

COMMUNITY PARTICIPATION IN THE MUNICIPAL BUDGET PROCESS: TWO SOUTH AFRICAN CASE STUDIES

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Good Governance Learning Network

Purpose and Objectives

The **purpose** of the Good Governance Learning Network (GGLN) is to provide an interface for institutions working on issues of local governance to network and share information towards strengthening local democracy. We will do this by developing an understanding of local governance, disseminating information across a wide audience, and fostering a culture of good governance at the local level.

The **objectives** of the GGLN include:

- ❖ Sharing and learning from common challenges by creating an interface for institutions working on issues of local governance;
- ❖ Documentation and dissemination of best practices as well as research information and outputs, that are of benefit to the community;
- ❖ Provision of support for local governance advocacy;
- ❖ Building capacity of practitioners;
- ❖ Creating awareness about the value of participatory local governance;
- ❖ Ensuring a balance between those that govern and those that are governed.



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Community Participation in the Municipal Budget Process:

Two South African Case Studies

(Executive Summary)

1. Introduction

This research paper examines community participation in the budget process with reference to Buffalo City Municipality and Stellenbosch Municipality as case studies. According to local government legislation the community has a significant role to play in the decision-making processes of the municipality. In particular, the Municipal Finance Management Act of 2003 and the Municipal Property Rates Act of 2004 promote community participation in the budget process and the determination of rates policies respectively.

Although community participation has been legislated, how it is to be implemented is left largely to the discretion of individual municipalities. The manner in which municipalities have approached community participation varies according to the capacity and structure of the municipality. Furthermore, there are many challenges associated with community participation especially when dealing with budgetary issues. A large proportion of the community have not had the opportunity to build financial literacy skills and understanding the budget process is a complex.

The paper is presented in seven sections. The second section outlines the legislative framework governing community participation at the local level. Section three describes the participatory mechanisms that are available to municipalities. This is followed by section four which details the local government financial framework. Sections five and six present the case studies of Buffalo City Municipality and Stellenbosch Municipality respectively. The final section concludes the paper making a number of recommendations.

2. The legislative framework

Local government is to a large extent governed by the five pieces of legislation described below:

- The Constitution of South Africa promotes the idea of developmental local government. Section 152(1)(e) specifies that one of the objects of local government is to encourage the involvement of communities and community organisations in the matters of local government.
- The Municipal Structures Act entrenches community participation by stating that the executive committee must report on the involvement of communities in municipal affairs and must ensure public participation and consultation and report the effects thereof on decisions taken by council.

- The Municipal Systems Act defines the legal nature of a municipality as the political structures, the administration and the community of the municipality, thus enshrining the community as an integral part of the municipality. Chapter four of this act is dedicated to community participation stating that the municipality must foster participation in the integrated development planning (IDP) process; the evaluation of its performance through performance management; the budget process; and strategic decisions around service delivery.
- The Municipal Finance Management Act (MFMA) requires that immediately after the annual budget is tabled in a municipal council, the accounting officer of the municipality must make public the budget and all supporting documentation, and invite the local community to submit comments on what is contained in the budget.
- The Municipal Property Rates Act has a direct impact on communities as property-owners and allows for a process of community participation. Section 4 of the Act states that before a municipality adopts its rates policy, it must follow a process of community participation in accordance with Chapter 4 of the Municipal Systems Act.

3. *Participatory mechanisms*

The ward committee system and the sub-council system are the two main structures for community participation.

