POLICY FRAMEWORK AND IMPLEMENTATION ARRANGEMENTS OF THE MUNICIPAL INFRASTRUCTURE GRANT FOR CITIES

Item B-RT (04-2009) **MC 17/09/2009**	**IS: 2010 AND SPECIAL PROJECTS) (2009/06/029): MUNICIPAL INFRASTRUCTURE GRANT (MIG) IMPLEMENTATION REPORT: MARCH 2009**

RESOLVED:

1. **That** the Municipal Infrastructure Grant (MIG) Annual Implementation Report, March 2009, **BE NOTED**.

2. **That** the policy framework and implementation arrangements of the Municipal Infrastructure Grant for Cities (MIG-Cities) as outlined in **Annexure "A"** attached to the report **BE NOTED**.

Annexure "A"

MUNICIPAL INFRASTRUCTURE GRANT FOR CITIES (MIG-CITIES)

POLICY FRAMEWORK AND IMPLEMENTATION ARRANGEMENTS

Purpose of this document

At its meeting on 3 December 2008, Cabinet approved the introduction of the Municipal Infrastructure Grant for Cities (MIG-Cities) through splitting the Municipal Infrastructure Grant (MIG) into two windows. This decision allows a differentiated funding approach to be introduced to account for significant differences in context, challenges and capabilities between larger urban municipalities and smaller, more rural municipalities. Grant rules and conditions for larger urban municipalities will be re-oriented from detailed individual project approvals to nationally monitored, medium-term infrastructure outputs and outcomes. This decision is based on the need to minimise, consolidate and streamline reporting requirements for large cities and remove constrains that hamper efficient delivery of infrastructure. Cabinet has approved the introduction of the new funding arrangements from 1 April 2009. This approach builds on and strengthens the existing policy framework for the Municipal Infrastructure Grant, as approved by Cabinet in 2003.

Adopting a differentiated funding approach will allow national regulation of funding to respond to the generic challenges of different types of municipalities, as well as the specific issues faced by individual municipalities. The infrastructure Grant for Cities focuses on increasingly enabling cities to more effectively manage, support and account for built environment outcomes. Greater discretion over the selection and implementation of capital projects, as part of their own capital investment programmes, will be matched with oversight of their entire programme performance rather than solely project inputs. In essence, this means that larger urban municipalities will be required to commit to the achievement of specific, measurable developmental outcomes arising from the entire capital programme. Smaller, more rural municipalities will largely continue to operate under existing MIG framework, with innovations to improve expenditure outcomes introduced over time. These will be the subject of a separate policy document.

This document outlines of various elements of the policy and implementation framework for the Municipal Infrastructure Grant for Cities (MIG-Cities), which is the portion of the existing Municipal Infrastructure Grant that will be allocated to larger urban municipalities through a new, more outcomes oriented funding arrangement. There are two major components to the MIG-CITIES, namely:

a) A policy framework that outlines the operating principles and procedures for the grant
b) An implementation framework that outlines:
   (i) the key changes at a national level, specifically in relation to the Division of Revenue Act, and
   (ii) the instruments that will be used to design city specific funding mechanism

This document is a SECOND DRAFT of these issues. It will continue to be enhanced prior to implementation on 1 April 2009, but it is also anticipated that it will continue to evolve beyond this period as lessons of experience become evident and additional opportunities for reform become possible.

Contents

1. Introduction and Background

The developmental challenges facing South African cities are expanding. Many large urban municipalities are now equipped to respond to these challenges, but they are not always enabled to do so. To strengthen prospects for poverty reduction and economic growth, national fiscal policy must progressively enable cities to effectively manage their built environments while holding them accountable for the achievement of better developmental outcomes in the built environment.

1.1 The urban context and expenditure pressures

South Africa's large urban areas are at a crossroads. They have emerged from an extensive internal restructuring process to face significant challenges associated with high levels of urban poverty and high levels of economic growth. These challenges require not just an increase in the level of infrastructure investment in the urban built environment, but increased effectiveness of this expenditure in creating healthier, safer and more productive cities. Closing the gap between expenditure levels and their outcomes requires new modes of approaching the challenge of managing the build environment. Most critically, it requires greater integration between investments, and better long term management of the infrastructure assets that are created.

Large urban areas are increasingly host to a large and growing population of poor South Africans, a trend that is driven both by in-migration and by organic growth due to factors such as declining household size. The nine largest cities are home to 40.7% of South Africans, but account for 43.9% of the total unemployed workforce. Great strides have been made in providing a basic level of access to infrastructure services and housing. Stats SA reports that 271 219 low cost housing units valued at R6, 6 billion were either completed or in progress for completion in 2006, the vast majority of which are in the cities. Yet significant backlogs remain as populations grow. In some cases these gains may be rolled back as infrastructure networks require rehabilitation or replacement, either as they reach the end of their design lives or due to inadequate maintenance activities in the period since their construction.

Table 1: Distribution of backlogs across municipal type

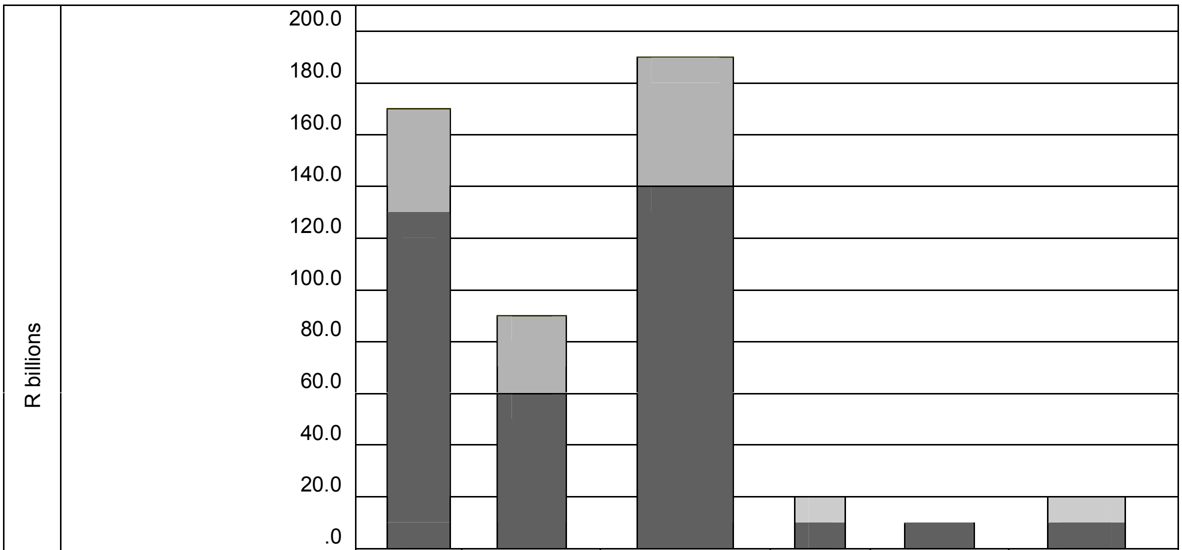
Municipality	Housing backlog	Basic water	Basic Sanitation	Basic Electricity
Metros	1 461 815	193 033	620 485	955 090
21 Big Cities	616 005	123 194	497 116	548 188
The rest of Municipalities	475 027	1 021 034	2 193 911	1 998 420
Total	**2 552 847**	**1 337 261**	**3 311 512**	**3 501 698**
Percentage of backlogs				
Metros	57.3%	14.4%	18.7%	27.3%
21 Big cities	24.1%	9.2%	15.0%	15.7%
The rest of municipalities	18.6%	76.4%	66.3%	57.1%
Total	100.0%	100.0%	100.0%	100.0%

Source: DWAF and ***dplg:*** *April 2008*

And large urban areas are also widely recognized as the drivers of national economic growth. In 2004, over half (54%) of national economic output (by Gross Value Added, or GVA) was generated in the metropolitan areas alone. The top 21 cities account for 69.8% of GVA, and 68.7% of total household income in South Africa. Stats SA reports that the six metropolitan municipalities contributed almost 67% of the total value of building plans passed in 2006 and 71% of the total value of the country's buildings completed. Urban infrastructure plays a critical role in supporting existing economic activities through providing roads, water, sanitation, refuse, and energy services. These impacts are not confined to urban areas, but affect national economic performance as a whole. This infrastructure must be maintained and, when appropriate, replaced to sustain this activity. However, it must also be expanded and upgraded to accommodate the demands of economic growth. This in turn increases the future need for maintenance and replacement of infrastructure.

