

NEW DISTRICT FUNCTIONS:

Their implications for local government

The Structures Amendment Act 33 of 2000 allocated functions that were traditionally local municipal functions to district municipalities, namely -

- potable water supply systems;
- domestic waste-water and sewage disposal systems;
- bulk supply of electricity, which includes transmission, distribution and, where applicable also generation of electricity; and
- municipal health services.

The Minister may issue authorisations to local municipalities to continue to provide these functions permanently or for a period (see p 6). The transition could be worked out in a planned manner. An authorisation means that the status quo as regards assets, liabilities, obligations, rights and employees, could be maintained for the duration of the authorisation. This article deals with the implementation and consequences of the allocation of new functions to district municipalities if the Minister does *not* authorise local municipalities to perform them.

Governance

The 'delocalisation' of decision-making about these services creates the danger that the public - the consumers and potential consumers - may be removed from decision-making about the coverage, quality and cost of these services. Most of these consumers do not have access to transport or communications media to voice their needs and complaints.

District municipalities would have to involve local communities in decision-making about these services and would have to find innovative and creative ways of doing so.

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Measures must be put in place to ensure that consumers are aware of who the responsible service provider is and for preventing and resolving conflict between the district and the local municipalities.

Local municipalities must ensure that they are informed of the needs and concerns of consumers of these services in order to fulfil their constitutional obligation of ensuring access to services for their residents. They would have to engage the service provider in an on-going dialogue in order to ensure that residents have access to services at affordable prices and of acceptable quality.

Administration and accounting

The operation, maintenance and repair activities related to these functions are fairly straightforward and the assets, liabilities and employees involved in those activities easy to identify. The district must take over and integrate a variety of operating

systems of these services, including logistical systems such as stores inventory and purchasing, billing systems, budgeting and accounting systems, management information systems including setting and monitoring of key performance indicators.

The identification and transfer of the activities that are *incidental* to delivering these services are more difficult. These incidental activities continue to be performed locally by the employees who previously performed them until the end of the current financial year when those activities and employees are *de facto* transferred to the relevant district municipality. The incidental functions / activities are mainly accounting type functions.

Until the effective date, local municipalities provide these services and are therefore entitled to the income and the subsidies in respect of these services. However, debtors and creditors outstanding on the effective date must be transferred to, and become the responsibility of, the relevant district municipality. Creditors would include money owed to bulk suppliers (ESKOM, water boards etc), salaries and deductions in arrears (eg employees tax, pension fund and medical aid contributions) and other creditors. The debtors' book of the disestablished municipalities in respect of these services is, in most cases, significant.

It is therefore imperative that the local municipalities have accurate records of all the staff, assets and liabilities, tariffs, etc.

Income received and subsidies in respect of these services must be deposited into the bank account of the relevant district municipality from the effective date. All payments must be made from and debited against that account from that date.

The transfer of these services and the related and incidental activities and people may mean that the local

municipalities have an over-supply of office / work space and computer capacity. It will also mean that the district municipalities have too little space and computer capacity. District municipalities should refrain from acquiring new offices and computer systems. They could negotiate with local municipalities to lease office and work space and computer capacity.

At district level there is a real danger of creating large bureaucracies in order to deal with these new responsibilities. Current management of district councils is not used to managing services, managing large bureaucracies, or managing decentralised bureaucracies. Large bureaucracies are known to be less customer focussed and less effective. Simply adding technical and professional staff to existing structures to cope with the additional functions would be a recipe for disaster. Organisational structures and systems of district municipalities must be overhauled to ensure appropriate structures and systems.

Financial implications

Sewage removal and treatment, electricity reticulation and water provision are normally classified as trading services. A municipality that provides these services calculates the consumer charges for them in such a way that they realise a trading surplus, although some municipalities only suspect that they actually make a trading surplus or, at least, break even. The surplus, if any, is used to alleviate property rates. This means that municipalities use trading surpluses to cross-subsidise services funded from the general rates account. In this way a municipality has more control over increases in property rates.

Health services currently provided by municipalities in contrast, are community or non-particular services (no user charges are levied) and consist of two distinct but inter-related services.

These are personal health (clinic) services and environmental health services. Municipalities receive subsidies in respect of these services from the provincial government. However, over the last few years, the subsidies have steadily declined, limitations were placed on the subsidisation of certain types of expenditure and new services were introduced without a concomitant increase in subsidy. A growing proportion of municipal own revenue was therefore appropriated to health services.

Municipalities also subsidise the province with regard to these functions. They must first incur the expenditure and claim afterwards on a quarterly basis. Processing these claims takes up to eight weeks. A municipality therefore carries expenses in respect of health services for periods up to five months .

In addition to the loss of the trading surplus on the trading services, which is assigned to district municipalities, local municipalities' equitable share of national revenue will decrease. As local municipalities will not provide water and sewage removal, which are generally regarded as basic services, that portion of the equitable share should be allocated to the district municipalities.

A potentially major implication for local municipalities would be that their income would decrease. If any future grading or classification system for salary purposes includes income and / or number of employees as significant factors, their grade would be affected. Consequently, downward pressure will be exercised on salaries in local municipalities. On the other hand, if any of these two or both these factors remain in a future grading system, district municipalities may expect significant increases in their grading

and, consequently, increases in salaries.