- **Ward committee system:** The Municipal Structures Act (MStA) sets out the basic guidelines for the establishment of ward committees (S72 – 78). These are, however, only broad parameters and it is up to each municipality to formalise the powers and functions of these committees either by means of passing a resolution or a by-law. The aim of the ward committee is to establish a forum which will allow communities to have a voice and participate in the functioning of the municipality, as well as a forum for council to disseminate information to the community. Ward committees, however, remain for the most part advisory committees which make recommendations on any matter affecting their ward.
- **Sub-council participatory system:** Sub-councils are set up by passing a by-law and are the mechanism through which the council may consult the public on their needs and to inform them of developments. The primary aim of the sub-council participatory system is to decentralise decision-making so that communities in a large metropolitan area can participate in decision-making. The sub-council consists of councillors representing each ward in that area as well as other councillors appointed by the council to ensure that each political party is represented according to the proportion of votes the party received on the proportional representation lists in the sub-council area.
- **Other participatory mechanisms:** Other mechanisms available to municipalities for community participation include public meetings, public hearings, consultative sessions, report-back meetings, advisory committees, focus or interest groups, formal advertising in the press, market research and opinion polls, e-Government, community radio and

community press. Members of the community may also raise issues with the council or municipality through petitions or questions to council.

4. Local government finance

Municipalities are responsible for financing the delivery of basic services including electricity, water, sanitation, refuse removal, municipal roads, parks and recreational facilities. Generally, municipalities are able to raise between 60 to 95 per cent of their own revenue (depending on the size and type of the municipality) as two-thirds of their activities are self-funded. The remainder of revenue is financed through intergovernmental grants from both the National and Provincial spheres of government, borrowing and donor funding.

4.1 The budgeting process and community participation

The financial year for South African municipalities runs from 1 July to 30 June of the following year. According to the MFMA, the mayor of a municipality is responsible for co-ordinating the processes for preparing the budget and for reviewing the municipality's integrated development plan and budget-related policies. Immediately after the mayor has tabled the annual budget, the accounting officer (municipal manager) of the municipality must make public the annual budget together with any supporting documentation and invite representations in connection with the budget from the local community. The municipal council must then consider any views put forward by the local community and any other organs of state that may have made submissions on the budget. The mayor is then given an opportunity to respond to the submissions and, if necessary, revise the budget and table amendments for consideration by council. Council must then approve the annual budget for the municipality before the start of the financial year.

4.2 Internal sources of revenue

Municipalities have the ability to raise their own revenue by means of two major sources i.e. taxes and user charges. The way in which these sources are used differs across municipalities according to their size, location and population base. There are currently three forms of taxes available to municipalities: property tax, regional services council levy and a surcharge on local government-run utilities. User charges are raised by municipalities for services rendered predominantly for electricity, water, sanitation and refuse collection. Municipalities may also borrow finances according to guidelines set out in the MFMA. The Act limits short-term borrowing to bridging operating cash shortfalls or to bridge capital requirements within the financial year, on the basis of anticipated income streams, grants or long-term debt in waiting. It requires that short-term debt be paid off annually. Long-term borrowing is limited to funding of capital investment.

4.3 External sources of revenue

The major sources of external financing for municipalities are various grants from national or provincial government, donor funding, and partnerships with the private sector. Grants include the equitable share allocations which are unconditional and made to all primary municipalities; conditional grants made to those municipalities that apply or are selected to receive funds for achieving specific policy objectives; and grants-in-kind which are made to those municipalities that perform certain services on behalf of national or provincial government.

Other sources of funding include local and foreign donor funding which may be made available to municipalities either to fund a specific project or a particular capital item. Financing may also be acquired through public-private partnerships where private funding is used to finance the capital and/or maintenance costs of a particular project with the municipality providing the operating costs.

5. Buffalo City Municipality (BCM) case study

Buffalo City is the largest local (Category B) municipality in the country and is situated in the Eastern Cape province. It is characterised by the existence of a considerable number of disadvantaged communities including Mdantsane, the second largest township in South Africa. The average monthly household income is just over R2 655 and 71% of the city's population earns less than the household subsistence level of R1 500 per month.

5.1 Budget: income and expenditure

Summaries of the operating and capital budgets for Buffalo City for the period 2004/05 to 2006/07 are shown in Tables 1 and 2 below.