These economic and social pressures generate significant infrastructure investments requirements in large cities. Recent modelling by the National Treasury suggests that the municipal investment requirement is R446.2bn over ten years, of which R256.5bn is required in large cities. This amounts to an annual average expenditure requirement of R25.7bn in large cities over the next ten years.

Diagram 1: Estimated urban infrastructure investment requirements between 2007 and 2016, excluding internal infrastructure



	Total			Average Annual		
	Metros	**Secondary Cities**	**Other Municipalities**	**Metros**	**Secondary Cities**	**Other Municipalities**
Asset refurbishment	41.6	16.7	55.1	4.2	1.7	5.5
Backlog eradication	17.4	19.1	79.2	1.7	1.9	7.9
Growth related	116.8	44.9	55.4	11.7	4.5	5.5

To date, public investment in the built environment has tended to focus on the challenges of expanding access to basic services. The challenges of new social and economic growth patterns make this approach inadequate. Increasingly, cities will need to manage the existing built environment assets, as well as deliver on new projects. This requires cities to manage all their infrastructure assets across their life cycles in order to respond to poverty and growth pressures more effectively, and to obtain better returns from their investments. And in doing so, cities will need to manage their capital expenditures in an integrated manner, across service, locations and over time, so that the desired developmental outcomes of healthy, sustainable and productive urban environments are created.

The built environment includes infrastructure service, housing, public transport and land use management practices. It also includes community facilities, such as sports fields, arts and recreational facilities, community halls and other social infrastructure that are as critical to building resilient, cohesive, safe and healthy communities. Collectively this constitutes a key tool available to cities to address high level economic and social priorities of government, including creating conditions for economic growth and job creation, and universalizing access to basic services and urban amenities. Better management of infrastructure assets in the built environment enhances the wealth of communities through reducing future costs of living for citizens, providing higher level of service, reducing the exposure of communities to health and safety risks and supporting increasing levels of economic activity. For municipalities, it also produces greater revenues, as economic growth, employment and business confidence rise, increasing property values and rates and services charge income.

1.2 Policy and fiscal responses

Government recognizes the importance of strengthening and integrating institutions of urban management in order to enhance the developmental and economic impact of public expenditures. Extensive reforms to the local government system have been undertaken since 1997, which has resulted in the formation of metropolitan municipalities in the 6 large cities, and stronger local municipalities in secondary cities. In 2003, the Municipal Infrastructure Grant (MIG) was formed from 8 sector-specific funding programmes. The MIG was intended to expand the autonomy of municipalities in selecting appropriate infrastructure investments, in line with their own plans and budgets. Both of these reforms recognize the leading role that municipalities, and particularly large urban municipalities, must play in managing their built environments.

South Africa's large cities have budgeted to invest R18.1 billion in urban infrastructure in the 2007/08 municipal financial year, largely in metropolitan municipalities (see Table 2). Their capital investments have grown rapidly in recent years, with actual expenditure increasingly matching (and in some cases slightly exceeding) budget estimates. Government will contribute 38% of the resources to fund these investments in the cities, or R6.9 billion, predominantly through the MIG and World Cup 2010 related investments. This constitutes over half (53%) of the all infrastructure transfers made to the local government sphere.

Table 2: Infrastructure spending in cities (2005-06 2009/10)

	2005/06 (R'000)	**2006/07 (R'000)**	**2007/08 (R;000)**	**2008/09 (R'000)**	**2009/10 (R'000)**
City Capital Budgets	**13 043 898**	**16 967 685**	**18 131 782**	**24 284 277**	**18 470 380**
Metro's	10 286 727	13 126 281	14 472 309	19 697 819	15 055 904
3 Aspirant Metro's*	934 664	1 371 478	673 560	2 160 342	988 361
Other Cities	1 822 508	2 469 925	2 985 914	2 426 116	2 426 116
Infrastructure Grants to Cities	**1 993 183**	**3 254 642**	**6 889 938**	**10 027 714**	**5 045 725**
Metro's	1 224 604	2 155 386	4 543 297	7 268 686	3 788 081
3 Aspirant Metro's	232 789	313 026	977 134	1 322 374	450 588
Other Cities	535 790	786 230	1 369 508	1 436 655	807 056
% of infrastructure transfers to all LG	*17.5%*	*44.0%*	*53.0%*	*58.9%*	*39.4%*
% of all grants to cities	*11.1%*	*11.1%*	*38.4%*	*44.8%*	*25.0%*
Grants as % of City Capital Spending	*15.3%*	*19.2%*	*38.0%*	*41.3%*	*27.3%*
National Government Expenditure on build Environment (incl Road)	**52 152 992**	**73 299 634**	**88 778 933**	**104 394 407**	**117 741 542**
City Capital Spending as % of Built Environment Spending	25.%	23.1%	20.4%	23.3%	15.7%

**The aspirant metro's are Buffalo City, Mangaung and Mbombela*
Sources: LG budget database (adj.), Budget review (adj.), various DoRA schedules

Yet despite this significant growth in capital spending, current investment levels and outcomes do not always achieve the desired impacts in reducing poverty and supporting growth. Problems are evident at two levels:

a) At the city level, the availability of funding is still inadequate relative to the level of social and economic demand (as shown in Diagram 1, which predicts an average annual shortfall of R7.6bn). The rapid growth in national government infrastructure transfers has dampened municipal demand for borrowing from private capital markets, or generating local revenues from consumer (through public contributions and donations, such as development charges). Growing dependence on national transfers has also tended to focus municipal efforts on complying with the requirements of various national funding programmes, on a project-by- project basis. At present, all municipalities are subjected to the same grant compliance requirements, despite the significant differences in their contexts and institutional capabilities. For example, Tshwane Metro is still required to register each grant-funded project on a national database prior to initiating expenditures, despite having a sophisticated capacity to design and manage a large investment programme that has resulted in its capital expenditure averaging 103% of budget since 2003/04, while growing at an average of 26% over the same period. These compliance burdens unnecessarily raise the costs of infrastructure spending, through raising administrative overheads and leading to delays.

b) At the intergovernmental level, the continued existence of multiple funding streams for the built environment creates significant coordination difficulties. National and Provincial Governments spend directly on key built environment functions in housing and transport. Although disaggregated figures are not yet available, this expenditure currently amounts to R88.8 billion and is five times larger than the projected capital investment by cities themselves. In other words, cities have direct control of considerably less than half of total expenditure on the built environment. Table 3, below demonstrates that the housing program accounts for 72.5% of all public housing expenditure in metro areas, which amounts to 12% of total municipal capital spending.

Table 3: Housing expenditure in metropolitan areas (2005/06 to 2006/07

	2005/2006 (R'000)	2006/2007 (R'000)	2007/2008 (R'000)
Housing Subsidies to Metro areas	1 347 000	1 303 000	1 713 000
Contributions by Metro's to Housing	448 000	530 000	649 000
Total	**1 795 000**	**1 833 000**	**2 362 000**
% funded by National Government	75.0%	71.1%	72.5%
% of municipal capital budgets	13.1%	9.9%	11.8%

Source: Data from metros

These other programmes tend to be driven by their own delivery targets, rather than incentives for achieving integrated built environment outcomes. This approach has led to the emergence of funding gaps, as sectors attempt to maximize resources available for their "core" functions. The recent decision of the National Department of Housing to restrict the use of the housing subsidy for land acquisition and internal and connector infrastructure has expanded the resources available for housing top structures, but left other sectors (primarily municipalities) to pick up the (growing and ongoing) costs of servicing these developments. A housing-led approach to urban development has *undervalued the importance of reforms to land use management practices that can streamline land regulation and accelerate the release of well-located land parcels*. Institutional fragmentation in land use management has also significantly increased the costs of land development, through introducing significant delays in the development approval process. This is particularly evident in the significant increases in various regulatory processing times, which have risen from 1 to 10 months in the case of clearance certificates and title bond registrations, and expanded by almost 12 months for the whole development process.

