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## **MUNICIPAL BUDGET ALLOCATION NOT ENOUGH TO ACHIEVE STRATEGIC GOALS SET**

The R6.4 billion increase to the equitable share for municipalities announced by Pravin Gordhan in this week's Budget is not enough to achieve the objectives set by the Minister. This is according to the Local Government research and analysis team at Empowerdex, the country's leading Economic Empowerment Rating Agency.

The increase in equitable share is intended to extend basic services to the poor and offset the rising costs of electricity and water tariffs. However, to balance the expected tariff increases from Eskom alone, based on the anticipated 30% increase for each of the next three years, the increase for year one needs to be between R2.5 and R3 billion. The increase of R6.7 billion presented is a combined figure for the next three years of which only R900 million will be allocated in the 2010/2011 financial year.

In addition, to increase electricity access from 74% to 100% of households, an increase of up to R9.7 billion will be needed at current prices.

“Of course the backlog does not have to be eliminated in only one year,” says Empowerdex economist Paul Berkowitz. “But the proposed increases do not allow for much reduction in subsequent years. We are concerned that the Minister's allocation won't stretch far enough.” It must be noted that these figures don't take into account other municipal challenges like higher water tariffs, increased costs in sanitation and refuse removal and reduction of the backlog in water services. However, there is also an assumption that there will be no increase in service delivery efficiency which, if achieved, would lower the costs of service provision.

Unlike with electricity, there is not clarity on the increased cost of water in the future. If the projected inflation rate of 6% is used as a proxy, the higher costs are likely to be covered by the allocations announced in the Budget.

# EMPOWERDEX

Economic Empowerment Rating Agency



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“Electricity is a large input cost for water provision at a number of municipalities, particularly those in Gauteng, where water has to be pumped to high altitudes. These municipalities could face a shortfall.” says Berkowitz

But don’t forget that the Finance Minister also announced a R15.2 billion government guarantee for the DBSA to provide loans to “poorer municipalities” specifically to develop municipal infrastructure.

“This could go a long way in eradicating service delivery backlogs, provided that viable projects are identified and correctly budgeted for,” concludes Berkowitz “However, we feel that increased service delivery via this infrastructure rollout will have to be supported by additional equitable share allocations made by Treasury to the municipalities in question.”

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## **For more information**

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