Table 1: Summary of operating budget for the period 2004/05 to 2006/07

	<i>2004/05</i>	<i>2005/06</i>	<i>2006/07</i>
TOTAL OPERATING INCOME	1,334,881,827	1,376,434,097	1,469,692,150
TOTAL OPERATING EXPENDITURE	1,334,640,118	1,376,314,867	1,469,172,678
SURPLUS / (DEFICIT)	241,709	119,230	519,472

The majority of income is derived from electricity sales followed by assessment rates and grants received. The proportion of income from the various sources remains fairly constant over the medium term except for grants received which declines from 16.9% to 13.8% of income. This is attributed mainly to decreases in the equitable share, the restructuring grant, the Amatole District Municipality grants, and the grant from the National Department of Provincial and Local Government for water operational expenditure.

On the expenditure side of the operating budget, the bulk of proposed expenditure is allocated to salaries, wages and allowances, followed by expenditure on general expenses and the purchase of electricity. Over the medium term there are slight increases in the proportion of expenditure allocated to salaries, wages and allowances, electricity, water and capital charges and small decreases in the proportion of expenditure allocated to general expenses.

Table 2: Summary of capital budget for the period 2004/05 to 2006/07

	<i>2004/05 R000</i>	<i>2005/06 R000</i>	<i>2006/07 R000</i>
INCOME FROM OWN FUNDS	127,305	102,569	111,823
INCOME FROM GRANT FUNDING	201,496	198,771	182,348
TOTAL INCOME	328,801	301,340	294,171
EXPENDITURE			
Water	36,261	34,391	58,562
Wastewater	72,389	50,131	52,196
Electricity	20,603	15,500	21,539
Roads and Stormwater	18,892	26,043	25,125
Housing	47,699	44,000	25,000
Transport Planning	12,022	12,182	16,205
Cleansing	20,198	20,351	16,630
Amenities	9,389	6,695	765
Environmental Services	14,440	9,115	3,103
Health	4,765	5,359	3,417
Other	72,142	77,574	71,628
TOTAL EXPENDITURE	328,801	301,340	294,171

The largest source of external funding for capital projects comes from the Municipal Infrastructure Grant followed by a grant from the provincial department of Local Government and Housing. The greatest proportion of proposed capital expenditure for the 2004/05 financial year has been allocated to wastewater, other[†], housing and water. Over the medium term period there are significant increases in the proportion of capital expenditure allocated to water (from 11% to 20% of the capital budget) and small increases in proportions allocated to electricity and roads and stormwater. The proportion of the capital budget allocated to housing and wastewater is set to decrease over the medium term from 14.5% to 8.5% and from 22% to 17.7% respectively.

5.2 Mechanisms for participation

Public participation began in earnest in Buffalo City with the formation of the Ward Committees in the latter part of 2001. The participation process initially focused on identifying the needs of the community to inform the Integrated Development Plan (IDP). However, more recently, Buffalo City has endeavoured to integrally link and co-ordinate the

[†] Other includes amongst others expenditure on markets, libraries, city police, beaches, traffic and fore services

IDP with the municipality's budget and performance management processes. This section describes the formal and informal mechanisms that exist in Buffalo City to allow for community participation.

5.2.1 Ward Committees

During November/December 2001, BCM elected ward committees consisting of a Ward Councillor and ten members who are elected by the community. The purpose of the Ward Committees is to provide a link between Council and the community so as to enhance community involvement in the governance processes of the municipality. Ward Committees have received training concerning issues such as understanding local government, understanding the ward and constituency, and basic skills to facilitate participation and consultation. However, it appears that there has not been adequate training about understanding municipal budgets and the budget process.

It is difficult to assess the general effectiveness of Ward Committees as some of them function extremely well while others participate only marginally. The wards that function well tend to have a Ward Committee that is dedicated and hard-working. There are exceptional cases where even if the Ward Committee is inactive, the community has a vibrancy of their own.