In addition this sectoral fragmentation has created powerful incentives for Government agencies to externalize the costs of their investment location decisions. Housing subsidies, delivered via Provincial Governments, have encourage developers to seek low cost land on the edge of cities in order to maximize the size of top structures, stand and developer's profits, but without regard for the infrastructure investment and operational costs this places on municipalities, or the ongoing subsidies these communities will require to retain access to services (through greater reliance on subsidized services, driven by higher operating costs associated with low density settlement patterns), and to gain access to the urban economy (through transport subsidies to allow work seekers and workers to access employment opportunities).

Thus, despite the rapid growth in funding for built environment functions, the current fiscal framework for funding built environment activities undertaken across the public sector is increasingly out of step with the institutional environment for local governance as well as the economic performance and poverty reduction objectives of Government. Cities are not directly accountable for improving development outcomes from built environment investments. They are increasingly focused on meeting national funding requirements associated with the removal of backlogs, and managing expenditure coordination with other spheres of Government. Inadequate focus has been given to managing existing built environment infrastructure assets[1]. The results of these disjuncture's are primarily seen in: (i) the reinforcement of the apartheid patterns of urban development, with poor communities marginalized to the periphery of cities far from places of work, and/ or forced to seek well located accommodation in informal settlements, (ii) sharp declines in the real value of public investment in the built environment (with the real value of some RDP housed reportedly having sunk below the value of the subsidies provided), and (iii) the continuation of a racially segregated urban economy, driven by variable infrastructure standards and land use regulatory practices.

2. Towards new infrastructure funding arrangements for large urban municipalities

The Municipal Infrastructure Grant for Cities (MIG-Cities) is being introduced as a first step to address these problems of inadequate control, fragmentation and weak accountability that currently undermine the performance of urban infrastructure investments. A differentiated approach to the funding of large urban municipalities will allow a more appropriate, outcomes-focused relationship with national government to emerge. In addition, it is intended to lay the foundation for cities to gradually assume a greater role in other built environment investments, particularly with respect to transportation and housing.

2.1 Key principles

The Municipal Infrastructure Grant for Cities (MIG-Cities) extends the basic principles of the Municipal Infrastructure Grant (MIG) as outlined in that grant policy framework (2003). The key principles underpinning the design of the MIG-CITIES are outlined below.

a) *Municipalities must take the lead in the management of the built environment:* Large city Governments are best suited to managing built environment functions as they (a) are better able to interpret and respond to specific city conditions and needs in an integrated manner, (b) are

[1] It is anticipated that higher asset replacement values will be reflected in new asset registers currently being prepared by municipalities. As a result, depreciation allowance will rise.

responsible for the bulk of existing infrastructure assets in the built environment; (c) are able to internalize the long term costs of development choices across built environment sectors (housing, infrastructure, transport and land use), as reflected in both capital and operating costs (including subsidies) (d) have direct financial incentives related to the development of the local economy and their associated revenue base (particularly property taxes). While other spheres of Government have important responsibilities and interests in the eradication of backlogs and urban economic performance, municipalities themselves must reconcile competing expenditure demands in response to local needs and preferences. National transfers to large cities should be designed to supplement municipal capital budgets and support the development of their capacity to plan and spend all available resources in an integrated manner.

b) *Existing capacity in large urban local Governments must be recognized and supported*: A starting point for better management of built environment functions in South Africa cities is recognition that large municipalities already hold a significant capacity in built environment management functions. Metropolitan municipalities run multi-billion rand capital budgets across a range of infrastructure sectors, with relatively high spending levels. They manage several key development control functions, including spatial development frameworks in IDPs, town planning schemes and building control regulations that reviewed 67% of national building plans in the last year alone and regulated 71% of the total value of all building work. This indicates the significant role that cities play in supporting growth, as well as business confidence in the governance of these areas[2]. They play a significant role in the management of the national housing programme, and until recently were significant holders or rental housing stock. Many large municipalities also manage bus services, and play an active role in public transportation. While all spheres of Government have capacity constrains, especially in the area of managing existing assets, it is worth reflecting on the relative strengths of South Africa's large municipalities. In many instances the problems that they face are less due to inherent internal weaknesses than to regulatory frameworks that sap existing municipal capacity and create a compliance culture.

c) *Municipal capital expenditure must balances needs for poverty alleviation with the demands of economic growth:* Infrastructure investments that provide all residents with at least a basic level of service will remain a priority for all large cities. Yet the level of service provided, and the scale of investments towards these needs must be balanced with investments that create an environment conducive to enhanced economic activity at the city level. Ultimately, enhanced economic growth holds the greatest opportunity for eliminating urban poverty. Cities are best placed to manage the allocation of their investments between these priorities, and ensure that the resulting spatial location of investments creates an environment conducive to the reconciliation of these objectives.

[2] It should be noted that a considerable and growing time lag exists between build plan approval and construction, indicating a degree of regulatory failure in development control functions, although analysis indicates that this is not primarily a failure at city level.

d) *National fiscal support must provide an outcomes-focused supplement to municipal capital budgets:* Cities must be held accountable for outcomes of the choices they make on the level, allocation and scale of infrastructure investments. This means that the impacts of city capital budget as a whole, rather than specific projects or grant programmes, must be the focus of grant monitoring. National fiscal support must therefore be provided as a capital budget supplement that strengthens city level planning and expenditure management processes. In order to do so, these funds must be provided in a predictable, fair and transparent manner over the medium term, and cities must have the discretion to allocate them in accordance with their priorities in achieving pre-defined outputs.

e) *Cities must be held to account for their performance in meeting developmental objectives in the built environment:* In association with the increased discretion granted to cities in the use of MIG-Cities funds, they must be held accountable for their performance in meeting developmental outcomes. The first line of accountable is to the residents of their areas, as Local Government remains a democratic and autonomous sphere of Government. The second line of accountability is to other sphere of Government, particularly National Government which provides the funding. National Government oversight must seek to strengthen citizen oversight, rather than replace it. This implies that grant conditions must be negotiated with the cities on an individual basis, to reflect local challenges and needs, rather than be imposed on them. The interpretation of national policy objectives in the context of each city must be mutually agreed and established in a set of measurable targets, and grant conditions should focus on risks to the achievement of these targets, Reporting on municipal capital investments should be restricted to that required to monitor compliance, and not duplicate reporting required in terms of other legislation.

2.2 Vision for the Municipal Infrastructure Grant for Cities

The vision for the MIG-Cities is to be a leading fiscal instrument that supports poverty reduction and economic growth, through enhancing the integrated life cycle management of public infrastructure assets in the urban build environment. This will be archived through:

a) Forming performance-based and outcomes-focused investment partnerships with eligible municipalities across their entire multi-year capital budget
b) Providing funding to supplement their capital budgets, conditional on the achievement of pre-agreed financing, expenditure, output and outcomes targets

2.3 Objectives of the Municipal Infrastructure Grant for Cities

The MIG-CITIES supplements the capital revenues of selected large urban municipalities in order to support their infrastructure investment programmes, with a specific emphasis on:

- The provision of basic municipal infrastructure for poor households, micro enterprises and social institutions

- Improving performance in integrated human settlement development outcomes
- Incentivizing performance improvements in capital financing, asset management and development outcomes over the medium term, in relation to both poverty reduction and economic growth

The MIG-CITIES differs from other infrastructure grants in that it seeks to regulate only the outputs and outcomes of municipal capital expenditure programmes, through a multi-year MIG-CITIES Performance Matrix that allow municipalities to allocate grant resources in an integrated manner across their capital budgets.

