migration and economic growth, there has been **increasing call for additional local muns to receive USDG**
  - On this basis, SALGA has developed this proposal to extend the USDG to additional local municipalities (secondary cities).

## USDG allocations

- When it was created in 2011/12, funds were drawn from MIG (Cities) and combined with top-slice from HSDG.
- Totalled R6.2 billion in 2011/12, rising to R9.7 billion 2014/15.

### MIG, MIG (Cities) and USDG allocations to metros: 2007/8 to 2016/17

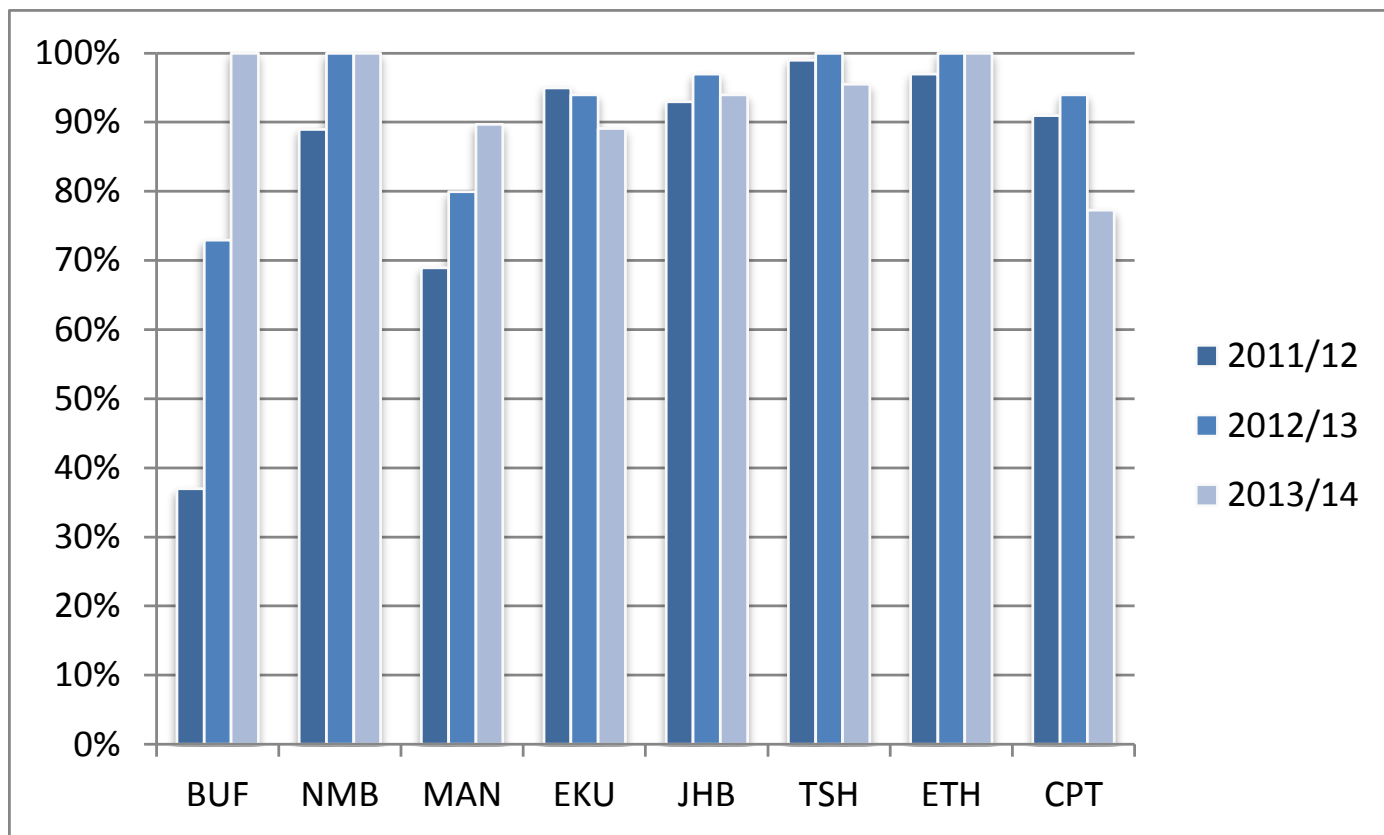


Projections  
shown in dotted  
lines.

## Expenditure on USDG

- Expenditure by all metro: 89%, 94% and 93% in the three years since its creation.

