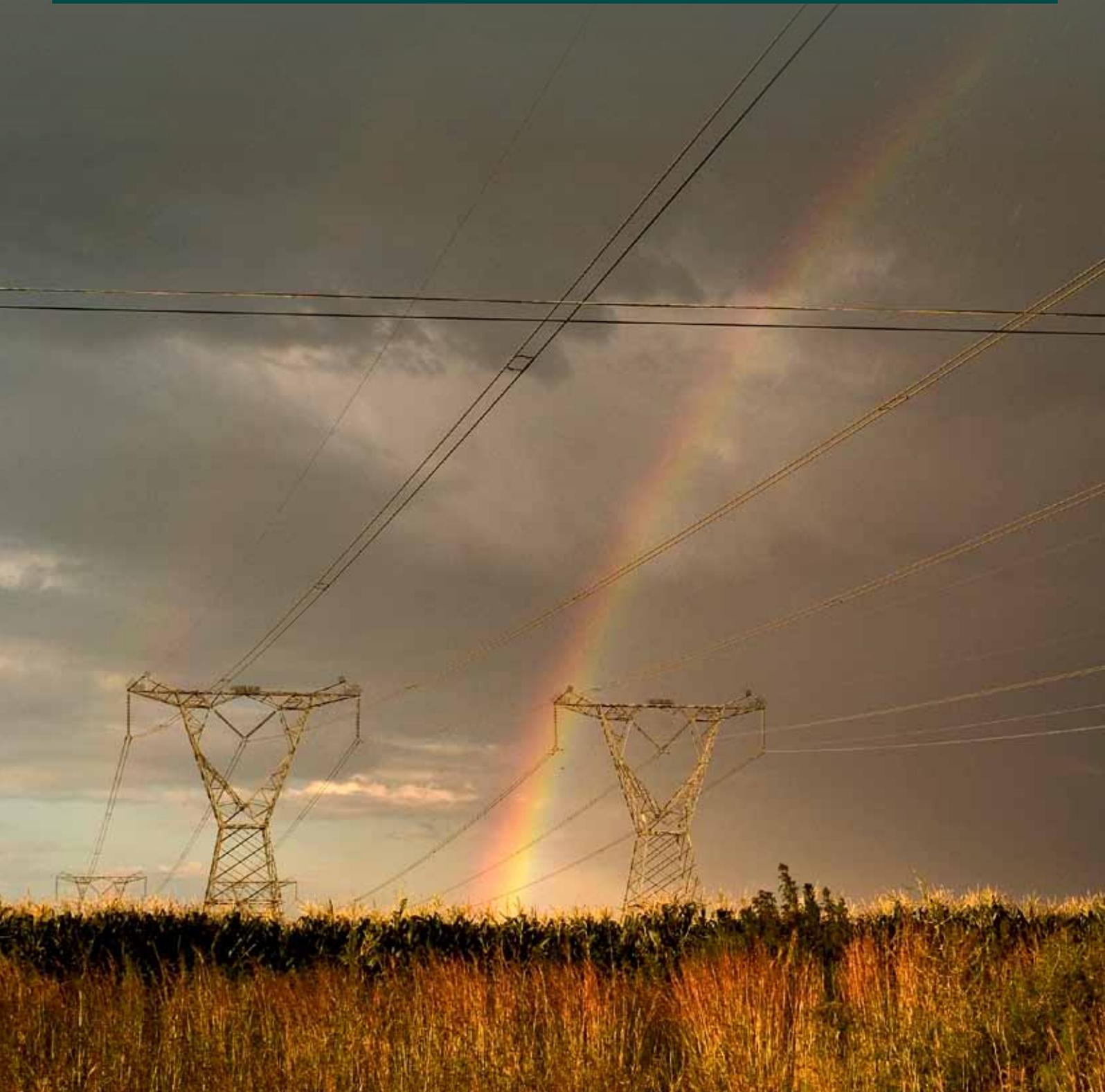


Who is Accountable for Under-spending Indirect Infrastructure Grants?