2.4 Targeted outputs and outcomes

Specific, medium-term outputs and outcomes are identified with individual municipalities within MIG-CITIES, and respond to specific issues or risks identified in each city. Typical indicators will focus on the capital programme as a whole, and not grant expenditures alone. Indicators may include, but are not limited to the following (Table 4):

Table 4: Generic outcomes and indicators

<table>
<tr><th>Impact area</th><th>Outcome</th><th>Intermediate output indicator</th></tr>
<tr><td rowspan="3">1. Combating poverty</td><td>a) Universalizing basic services</td><td>(i) Number of new household receiving supporting basic municipal services per annum over a three year period, including water and sanitation, solid waste and electricity services and bulk & connector infrastructure</td></tr>
<tr><td>b) Job Creation</td><td>(ii) Number of jobs created using expanded public works guidelines for above outputs
(iii) Labour intensity of construction process</td></tr>
<tr><td>c) Investment coordination in the built environment</td><td>(iv) Number of community and sports facilities developed
(v) No of households benefiting from the infrastructure linked to housing programmes
(vi) Extent of integration of poor people with wealthier communities within the city
(vii) Lead times for capita project implementation (declining)
(viii) Robustness of project pipeline (ratio of projects in each year)
(ix) Extent of success of efforts to identify land within strategically located areas for mixed use residential purposes</td></tr>
<tr><td rowspan="2">2. Supporting growth</td><td>a) Reduced supply-side constraints to urban economic growth</td><td>(i) Rising capital spending relative to value or private fixed investment
(ii) Number of kilometres' roads developed, by type of road</td></tr>
<tr><td>b) Increased self-financing of investment</td><td>(iii) Increased own revenue as source of capital finance</td></tr>
<tr><td rowspan="3">3. Sustainable service delivery</td><td>a) Effective management of existing assets</td><td>(i) Progressive improvement of good practices in asset management (ie. Asset Registers and Asset Management Plans) reflecting declining asset ages and condition improvements. This indicator might include the increase in the quality framework point score from external audit teams, based on a sustainable infrastructure asset management model (SIAM). The calculation method could be a percentage of agreed improvement program successfully implemented.</td></tr>
<tr><td>b) Sustainable enhancement to expenditure capacity</td><td>(ii) Declining variance between budgeted and actual capital expenditures, or specific revenue source improvements (dept, tariffs, development charges
(iii) Unit costs of delivery in each sector (e.g. average cost per road km)
(iv) Rising expenditures targeted at maintenance, refurbishment and renewal of infrastructure
(v) Reduction of leakages and network interruptions</td></tr>
<tr><td>(c) Policy alignment</td><td>(vi) Ratio of own sector capital spending to provincial and national sector spending (housing subsidies to municipal infrastructure / municipal to other roads)</td></tr>
<tr><td rowspan="3">4. Accountable governance</td><td>a) Responsiveness to need</td><td rowspan="3">(i) Satisfaction survey results, project lead times
(ii) Regular reporting , published locally
(iii) Audit opinion on capital program (stable or improving, without adverse or disclaimed opinion)</td></tr>
<tr><td>b) Transparency for citizen oversight</td></tr>
<tr><td>c) Good governance</td></tr>
</table>

3. Estimating the total funding envelope

The total funding envelope for the MIG-CITIES will be calculated as the total funding amount due to each eligible municipality under the current MIG formula, including the performance component. The baseline allocations for both MIG & MIG-CITIES are R 11 085 billion, R 12 529 billion and R 15 069 billion for 2009/10, 2010/11 and 2011/12 respectively. This is likely to be split as follows:

Table 5: Estimated municipal participation in the MIG-CITIES

Grant Schedule type	2009/10	2010/11	2011/12
MIG-CITIES	*6 Metros*	*9 cities including the emerging metros*	*21 cities –all our 21 cities*
MIG	*277 municipalities*	*271 municipalities*	*262 municipalities*

4. Designs of the grant mechanism

4.1 Allocation formula

Allocations to individual municipalities participating in the MIG-CITIES will be determined through the same formula as the Municipality Grant (MIG), and as outlined in that policy framework. For ease of reference this is restated here:

$$\mathbf{MIG(F) = B + P + E + N + M}$$

Where:

- *B is the amount allocated for basic residential infrastructure (new and rehabilitated),and this component consists of proportional allocations for water supply and sanitation, electricity, roads and 'other' (street lighting and solid waste removal)*
- *P is an allocation for public municipal service infrastructure (new and rehabilitated).*
- *E is an allocation for infrastructure for social institution and micro-enterprises (new and rehabilitated).*
- *N is an allocation to identified nodal municipalities in the urban renewal and rural development programmes.*
- *M is a positive allocation related to past performance of each municipality relative to grant conditions*

The formula for the allocation of funds to each MIG-CITIES municipality does not prescribe to them how they allocate these funds on their budgets. This should be done in accordance with their own priorities, as outlined in their IDPs and budgets.

Additionally, the performance (M) component of the grant will be actively deployed from the second year in which each municipality participates in the programme. A total of 5% of the total funds will be subject to this variable, based on a point system indicated below. This percentage may be adjusted upward in subsequent years.

Table 6: Allocation of points for the M component of the MIG formula

Item	Indicator	Points (P1)	
		Calculation method	**Max points**
Expenditure capacity	Percentage annual improvement in expenditure outcomes relatives to budget	% improvement to a maximum of 20 points	20
Good governance	Timely submission of annual financial statements **and** publication of annual report	Yes/No	20
Infrastructure Asset Management	The increase in the quality framework point score from external Audit teams, based on sustainable infrastructure asset management model (SIAM).	% of agreed improvement program successfully implemented	20
Performance relative to agreement	Percentage of targets achieved in financial year	% x 20 (<75%=0)	20
Transparency	Percentage of reports submitted on time	% x 20 (<75%=0)	20
Total		**=P1**	**100**

Funding will be awarded on the basis of the point score obtained by each municipality as follows:

$$M= (MIG (F)*.05) *(P1/100)$$

Performance will be calculated retrospectively (based on past performance), with adjustments to allocations being made in future years.

4.2 Fund flow arrangements

Funds will be allocated to eligible municipalities over a three-year horizon in the schedules to the annual Division of Revenue Act. In order to receive an allocation, municipality must demonstrate its eligibility and make a submission for participation in terms of the prescribed format (see Annexure B).Allocation will be adjusted annually to account for: (i) the size of nationally available resources; (ii) the performance component outlined above; (iii) compliance with agreements and targets contained in the performance matrix.

Allocated funds will be disbursed to participating municipalities on a quarterly basis, one week later than equitable share disbursements. Funds will be disbursed directly from the dplg vote to participating municipalities, and they may only be withheld by dplg in terms of procedures outlined in the Division of Revenue Act, on the following basis:

a) The flow of the first instalment depends on the submission of a credible infrastructure investment strategy in a prescribed performance framework,
b) The flow the 2nd, 3rd and 4th instalment will be conditional upon submission and approval of a signed-off quarterly report,
c) For a failure to submit quarterly reports on time and in full, two days delay in the flow of the instalments for every one day a report is outstanding
d) For a failure to submit budget information to the National Treasury, or annual financial statements to the Audit-General, a delay in all disbursement until these are submitted,
e) For an adverse or disclaimed audit opinion, a delay in all disbursements until determined otherwise by the Minister of Finance.

4.3 Eligible expenditures

Fund from the MIG-CITIES may be spent on any purpose or function assigned to municipalities, provided that such expenditures are authorized in the **capital budget** of that municipality. Municipal submissions will be evaluated on the extent to which expenditure proposals reconcile, inter alia, the need for new investments relative to rehabilitation or replacement of infrastructure, and investment in basic services infrastructure relative to infrastructure that supports economic growth.

4.4 Under-spending and Rollovers

MIG-CITIES funds are provided as a supplement to municipal capital budgets. It is thus not always possible to determine the source of funds that are unspent at the end of each financial year. In order to comply with financial management legislation and to ensure that municipalities face strong incentives to manage their expenditure performance, it will be assumed that the same proportion of MIG-CITIES funds that are unspent, as are unspent on the municipal capital budget as a whole. This will be calculated based on revised capital budgets approved in the adjustment budget process, less any sources of finance that remain unrealized in that financial year.