The establishment notices do not direct the receipt of income from these services from the actual date of transfer until the end of the financial year. They only state that the local municipality at the cost of the relevant district municipality must pay the employees related to these services. All income in respect of these services must be deposited into and credited against the bank account of the relevant district municipality from the effective date. Similarly, all expenses incurred must be debited against the bank account of the district. The district municipality must reimburse the local municipality for all expenses incurred in respect of any of these services after transfer of the functions has been effected.

For district councils the assignment of these functions means that they could experience cash flow difficulties unless effective debt collection systems are immediately put in place. This would require that the debt collection, credit control and indigent support policies and procedures of the disestablished local municipalities that continue to govern these activities, must be rationalised as soon as possible by the district municipality.

It would have to be determined whether local municipalities would be able to survive with the remaining sources of revenue. These are principally property rates and fees for refuse collection and income from lesser sources. Local municipalities retain important and expensive competencies such as road and street building and maintenance, storm water management, spatial and land use planning, recreation and cemeteries. It is extremely difficult to determine a price for these services to consumers.

Human resources implications

In many municipalities significant numbers of the employees perform work related or incidental to these four services. Those employees must, in terms of the establishment notices of the new municipalities, be trans

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ferred to the new district municipalities. The employees related to a service include all the employees who for most of the normal working day have functional, supervisory or managerial involvement in that service.

The employees transferred by the local municipalities become employees of the district municipalities with retention of their conditions of service, including remuneration. The employees transferred from a local to a district municipality form an administrative unit of that district municipality. These administrative units continue to manage, operate and maintain the services for which they were responsible at the relevant local municipality subject to the budgets, rules, by-laws and resolutions of the local municipality from which they were transferred and any new rules etc that the district municipality may impose. The "governance powers and obligations" are, however, transferred immediately to the district. The administrative units cease to exist when the district adopts a new organisational structure (organigram).

This means a massive increase in the size of the administrations of the new district municipalities. Because these services are actually provided to consumers all over the district area, a new form of geographical decentralisation of administration is imperative. Many employees transferred to district municipalities due to the assignment of these functions would therefore still work in decentralised offices and other work places of that district municipality. This requires districts to implement effective inter-office communication systems, to establish clear lines of command and control. They must acquire office space to accommodate their staff in different places in their municipal areas. Separate offices for district and local municipalities may, however, defeat the government goal of "one stop shops" for government services.

Local and district municipalities should negotiate co-operative agreements about these services and their

administration. A critical condition to decide during such negotiations is who supplies the employees to perform these activities? If the district municipality supplies them, the contract should contain explicit provisions regarding the discipline of those staff. If the local municipality supplies the staff, three issues must be considered. First, what would happen to the staff already in the services of the district municipality? Second, the reimbursement of the local municipality for employment expenses. Third, what happens to the employees appointed in respect of these services should any of the parties terminate the agreement?

Service delivery

One of the core challenges of the restructuring of local government is to ensure continued service delivery with the least possible disruption.

The tariffs and conditions of service delivery, debt collection policies and by-laws and other resolutions related to these services must be transferred to and applied by the new district municipalities. The new district would have to rationalise those resolutions, by-laws, policies and procedures as soon as possible.

The approach to the establishment of new municipalities is that resources, assets, liabilities and records follow the function with which they are associated. This also means that any funds that was built up in relation to these services must be transferred to the district municipality concerned, together with the related records, by-laws etc.

The planning and installation of new infrastructure relating to these services requires cooperation between local and district municipalities. Local municipalities remain responsible for certain infrastructure, such as streets, roads, storm water drainage, and other services such as planning and township establishment, which require inter-municipal cooperation.

The assignment of these services would impact on district municipalities. For example, the number of accounts processed monthly would increase drastically. This would require an overhaul of information

technology systems, employment of more people for accounting purposes, especially where local municipalities did not employ or assign employees specific responsibilities with regard to accounting for these services.

Specific challenges would arise in debt collection. For local municipalities using the disconnection or restriction of these services as a first option to obtain payment falls away; for district municipalities the burden of debt collection becomes awesome.

Many local municipalities buy purified water in bulk quantities from a water board. In at least one case, a water board is the retail provider of water in a part of an existing municipal area. In some cases local municipalities perform the bulk and retail water functions whilst in others a local municipality would be partially responsible for providing water in bulk whilst it buys some water from a water board.

Section 77 of the Municipal systems Bill, Bill 27B of 2000 requires a municipality to review and decide on an appropriate mechanism to provide a municipal service when, amongst other things, it prepares its integrated development plan or the municipality is restructured or reorganised in terms of the Act. The district municipalities would therefore have to review and decide on appropriate mechanisms for providing municipal services shortly after the election.

Quick response to service breakdowns and customer complaints is critical for effective service delivery. Realising these two challenges requires an effective communications system, custom-designed management arrangements and decentralised service delivery.

Local development

These services constitute four of the "big five" municipal competencies. Municipalities view these services, together with housing, as key instruments for development. The primary means of promoting development for local municipalities became the provision of hardware, ie physical infrastructure. District councils in the Free State, in contrast with a new role as providers of services, saw themselves