The budget is presented to Ward Committees once a year. It is simplified and translated into Xhosa, the local language, but it is still difficult to understand the technical details. Some members of the community felt that they do not have the opportunity to give input into the budget through the Ward Committee. The budget is discussed at larger meetings such as the Budget Road Shows but most of the input is from officials explaining the budget and the budget process rather than getting real participation from the community. Input that does come from ward committees appears to be concerned largely with identifying needs and issues that directly concern a particular community rather than questioning resource allocation per se. The municipality is thus, in effect, giving the community an opportunity to raise concerns that inform the IDP which may have an influence on the budget, but it does not really allow for effective participation in future resource allocation or income generation decisions.

5.2.2 Other participation mechanisms

The municipality also uses other participation mechanisms to obtain input into the planning and budgeting process as well as to impart information. These include the BCM Representative Forum; Budget Road Shows; the Mayoral Listening Campaign; and informal mechanisms such as notices in the press, at schools and at churches; information dissemination through the Buffalo City newsletter; publishing details of proposed policies in newspapers and in submitting copies to libraries and relevant interest groups; and publishing information on the municipal website with contact details for councillors and officials.

5.2.3 Budget Preparation Process

Prior to the enactment of the MFMA in 2003 it was not mandatory to engage in public participation in the budget process. The MFMA is to be implemented in a phased approach beginning in July 2004 and therefore affects the preparation of the budget for the 2005/06 budget cycle. However, BCM attempted to engage the public in the budget preparation process for the 2004/05 budget cycle through the Budget Road Shows and Representative Forum meetings.

In analysing the budget process in BCM, it appears that currently engagement with the community takes the form of information dissemination and consultation rather than participation. The first time the community is consulted is in the Representative Forum meeting in December to consider the strategic direction of the Municipality. This meeting identifies issues for the IDP and currently the IDP is only aligned with the capital budget and not with the operating budget. It appears that not much time is allocated for discussion of the entire budget in this meeting. The Municipality has a mostly top-down approach with the development of the budget done by officials and Councillors. The Representative Forum met again in March once the draft budget has already been drawn up and the final draft was only taken to the community in April. This does not allow for enough time for genuine participation and for inputs made by the community to be taken seriously.

5.3 Impact of participation

It is difficult to isolate the impact of community participation as there are numerous factors which may influence resource allocation decisions. However, community participation in BCM relates to the capital budget and not to the operating budget. According to an official in the municipality only R35 million of the total capital budget of R328,8 million is non-assigned capital and thus available for discretionary spending. This implies that the community has the ability to influence only roughly 10.6% of the capital budget (2.1% of the total budget).

The main impact of community participation in the BCM has been on identifying needs and priorities for the IDP process which then influences spending decisions. The municipality is currently shifting resources to the poorer and more marginalized communities. However, this is a slow process and it takes time to redirect funds especially in the short term. Community participation has also influenced municipal policies, for example, the indigent policy and the credit control and debt collection policy.

5.4 Challenges

The participatory approach to budgeting is still fairly new in all municipalities. Although a number of lessons have been learnt the following challenges remain:

- Capacity building;

- Further development and support of Ward Committees;
- Dealing with diversity within the community;
- Starting the budget process early enough to get meaningful participation;
- Improving the monitoring and evaluation process; and
- Preventing people from using the Ward system for political gain.

6. Stellenbosch Municipality (SM) case study

Stellenbosch Municipality is a medium sized local municipality situated in the Western Cape province. A large proportion of the SM population are not working with 36.8% not economically active and 10.8% unemployed. In addition more than half the population are without income and a large percentage of people earn only between 801-1600 rands per month.

6.1 Budget: income and expenditure

Summaries of the operating and capital budgets for Stellenbosch for the period 2004/05 to 2006/07 are shown in Tables 3 and 4 below.

Table 3: Summary of operating budget for the period 2004/05 to 2006/07

	<i>2004/05</i>	<i>2005/06</i>	<i>2006/07</i>
TOTAL OPERATING INCOME	343,966,874	368,711,329	396,828,125
TOTAL OPERATING EXPENDITURE	327,459,665	351,547,591	378,720,815
SURPLUS / (DEFICIT)	16,507,209	17,163,738	18,107,310

The majority of income is derived from electricity sales followed by property rates and other income. On the expenditure side of the operating budget, the bulk of proposed expenditure is allocated to general expenditure, followed by expenditure on salaries, wages and allowances and electricity bulk purchases. Over the medium term there is a slight increase in the proportion of gross operating expenditure allocated to salaries, wages and allowances (30.8% to 33.2%) and a small decrease in the proportion of gross operating expenditure allocated to general expenditure (43.2% to 41.7%).