If the National Treasury determines that more than 10% of MIG-CITIES funds may remain unspent in any year, it may reallocate these funds to other MIG-CITIES municipalities that have a demonstrated spending capacity. Funds that remain unspent at the end of a municipal financial year must be returned to the National Revenue Fund, in accordance with legislation. In the event an allocation or a portion of an allocation is already committed, and has been delayed due to unforeseen and unavoidable circumstances, an application may be made to the transferring national officer to rollover these funds, provided this application contains all relevant details of the nature of the existing commitment, the reasons for delay and measures to avoid such circumstances in future.

5. Eligibility for the Municipal Infrastructure Grant for Cities

Although targeted at large urban municipalities, the MIG-CITIES will eventually be open to any municipality that can demonstrate sustained performance in the execution of their capital programmes and the achievement of associated developmental outcomes. In order to be eligible to enter the programme or to receive funding in any year, a municipality must meet three tests and failure to meet any of these tests in each year will result in that municipality losing access to the MIG-CITIES facility, and being transferred to the original Municipal Infrastructure Grant (MIG) facility and its associated rules. These tests are shown in Table 7, below:

Table 7: Eligibility Tests for MIG-CITIES

Test	Entry Year	Subsequent Years
1. Expenditure capacity	Expenditure of at least 87% of budgeted capital expenditure as revised in the annual adjustment budget in the previous financial year	Expenditure of at least 92% budgeted capital expenditure as revised in the annual adjustment budget in the previous financial year
2 Good governance	No disclaimed or adverse audit opinion for capital expenditures in the previous financial year	No disclaimed, adverse or repeated qualification of audit opinion for capital expenditures in the previous financial year
3. Partnership	a) Submission of multi-year performance framework with agreed performance matrix and targets by not less 3 months of the start of the municipal financial year (i.e. 1 May of the preceding financial year) b) Evidence of ratification by full council of the performance framework and targets for the forthcoming year by not less than 2 months before the start of the municipal financial year (i.e 1 June of the preceding financial year)	Evidence of ratification by full council of the performance framework and targets for the forthcoming year by not less than 2 months before the start of the municipal financial year (i.e. 1 June of the preceding financial year

Initially only the largest 21 cities by budget size (metros and secondary cities) will be eligible for the grant. This will be opened to all municipalities from 2011/12 based on demand.

6. Submissions, assessment procedure and conditions to be associated with the MIG-CITIES

6.1 Submission procedures

Municipality wishing to participate in the MIG-CITIES must indicate in writing their intention to do so to dplg and the National Treasury by 1 October of each year indicating its compliance with all eligibility conditions. This will be followed by a submission of a performance framework that provide details on the medium and long term capital investment strategy and programmes and targets by 1 December, in a prescribed format (Annexure B) that:

a) Outlines the context and challenges facing a municipality and an evaluation of how its capital programme responds to these challenges;
b) Explains the relationship between the capital programme and national and provincial programmes and priorities;
c) Demonstrates the linkage with strategic planning documents of the municipality, such as the integrated Development Plan (IDP), budget and Service Delivery and Budget Implementation Plan (SDBIP);
d) Assesses the risks associated with the achievement of capital programme objectives; and
e) Provides a draft, multi-year performance matrix that specifies measurable outcomes, performance indicators and targets for each year associated with the full capital programme of the municipality and specific risks that have been identified.

6.2. Assessment procedures

Assessments of the credibility and completeness of these submissions, and the capital programmes of municipalities, will be conducted between November and March of each year. This may include site visits, extensive consultations with municipalities, and requirements for the use of an agreed cost-benefit evaluation process that allows all proposed new and rehabilitation investments to be viewed on an equal footing. The final performance matrix will result from a further round of discussions with a municipality.

6.3 Timing issues

The following table provides an outline of the timing of each stage of the submission and assessment process, and these may be adjusted as appropriate:

Table 8: Time schedule for the MIG-CITIES

Stage	Action	Date
Eligibility	City Budget Forums (Policy priorities)	1 October
	Municipality indicates eligibility for MIG-CITIES	15 October
	Municipality eligibility confirmed and initial indicative allocations announced	1 November
Submission and Assessment	Draft Submission of performance Frame work and targets	1 December
	Assessments commence	15 December
	City Budget Forums held (operational priorities	1 February

	Revised multi-year allocations issued by National Treasury (subject to Parliamentary budget approval)	1 March
	Performance matrix finalized and approved by Council	1 April
	Council resolution of compliance submitted	15 June

6.4 Regulatory flexibility

In certain instances, National Government may provide regulatory flexibility to a municipality if it is demonstrated that such flexibility will enhance the overall financial or outcome performance of its capital programme. Flexibility will be subject to this being granted by the relevant authority. In no case may such flexibility specifically contravene existing legislation. Some examples of this may include:

a) The ability to pledge future MIG-CITIES grant steams as security for debt. In cases where a specific exemption is required, a municipality must request this in its application.
b) The reassignment of annual allocations between years over the medium term, to better fit the expenditure plans of a municipality (with the overall multi-year resource envelope remaining the same).

7. Institutional arrangements

7.1 Roles and responsibilities of National and Provincial spheres

National and Provincial spheres of Government will continue to perform important support and monitoring roles in the implementation of the MIG-CITIES. In line with the Constitution, the activities of National and Provincial Departments will need to be conducted in the spirit of partnership with cities.

Table 9: Roles of National and Provincial Governments

Entity	**Responsibility**
DPLG	• Co-chair of City Budget Forms. • Exercises financially accountability for the MIG-CITIES programme • Administration of grant transfers.
National Treasury (NT)	• Oversees MIG-CITIES policy framework. • Administers legislation that has implications for the MIG-CITIES programme, notably DoRA. • Convenor and co-chair of CBF. • Reviews city submission and performance matrix, in consultation with sector Departments and **dplg.** • Coordinates monitoring. • Incorporation of MIG-CITIES conditions and transfer into DoRA. • Ensure that municipalities observe and operate within the macroeconomic framework driven by National Government.
Department of Water Affairs and Forestry (DWAF)	• Policy making, including the setting of norms and standards for water services infrastructure. • Planning oversight (regional and water service development plans). • Monitoring of water sector related conditions and progress in meeting targets. • Initiating intervention related to water services activities.
Department of Public Works (DPW)	• Set criteria related to poverty alleviation and employment generation. • Advice municipalities on intensive labour based processes, systems, techniques and approaches. • Liaise with municipalities on procurement reforms. • Monitor performance in relation to employment generation, labour based technology/ and SMME involvement.
Department of Minerals and Energy (DME)	• Identification and re-fencing of existing INEP allocations to eligible municipalities. • Identification of existing contractual commitments to ESKOM in the jurisdictions of eligible municipalities. • Policy making, including the setting of norms and standards. • Planning oversight. • Monitoring of energy sector related conditions and progress in meeting targets.
Department of Transport (DoT)	• Policy relating to municipal roads and municipal transport. • Monitoring of the performance of municipalities in the provision of roads and compliance with conditions applicable to this sector.

Department of Housing (DoH)	• Coordination of policy and planning of housing development and the provision of infrastructure through the MIG-CITIES programme. • Synchronisation between the MIG-CITIES programme and the Housing Fund, including ensuring Provincial compliance with DoRA.
Department of Sport and Recreation South Africa (DSRSA)	• Policy relating to sports and recreation, including establishment of sector targets by municipality. • Engagement with individual municipal investment plans as a part of negotiation of performance matrix. • Monitor conditions applicable to this sector, by municipality in terms of performance matrix.
Provincial Governments	Provincial Departments play a number of roles, which have an impact on the CMIG programme. These include: a) Ensuring that municipal IDPs combine to form a viable development framework across the Province, and are vertically integrated with the Provincial Growth and Development strategy b) Ensuring that IDPs give priority to the basic needs of communities and promote the social and economic development of communities; c) Promoting the development of Local Government capacity to enable municipalities to perform their MIG-CITIES function; d) Providing technical advice to municipalities on the MIG-CITIES programme.

7.2 Sector oversight

The introduction of the MIG-CITIES places a special responsibility on National and Provincial Departments to develop meaningful partnerships with large urban municipalities. It will be insufficient for a Department to simply demand that a municipality achieve a certain targets, or allocate a preferred level of expenditure to a sector. This will need to be negotiated, taking into account the difficult fiscal and development choices that municipalities face.