POLICY BRIEF

FINANCIAL AND FISCAL COMMISSION 4/2015



EXECUTIVE SUMMARY

Accountability is the cornerstone of government's massive infrastructure delivery programme, much of which is delivered at local government level. Local government accountability for infrastructure delivery and spending is complicated by the fact that most infrastructure is funded through direct and indirect conditional grants, rather than own revenues. Responsibility for spending (and under-spending) indirect grants lies with national/provincial departments, which cannot be held to account by municipal councils and are not directly answerable to communities. Own revenue spending on infrastructure is more efficient than that of indirect grants, suggesting municipal councils are able to hold the executive to account. However, although municipalities have well-established oversight structures, most of these committees lack capacity and skilled personnel. Community accountability is also minimal because of inadequate financial and human resources. To strengthen accountability for infrastructure delivery and management within local government, the Financial and Fiscal Commission recommends that National Treasury and the Department of Cooperative Governance develop an accountability framework for indirect infrastructure grants, that accountability structures within local government are strengthened, and that community accountability is institutionalised within the local government sector.



BACKGROUND

The government has embarked on a massive infrastructure delivery programme that must be founded on sound accountability arrangements. When accountability fails, many things can go wrong, e.g. public funds are misappropriated, public contracts are unfairly awarded and public services are poorly delivered or not delivered at all. In South Africa, infrastructure delivery is decentralised, mainly to local government, the sphere closest to the people. Municipalities rely heavily on conditional grants to fund infrastructure provision. This complicates local government accountability for infrastructure delivery and spending because national and provincial government departments are responsible for the performance of indirect grants.

Indirect conditional grants are proliferating and are characterised by high levels of under-spending. The issue is who is accountable for the under-spending of these grants and for the non-delivery or postponed delivery of infrastructure, which is implied by the under-spending. The Financial and Fiscal Commission (the Commission) conducted research into local government accountability for infrastructure spending.

RESEARCH FINDINGS

The proliferation of indirect grants distorts effective accountability within the transfer system because the accountability relationship is primarily between local and national/provincial departments. Responsibility for spending (and under-spending) indirect grants lies with national/provincial government departments, not with municipalities. National/provincial government departments, which impose the methods of service provision and provide the resources, are more concerned with ensuring legality and financial compliance than prioritising efficiency, effectiveness, quality and value for money. They cannot be held to account by municipal councils and are not directly answerable to communities where such infrastructure is destined. In effect, accountability for the performance of conditional grants flows from municipal officials to national or provincial departments.

Under-spending is more pronounced for conditional grants than own revenues, which suggests that own-revenue spending is more efficient. This is probably because municipal councils are able to hold the executive to account for own-revenue spending, and that the municipality pays less attention to the performance of indirect grants. Municipalities have well-established accountability and oversight structures, i.e. committees responsible for holding executive to account, with a clear mandate that is spelled out in various pieces of legislation and circulars. However, most of these committees lack capacity and skilled personnel able to scrutinise, interpret and analyse information on fiscal and financial matters. Without this capacity, these committees have difficulty gathering and analysing information that can be used to hold executives to account. Community or societal¹ accountability is also minimal because of inadequate financial and human resources.

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¹ Societal accountability is when citizens hold public officials to account through monitoring their spending patterns, exposing wrong doing, and activating investigations into abuse and misuse of resources.





CONCLUSION

Conditional grants drive infrastructure provision in the local sphere and indirect grants are proliferating. This is not good for accountability, as municipal councils and communities cannot hold national department officials to account for under-spending. Furthermore, although accountability structures are in place in all municipalities, these structures lack the capacity and skills to monitor and hold executives to account for 'under-spends'. To strengthen accountability for infrastructure delivery and management within the local government, the Commission recommends that:

- National Treasury and the Department of Cooperative Governance develop an accountability framework for indirect infrastructure grants that identifies accountability lines, mechanisms and enforcement, and spells out the consequences for undermining the accountability arrangements.
- Accountability structures within the local government are strengthened, and incentives provided within the existing transfer streams for research and technical support.
- Community accountability is institutionalised within local government sector, and the South African Local Government Association develops an accountability framework to guide communities on holding local governments accountable.

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