Table 4: Summary of capital budget for the period 2004/05 to 2006/07

	<i>2004/05</i>	<i>2005/06</i>	<i>2006/07</i>
INCOME FROM OWN FUNDS	62,574,500	47,300,000	40,700,000
INCOME FROM GRANT FUNDING	41,639,000	153,818,240	30,780,000
TOTAL INCOME	104,213,500	201,118,240	71,480,000

EXPENDITURE			
Land and buildings	3,150,000	2,430,000	4,120,000
Roads, pavements, bridges & stormwater	10,500,000	11,550,000	12,850,000
Water reservoirs & reticulation	3,700,000	4,950,000	4,950,000
Car parks, bus terminals & taxi ranks	500,000	500,000	500,000
Electricity reticulation	19,700,000	18,380,000	8,910,000
Sewerage purification & reticulation	2,750,000	4,200,000	3,850,000
Housing	46,023,900	138,018,240	5,000,000
Street lighting	2,214,600	2,260,000	2,230,000
Refuse sites	300,000	250,000	250,000
Clinics	455,000	3,040,000	500,000
Amenities	5,820,000	3,038,000	3,565,000
Other Assets	8,100,000	8,402,000	23,555,000
Specialised Vehicles	1,000,000	4,100,000	1,200,000
TOTAL EXPENDITURE	104,213,500	201,118,240	71,480,000

Proposed capital expenditure is expected to increase from R104.2m in 2004/05 to R201.1m in 2005/06 and then decrease to R71.5m in 2006/07. The reason for this fluctuation is mainly due to the receiving of a proposed grant of R128.9m from the Provincial Housing Board (PHB) in 2005/06 for the purposes of housing construction in the local authority.

The greatest proportion of proposed capital expenditure for the 2004/05 financial year has been allocated to housing, electricity reticulation, and roads and stormwater. Over the medium term period there are significant increases in the proportion of capital expenditure allocated to roads and stormwater (from 10.1% to 18%) and other assets (from 7.8% to 33.0%). The increase in other assets is mainly due to R15m being allocated for new office accommodation. The proportion of the capital budget allocated to electricity reticulation is set to decrease over the medium term from 18.9% to 12.5%.

6.2 Mechanisms for participation

The process of community participation in Stellenbosch Municipality is different from BCM due to the fact that the municipality has undergone a number of transitions since its formation in 2000. Ward Committees were established only at the end of 2003 as a result of a political change in Council due to the crossing of the floor legislation which allowed councillors to change political allegiance.

6.2.1 Ward Committees

The Ward Committees were established in November 2003 replacing the Representative Forum and Area Forums which were the previous community participation structures. Each Ward Committee consists of a Ward Councillor and ten members who are elected by the

community. The purpose of the Ward Committees is to be a formal communication channel between the community and the Council.

The Ward Committee system in Stellenbosch is still fairly new and some of the committees had not been fully constituted at the time of writing. The committees also vary in the way they function with some operating very well while others are struggling. All Ward Committee members had attended a workshop which explained the rationale behind the ward committee system and how they should function, but all respondents interviewed recognised that further capacity building is necessary especially in terms of participation in the IDP and budget processes.

For the 2004/05 budget process, ten public meetings were held to obtain community input as the Ward Committees had yet been established. These forums were not, however, conducive to obtaining input as they were too large and tended to be dominated by a small minority. The budget was taken to the Ward Committees in April; but at this stage committees had only recently become operational and were not yet in a position to give meaningful input from the community. Nevertheless, from the meetings that were held community priorities were identified.