It must, however, be recognized that individual National and Provincial Departments bear a responsibility for overseeing the development of their individual sectors. In some instances they are held to account for achieving certain targets, although they have no direct responsibility over related expenditures. Sector Departments however do have a number of tools at their disposal to strengthen their partnership with municipalities, and thus leverage expenditures towards their sector outcomes. These tools include:

a) *The development of clear statements of sector policy in respect of municipal functions:* To be of value to municipalities, sector policies should move beyond expressing a broad national vision for that sector. They should:
   i. Identify specific sector challenges, issues and minimum norms and standards for infrastructure investment and service delivery.
   ii. Estimate the level of expenditure required to meet these standards, and establish the preferred timeframes in which targets will be met, taking into account the fiscal capacity of municipalities.
   iii. Avoid making commitments to the achievement of targets over which they do not have direct control.
   iv. Identify priority municipalities in terms of meeting these standards.
   v. Outline associated support that will be available to municipalities.
   vi. Clarify the preferred monitoring and measurement framework for the sector.

b) *Engagement in municipal planning and budgeting processes:* Sector Departments should seek to actively engage their target municipalities in their planning and budgeting processes. This requires these Departments to develop an understanding of the annual planning and budgeting cycle of municipalities, and to ensure that they have a formal, local presence in these municipal processes. This will not only allow these Departments to develop a coherent picture of the overall strategies and challenges of a municipality, but also to leverage expenditure towards preferred sector outcomes.

c) *Participation in City Budget Forums:* City Budget Forums will provide an opportunity for sector Departments to present their views on the capital programmes of municipalities, and where necessary to propose performance standards that will allow a municipality to meet minimum norms and standards for each sector. Plenary sessions of the City Budget Forums will also allow policy issues to be addresses.

d) *Sector Specific Monitoring and Evaluation:* Each Department should make use of reports submitted by participating municipalities and other independent sources of information (including their own assessments and evaluations) to prepare for city level engagements and City Budget Forums.

7.3 Alignment of other transfer programmes to participating municipalities

Municipalities participating in the MIG-CITIES will continue to receive infrastructure, housing and other transfers from existing grant programmes. The alignment between these transfers and the MIG-CITIES will need to be improved to ensure that municipalities are able to manage their capital programmes in an integrated manner, and commit to a comprehensive set of built environment outcomes. Grant alignment will continue to be pursued over the medium term, although the following specific measures will be introduced with immediate effect:

a) **Consolidation for Electrification Transfers:** Allocations made to eligible municipalities for investment in electrical distribution infrastructure under the Integrated National Electrification Programme (INEP) will be consolidated into the MIG-CITIES from 2010/11. This will have to include transfers that are made directly to municipalities, and transfers made to Eskom for expenditure within the municipal jurisdiction of eligible municipalities.

b) **Housing transfers:** Provincial transfers to municipalities under the integrated Housing and Human Settlement Development Grant must be allocated in terms of the Division of Revenue Act, with multi-year allocations for each benefiting municipality. Any modifications to these allocations must be undertaken in accordance with the provisions of the Act and with the concurrence of the National Treasury. The National Treasury will advise the Auditor-General of these requirements and request specific attention to be paid to legislative compliance in the audit process for the 2009/10 financial year.

c) **Authority of the City Budget Forum:** the mandate of the City Budget Forum is not limited to expenditure of MIG-CITIES resources alone, but includes all capital revenues and expenditures of a municipality. All infrastructure transfer programmes, including the Public Transport Infrastructure and Systems Grant (PTIS) and Neighbourhood Development Partnership Grant (NPDG) will participate in the City Budget Forums. Coordination of these grants with infrastructure allocation will improve integration and effectiveness of these grants towards achieving their outcomes. Further streamlining of conditions of these grants to ensure better alignment in the grants targeting environment will be to form part of engagements with the parties responsible for administration of these grants.

8. Programmatic support arrangements

8.1 Oversight support

The shift to an outcome-orientated, performance –based approach places new demands on the strategies and capacities of sector Departments to engage participating municipalities. Prescriptive approaches will need to be replaced by a series of individual partnership with municipalities to leverage sector priorities in the planning and budgeting process. Sector Departments will need to review their objectives, develop engagement strategies and capabilities, and strengthen their outcome-focussed monitoring activities over time. Some Departments may wish to obtain support for the re-design of their approaches in this regard, which could be funded through the programme management budget for the grant.

8.2 City-level support

Similarly, eligible cities may wish to strengthen aspects of their own investment planning process, and may wish to obtain assistance in this regard. While they would need to meet the costs of this assistance from their own resources, a national programme of support may strengthen sharing of best-practices and improve investment outcomes.

8.3 Programme management

Suitable programme management arrangements will need to be developed that take account of the need for dedicated national administrative capacity of all aspects of the programme, while allowing effective communication and coordination of activities between all stakeholders.

9. Oversight arrangements

9.1 Audit oversight and opinion

The MIG-CITIES is a Schedule 4 transfer in terms of the Division of Revenue Act. This means that it is treated as a supplementary allocation to municipal budgets. As such, the transferring National Department holds fiduciary responsibility for the funds until such time as they are transferred to the beneficiary municipality. The municipality holds the final accountability for actual expenditures on infrastructure projects. As such, the transferring National Department will only be audited for ensuring the successful transfer of funds, up to the point at which transfers are reported as received.

Municipalities will be audited for all actual expenditures. They will be required to comply with the highest standards of financial management, and subject themselves to annual audit oversight on a timely basis. Audit opinions, specifically on capital expenditures, will be treated as a primary independent source of information on municipal performance in terms of the MIG-CITIES.

9.2 City Budget Forums

National Treasury will convene two City Budget Forums every year at which the progress of the participating municipality will be evaluated, and problems discussed. It is anticipated that individual budget forums will be held for each participating municipality.

Each City Budget Forum will be open to representatives of all National and Provincial Departments. This provides an opportunity for municipalities and sector Departments to discuss and reconcile their interpretations of national and local development priorities and targets. The outcomes of a CBF may be used to amend a performance matrix in any subsequent year.

9.3 National reporting and evaluation protocols

MIG-CITIES funding will be monitored as part of the overall capital budget of municipalities, subject to any additional requirements included in the performance matrix. National Treasury will monitor municipal capital budgets, and the reporting on spending information. Monitoring of expenditure from municipalities will be on the monthly basis on a life system on the overall infrastructure budget.

Reporting of performance against the MIG-CITIES programme will be quarterly to National Treasury, combined with reporting required under the MFMA. Reports will be shared with the National Transferring Officer and relevant stakeholders within 10 days of receipt. Other National and Provincial Departments will receive consolidated revenue, expenditure; outputs and performance information form National Treasury on a quarterly basis. Each sector National or Provincial will be expected to fulfil sectoral monitoring role on the basis of these reports and any other information at its disposal. The findings of departmental monitoring should be communicated at the CBF.

9.4 Programme evaluation

Municipality will submit independent mid-term and exit reviews at their own expense, in a format specified by the National Treasury, and within timeframes identified.

The National Government will commission and independent national evaluation of the programme every three years to review its development impact and operational effectiveness. The findings of these valuations will be discussed in the City Budget Forums with a view to introducing any policy changes.

10 Transitional and outstanding issues

10.1 Interim arrangements in 2009/10

The MIG-CITIES will be introduced from 1 April 2009, with municipal expenditures in terms of the programme commencing from that date. Existing projects funded under MIG will be folded into the new arrangements from 1 April 2009. From 1 April 2009 this policy framework replaces the policy framework and any associated guidelines for the MIG, for cities that are eligible for MIG-CITIES. In the 2009/10 financial year the final dates for city submissions may be adjusted by the National Treasury.

10.2 Reporting arrangements

Quarterly reporting will be required from all participating municipalities. Municipal reports will be prepared in terms of the requirement of section 71 of the MFMA. Actual reporting schedules will be adjusted and expended as necessary, but combined within the reporting process followed in terms of the MFMA. A specific grant reporting format in terms of the Division of Revenue Act will be required to monitor grant receipts and expenditure, as well as performance in terms of the agreed performance matrix. This will be incorporated with the existing section 71 formats. The final reporting formats will be available by 1 April 2009, and may be adjusted from time to time.