### USDG expenditure as a percentage of allocation



## Policy basis for extension of the grant

- Original grant framework in 2011/12 DORB explicitly stated intention to extend the USDG beyond 8 metros:

*“As more municipalities with large urban centres are able to take on these responsibilities, they will join the urban settlements development grant and their portion of the human settlements development grant will be transferred. This should accelerate the eradication and formalisation of informal settlements.” (RSA, 2011:83)*

- Intention to expand also stated in draft USDG Policy Framework:

*“It is the intention of Government to extend the availability of the USDG to other municipalities which will be identified in due course. Any changes in the availability of the USDG programme will be published in DORA as and when reforms are applicable”*

## Parallel policy processes impacting on USDG

- A number of reviews and policy developments are currently underway which impact on the future of the USDG.
  - MIG Policy Review by COGTA
  - National Treasury Review of Local Government Infrastructure Grants
  - COGTA Integrated Urban Development Framework
  - COGTA review of district municipalities
- Form and design of USDG may be impacted by the broader changes to the overall grant framework, and thus a proposal to extend the USDG to additional cities would need to be considered in this context.
- These Reviews have different recommendations, but also common themes:
  - the move towards decentralisation of capital investment decisions to local govt
  - the use of a differentiated approach which provides more space to better-capacitated municipalities to plan and spend, and then report against programme outcomes.
- These principles are all consistent with USDG and suggest that extension of the USDG would be in broad alignment with the recommendations and directions arising from these current reviews.

## Which additional municipalities should receive the grant?

- Next largest urban areas after metros – the so-called ‘secondary cities’
- There are currently a number of different lists of so-called secondary cities:
  - *B1 muns*
  - *Cities Support Programme 22 secondary cities*
  - *NT Neighborhood Dev Programme 18 cities*
  - *non-delegated municipalities monitored by NT directly*
- Criteria/conditions should be based on features and underlying rationale of the grant
- SALGA proposal identifies **six conditions or characteristics** that need to be present in a municipality (to qualify it for USDG), and then **six indicators** which give evidence of those conditions.



## Six proposed criteria/conditions and six associated indicators

<b>Conditions</b>		<b>Possible indicators</b>	<b>Comments</b>
Conditions related to <b>context (need in external environment)</b>	Demand for adequate shelter	Number of households in informal settlements and backyard shacks	Available from the Census, but some inter-census quantification may be required
	Indications of spatial inefficiency	Number of households in urban areas	Used to focus on urban areas, based on the assumption that South African cities are generally inefficient and the larger the city, the more inefficiency exists
Conditions related to <b>performance and/or capacity</b>	Mature governance arrangements	Financially unqualified audit opinion	
	Adequate financial systems	Revenue raised per high income household	A fundamental duty of municipalities is to collect revenue from those who are able to pay for services provided. If revenue is not collected from high income households, then this is indicative of poor financial systems (metering, billing, collecting, accounting).
	Adequate capacity or potential for adequate capacity	Percentage of high income households	In addition to measuring the current staff capacity in a municipality, one needs to consider the ability of a municipality to attract and retain competent staff (future capacity). For this reason, a proxy measure must be used, and percentage of high income households is believed to be a good indicator of the available skills and the desirability of a location and hence the ability to attract and retain qualified staff.
	Ability to raise own capital funding	Grant funding as a percentage of capital budget	This is an inverse indicator, as the non-grant sources of internal reserves and borrowing indicate ability to raise capital.

## Proposed scenario for roll-out

- USDG is primarily a **redistributive** grant (providing access to basic services), but also has a strong **incentive** component (it rewards municipalities that have adequate capacity and performance by affording them greater fiscal autonomy.)
- It is therefore proposed that a **two-step process** followed, that uses *both* context and performance indicators.
  1. **Qualification for the USDG based on the *context* indicators:** This will produce a list of secondary cities that are eligible for the USDG.
  2. **Award of the USDG based on *performance* indicators:** Eligible municipalities can apply for the USDG, but then get scored according to the performance indicators to determine whether they have demonstrated capacity and systems to administer the grant. (performance indicators: audit opinion, revenue raised per high income household, grant funding as share of capital budget).
- **Incremental approach** with no more than five additional municipalities in one year
  - Those municipalities that qualify, but fail to score adequately on performance, would continue to receive the MIG and would be able to apply again in the following financial year.

## Way forward

- This draft proposal will serve as a basis for discussion and consultation with member municipalities, as well as key national stakeholders
  - Presented to National Working Group for MIS 23 January
  - Will be presented to all SALGA Provincial Working Groups for MIS in February
  - Draft proposal will be distributed to all municipalities for comment, via a National Circular. Inputs due by March.
  - Engagement with National Department of Human Settlements, the National Treasury and COGTA

## Recommendation

It is recommended that the Provincial Working Group:

- Note the contents of the draft proposal for the extension of the Urban Settlements Development Grant (USDG) to secondary cities; and
- Note plans to consult with municipalities (via a Circular) and with national stakeholders on this draft proposal in 4th Qtr 2014/15.