6.2.2 Budget Preparation Process

The budget process began in September 2003, but the ward committees only started functioning in December 2003. This meant that some of the steps in the IDP/Budget process were completed without ward committee involvement. The community was, however, consulted during October 2003 by means of ten public meetings in different locations in the municipal area. Consultation with the ward committee occurred for the first time in April 2004, and from comments received from ward committee members the consultation consisted of information dissemination rather than actual participation and obtaining input from the community. This is understandable under the circumstances, as at that stage the Ward Committees had just started being operational. For the 2005/06 budget cycle the Ward Committees are expected to be consulted as early as September.

6.3 Impact of participation

Community participation in the Stellenbosch budget process relates largely to the capital budget, however there is a small percentage of the operating budget that is allocated to IDP projects which may be influenced. Essentially 87% of the operating budget is non-discretionary spending for items such as salaries, bulk water purchases, etc. The community does have the opportunity to influence almost 90% of the capital budget by identifying needs and priorities through the IDP review process. However, the level of input received from the community relates more to specific service delivery issues rather than looking at the broader impact of capital spending on the municipality.

The Ward Committee system is still a new process in Stellenbosch and the committees are not functioning as optimally as they should be. It appears that not all Councillors and Ward Committee members have a clear understanding of the budgeting and planning processes and therefore cannot give input which is informed and meaningful. Thus input from the officials still tends to dominate the budget process.

6.4 Challenges

Community participation in Stellenbosch Municipality is still in its initial stages and people are not yet familiar with participatory approaches. Challenges facing the municipality include:

- A lack of capacity in terms of skills and logistics;
- Diversity within the community;
- Insufficient time to make a meaningful input into the budget process;
- A lack of transport to meetings;
- Power dynamics within the community and between Ward Councillors and members;
- A lack of communication with the farm workers;
- Keeping people interested in municipal issues;
- Safety of people attending meetings which are held at night; and
- Funding for Ward Committees to operate effectively to ensure ongoing participation.

7. Conclusion and Recommendations

Community participation in planning and budgeting processes is still fairly new in South Africa. Formalised participation began only in the latter part of 2001 in Buffalo City Municipality and in Stellenbosch Municipality effective participation through Ward Committees has only been in operation since the beginning of 2004. At the same time local government has become more developmental in nature. Due to both of these factors it is difficult to assess the influence that community participation has on planning, resource allocation, and taxation and tariff policies.

Thus far, the participation process has made an impact on the planning process in terms of identifying needs and priorities but the impact on resource allocation and tax policies is unclear. The main challenges that both municipalities still face, and recommendations on how to overcome them, include:

- **Lack of capacity:** there is still a need for further capacity building for councillors, ward committee members, and the community, particularly regarding the municipal budget process, the relationship between the capital and operating budget, how income is generated, and how to influence resource allocation decisions and taxation policies. Training should be practical focusing on the issues identified above.

- **Development of Ward Committees:** some Ward Committees are under resourced in terms of both human and physical resources which impedes their ability to communicate issues and organise meetings within their community. It is therefore important to ensure that Ward Committees receive adequate support and are elected for a time period that relates to the election cycle.
- **Diversity of the community:** both municipalities are made up of people coming from very diverse backgrounds and culture. . In order to accommodate this diversity it is necessary to adopt different strategies for the various groupings providing for all eventualities.
- **Timing:** in both municipalities the participation process for input into the 2004/05 budget did not start early enough making it difficult for people to formulate structured inputs for submission to the budget. It is important that adequate time is made available for meetings with the relevant stakeholders so that input may be made before policies and budgets are finalised.
- **Communication:** improvement in communication between councillors, ward committee members and the community would enhance the participation process. It is important to include the development of a communication strategy in any capacity building programme.
- **Monitoring and evaluation:** monitoring and evaluation systems have not been thoroughly implemented and there is a lack of information on which to base decisions that impact on communities. Both financial and non-financial (service delivery) performance information must be made available to communities well in advance so they have the necessary information make an informed and meaningful contribution.