10.3 Further planning and policy alignment

Achieving full alignment between spheres of Government is a difficult process that will take a number of years to complete. At this point it is recognized that further work is required to improve alignment between national, provincial and local planning processes, as well as between sector policies in the built environment, specifically land, housing and transport. Over time, it is anticipated that municipal infrastructure investment plans will expand their time horizons to 20 years or more, which will provide further opportunities to the alignment of plans between spheres of Government.

10.4 Allocation formula

No charges to the allocation formula for the MIG-CITIES are proposed at this point. This is necessary to retain predictability for municipalities during a time of change in the nature of the funding they receive. However, it is recognized that there are strong arguments to change the formula in the future. In particular, it may be necessary to allow allocations to be adjusted to actual planning expenditures of a municipality, and to more closely track housing allocations to a municipality. Any changes to the allocation formula will be made through amendments to this policy document by the National Treasury.

A1: Proposed MIG-CITIES Grant Framework in terms of the Division of Revenue Act, 2009

Municipal Infrastructure Grant for Cities (MIG-Cities)	
Transferring departments	• Provincial and Local Government (Vote 29)
Purpose	The MIG-CITIES supplements the capital revenues of selected large urban municipalities in order to support their infrastructure investment programmes, with a specific emphasis on: • The provision of basic municipal infrastructure for poor households, micro enterprises and social institutions. • Improving performance in integrated human settlement development outcomes. • Incentivising performance improvements in capital financing, asset management and development outcomes over the medium term. The MIG-CITIES differs from other infrastructure grants in that it seeks to regulate al outputs and outcomes of municipal capital expenditure programmes, through multi-year MIG-CITIES Performance framework that allow municipalities to allocate grant resources in an integrated manner across their capital budget.
Measurable Outputs	Specific, medium-term outputs and outcomes are identified with individual municipalities within MIG-CITIES and typical indicators will focus on the capital programme as a whole, and not grant expenditures alone. Indicators may include, but are not limited to: • Proportion of capital revenues sourced from user charges and development charges (increasing over period) • Number of new households receiving supporting basic municipal services per annum over a three year period, including water and sanitation, solid waste and electricity services and bulk & connector infrastructure. • Number of kilometres' roads developed, by type of road. • No of households benefiting from the infrastructure linked to housing programmes. • Progressive improvement of good practices in assets management i.e. Asset register. • Extent of integration of poor people with wealthier communities within the city. • Extent of success of efforts to identify land within strategically located areas for mixed use residential purposes. • Extend of programmes targeted at maintenance, refurbishment and renewal of infrastructure and reduction of leakages and blackouts in these area. • Reduction of basic services loses by 10% annually. • Number of jobs created using expanded public works guidelines for above outputs. • Lead times for capital project implementation (declining). • Audit opinion on capital programme (stable or improving, without adverse or disclaimed opinion.)
Conditions	(1) A multi-year MIG-CITIES performance targets must be agreed with the National Treasury and transferring National Officer, based on the strategic capital investment plans and programme of the municipality. This programme must: • Prioritise residential infrastructure for water, sanitation, refuse removal, streets lighting, solid waste, connector and bulk infrastructure, and roads, in line with Government sector policies established before the start of the municipal financial year. • Adhere to the labour-intensive construction methods in terms of the Expanded Public Works Programme (EPWP) guidelines. (2) Municipalities must comply with grant conditions associated with the transfer and outlined in its performance framework including timely and full compliance with reporting requirements as outlined below: (a) the flow of the first instalment depends on the submission and approval of performance framework including agreed performance targets (b) the flow of 2^{nd}, 3^{rd} and 4^{th} instalment will be conditional upon submission and approval of signed-off quarterly reports. (3) Designated host cities may direct 5 per cent of MIG funds to disaster management infrastructure and mobile assets (4) Non compliance to the above conditions can result in the funds being with held or reallocated.
Allocation criteria	• Part 4 of Annexure W1 spells out the MIG-CITIES formula in detail. The formula incorporates backlog and poverty-weighted data.
Reason not incorporated in equitable share	• This is a general purpose infrastructure grant with conditions, objectives and distribution criteria, (e.g. backlogs on infrastructure) different from that of the equitable share.
Monitoring system	This grant will be monitored as part of the overall capital budget of municipalities reported on in terms of the MFMA and subject to any additional requirements related to expenditure outputs and outcomes. Reporting of performance against the MIG-CITIES programme will be quarterly to National Treasury and transferring National Officer. Reports will be shared with the relevant stakeholders within 10 days of receipt. Each sector National or Provincial Departments will be expected to fulfil sectoral monitoring role. • National Treasury will monitor municipal capital budgets, and the reporting on spending information. Monitoring of expenditure from municipalities will be on the monthly basis on a life system on the overall infrastructure budget. • The information submitted to National Treasuries as per section 71 of the MFMA requirements will also be submitted to the national transferring Departments where it involves municipalities participating in MIG-CITIES grant to facilitate is monitoring. • Other National and Provincial Departments will receive consolidated revenue, expenditure, and output

	and performance information from National Treasury on quarterly basis.
Past Performance	**2006/07 audited financial outcome** • No matter of emphasis was raised by the Auditor-General with regard to the Municipal Infrastructure Grant. **2006/07 Service delivery** • 89.1% of the total allocation was spent by the end of the financial year. • The cumulative households benefited from MIG by end June 2007: Water (610 293), Sanitation (343 943), Storm Water (95 859), Solid Waste (234 439). • 10 481km of roads developed. • A cumulative total of 2 438 SMMEs utilized in the implementation of MIG projects and 30 000 467 person days of employment have been created through the labour intensive up to June 2007. **2007/08 Service delivery** • 84% of the total allocation was spent by the end of the financial year. • The cumulative households benefited from MIG by end March 2008: Water (835 093), Sanitation (399 662), Storm Water (99 542), Solid Waste (238 552). • 10 481km of roads developed • A cumulative total of 2 934 SMMEs utilized in the implementation of MIG projects and 35 576 715 person days of employment have been created through the labour intensive up to March 2008.
Projected life	• The programme will continue up to 2013 subject to availability of funding.
MTEF allocations	• 2009/10: R2 378 670 million, 2010/11: R2 689 022 million, 2011/12: R3 469 834.
Payment Schedule	• Transfers are made on a quarterly basis in terms of the Division of Revenue Act based on the funding and performance agreements with the individual city.
Responsibilities of the National Department	• **dplg** – Administers the grant. • Sector Departments – oversees the policy and regulatory requirements of the sector. • Department of Public Works to monitor compliance with the EPWP. • National Treasury-ensure receipt of capital budgets and reports of municipalities of MFMA.
Process for approval of 2009 MTEF allocations	• Municipalities must submit comprehensive and credible funding proposals in a prescribed format, and demonstrate eligibility for the grant in terms of prescribed tests.

A2: Proposed MIG Grant Frame work in terms of the Division of Revenue Act, 2009

Municipal Infrastructure Grant (MIG)	
Transferring department	• Department of Provincial & Local Government (Vote 29).
Purpose	The Grant is intended to: • Provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institution. • To provide for new, rehabilitation and upgrading of municipal infrastructure. • To eradicate the bucket sanitation system mainly in urban townships. • It is important that it is properly targeted to ensure efficient use of funds.
Measurable Outputs	• Number of new households receiving water and sanitation services per annum. • Number of additional Kilometres' roads developed. • Number of additional sports facilities developed. • Number of jobs created using expanded public works guidelines for above outputs. • Number of households where the bucket sanitation system has been replaced with any alternative system.
Conditions	• Prioritize residential infrastructure for water, sanitation, refuse removal, streets lighting, solid waste, connector and bulk infrastructure, and other municipal infrastructure like roads, in line with the MIG policy framework and/or other Government sector policies establish before the start of the municipal financial year. • Compliance with Chapter 5 of the Municipal Systems Act (2000). Infrastructure investment and delivery must be based on an Integrated Development Plan that provides a medium to long-term framework for sustainable human settlements and is in accordance with the principles of the National Spatial Development Perspective. • Municipalities must adhere to the labour-intensive construction methods in terms of the Expanded Public Works Programme (EPWP) guidelines. • Compliance with the Division of Revenue Act, including additional reporting requirements on spending and projects as approved by National Treasury. • Designated host cities may direct 5 per cent of MIG funds to disaster management infrastructure and mobile assets
Allocation Criteria	• Part 4 of Annexure W 1 spells out the MIG formula in detail. The formula incorporates backlog and poverty-weighted data.
Reason not incorporated in equitable share	• This is a supplementary grant with conditions, objectives and distribution criteria, different from that of the equitable share.
Monitoring system	• This grant enquires monitoring of the overall capital budget of municipalities as well as monitoring the overall programme implementation. Each sector National or Provincial Department will be expected to fulfil sectoral monitoring role. • National and Provincial Treasuries will monitor municipal capital budgets, and the reporting on spending information. • Department of Provincial and Local Government will monitor the overall programme implementation.
Past performance	• **2007/08** audited financial outcome. • No matter of emphasis was raised by the Auditor-General with regards to Municipal Infrastructure Grant • **2007/08** service delivery. • The cumulative household benefited from MIG by end June 2007: Water (610 293) Sanitation (399 662), Storm Water (99 542), Solid Waste (238 552). • 10 481 km of roads developed. • A cumulative total of 2 934 SMMEs utilized in the implementation of MIG projects and 35 576 715 person days of employment have been created through the labour intensive up to June 2007.
Projected life	• The programme will continue up to 2013 subject to availability of funding.
MTEF allocations	• 2009/10: 8 861 million, 2010/11: R9 457 million, 2011/12: R10 071 million.
Payment schedule	• Transfers are made in terms of the Division of Revenue Act.
Responsibilities of the national department	• **dplg-**Administer the municipal infrastructure grant and co-ordinating all stakeholders through the appropriate structures. • DWAF-support and monitor municipalities to prepare and implement Water Services Development Plans (WSDP;s) and monitor progress on water and sanitation projects. • Department of Public Works to monitor compliance with the EPWP. • National Treasury and Provincial Treasuries-ensure receipt of budgets of municipalities and monitoring of spending trends in terms of MFMA. • Sports and Recreation SA to assist the municipalities with planning of sports and recreation facilities and monitor implementation.
Process for approval of 2010 MTEF allocations	• The receiving officer of a Municipal Infrastructure Grant must by 01 August 2009, submit all the project registrations forms for the projects to be implemented in 2010/11 financial year to the National Transferring Officer. • The receiving officer must submit to the transferring officer by 31 October 2009 the detail project implementation plan of all the projects to be implemented in 2010/11 financial year. Such details should include timelines regarding project designs, initiation of procurement, and EIA approvals.

DRAFT OUTLINE
Annexure B: Prescribed MIG-CITIES Submission Format

1. Introduction and Background

1.1 Context
- Economic, social and demographic context: major shifts and challenges
- The nature and distribution of need in the metro area (backlogs, growth and rehabilitation)

1.2 Strategic Objectives of the Capital Programme

2. Capital expenditure and revenue review

2.1 Past allocations / structure of capital expenditure and revenues
2.2 Past performance: expenditure levels and rates, revenue performance, outputs and outcomes
2.3 Pressures facing the municipalities (costed needs, capital financing structure)

3. Proposed Capital Programme

3.1 Strategic priorities, objectives and targeted outcomes
- Thrust areas for the capital budget, relative to national priorities

3.2 Capital Expenditure Programme and Outputs
- Expenditure needs (quantum and distribution)
- Proposed expenditure allocations (by sector, area and priority), including list of specific investment project over time
- Quantification of outputs relative to expenditure allocations and priorities over time
- Risks, opportunities and constraints (past performance, cost pressures, economic and social returns)

3.3. Capital Financing Programme
- Financing needs (quantum and mechanism)
- Proposed revenue structure, objectives and performance (by source and incidents, revenue mix.)
- Risk, opportunities and constraints (past performance, revenue pressures and economic effects)

3.4 Management Capabilities
- Institutional and organization arrangements (incentives and accountability for performance, dedicated project management structures)
- Intergovernmental coordination
- Project Management processes (Robustness of project identification, selection (assessment) and design process, Project implementation and procurement processes)
- Asset management strategy and arrangements (status of asset register, life cycle costing, performance monitoring and budgeting issues)
- Oversight and Reporting arrangements (audit outcomes, reporting framework, oversight structures and arrangements)

4. Risks and opportunities

4.1 Capital expenditure
4.2 Capital financing
4.3 Institutional arrangements (intergovernmental and local management arrangements)
4.4 Financing needs

5. Way Forward

5.1 Managing key local risks
- MIG-CITIES entry requirements
- Key components of a MIG-CITIES performance agreement: critical risks and requirements
- Key changes in existing policy and regulations to support capital programme

5.2 Addressing institutional obstacles
- Coordination and strengthening of intergovernmental partnerships
- Steps required by National and Provincial spheres of Government

5.3 Proposed MIG-CITIES performance framework
- Indicators, baselines and trajectories
- Institutional, reporting and oversight arrangements
- Proposed sanctions for non-compliance

5.4 Recommendations

Appendix 1: Compliance with eligibility tests (evaluated annually)

Test	Entry Year	Subsequent Years
Expenditure capacity	Expenditure of at least 87% of budgeted capital expenditure as revised in the annual adjustment budget in the previous FY	Expenditure of at leas 92% budgeted capital expenditure as revised in the annual adjustment budget in the previous FY
Good governance	No adverse or disqualified audit opinion for capital expenditures in the previous FY	No adverse, disqualified or repeated qualification of audit opinion for capital expenditure in the previous FY
Partnership	a) Agreement on a multi-year performance matrix with National Treasury, by not less 3 months of the start of the municipal FY (i.e 1 May of the preceding FY) b) Evidence of ratification by full council of the agreement and performance conditions for the forthcoming year by not less than 2 months before the start of the municipal FY(i.e 1 June of the preceding FY)	Evidence of ratification by full council of the agreement and performance conditions for the forthcoming year by not less than 2 months before the start of the municipal FY (i.e 1 June of the preceding FY)

Appendix 2: Generic Performance Matrix (agreed outputs and outcomes)

Impact area	Outcome	Intermediate output indicator
Combating poverty	Universalizing basic services	• Number of new households receiving supporting basic municipal service per annum over a three year period, including water and sanitation, solid waste and electricity service and bulk & connector infrastructure.
	Job creation	• Number of jobs created using expanded public works guidelines. • Labour intensity of construction process.
	Investment coordination in the built environment	• Number of community and sports facilities developed. • No of households benefiting from the infrastructure linked to housing.' • Extent of integration of poor people with wealthier communities. • Lead times for capital project implementation (declining). • Extent of success of efforts to identify land within strategically located areas for mixed used residential purposes.
Supporting growth	Reduced supply-side constrains to urban economic growth	• Rising capital spending relative to value of private fixed investment. • number of kilometres' roads developed, by type of road
	Increased self-financing of investment	• Increased own revenue as source of capital finance.
Sustainable service delivery	Rehabilitating infrastructure	• Progressive improvement of good practices in asset management (i.e. asset register) reflecting declining asset ages and condition improvements
	Sustainable enhancement to expenditure capacity	• Declining variance between budgeted and actual capital expenditure, or specific revenue source improvements (debt, tariffs, development charges). • Rising expenditures targeted at maintenance, refurbishment and renewal of infrastructure. • Reduction of leakages and network interruptions.
Accountable governance	Responsiveness to need	• Satisfaction survey results, projects lead times
	Transparency for citizen oversight	• Regular reporting published locally.
	Good governance	• Audit opinion on capital programme (stable or improving, without adverse or disclaimed opinion).

Appendix 3: Regulatory flexibility

a) Nature, cost and impact of constrains experienced
b) Desired flexibilities: description, extent and duration
c) Justification and anticipated impacts on financing and service delivery
d) Prior applications
e) Legal and regulatory implications