

Managing the fiscal pressures of urbanisation

Introduction

South Africa is regarded as one of the most urbanised countries in sub-Saharan Africa. More than two thirds of the population resides in urban areas. While urbanisation is a natural phenomenon, it comes with its pros and cons. One of the advantages that comes with urbanisation is that it gives those who migrate to urban areas better prospects of finding employment, which can afford them a decent life. On the downside, since urbanisation takes place in industrialised areas, many people are left to reside in informal settlements, with no proper shelter and no access to quality basic services such as water, sanitation, waste removal and electricity. This poses some health challenges for people who reside in such settlements.

For municipalities, urbanisation means there is added pressure on them to deliver basic services for an increasing population. With the Free Basic Service Policy, which has been in place in South Africa since 2001, this means that municipalities are obliged to provide free basic services to an increasing number of indigent households. This puts a strain on municipal budgets.

The Commission undertook a study to investigate the extent to which urbanisation affects municipal service delivery in South Africa. The study focused on the eight metropolitan municipalities and some category B1 municipalities (secondary cities) as these categories of municipalities account for the largest population growth in the country. The study further provided recommendations on how municipalities can best position themselves to deal with the rapidly growing populations within their jurisdictions. This policy brief provides a summary of the Commission's findings and policy recommendations.

THE FINANCIAL AND FISCAL COMMISSION

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The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

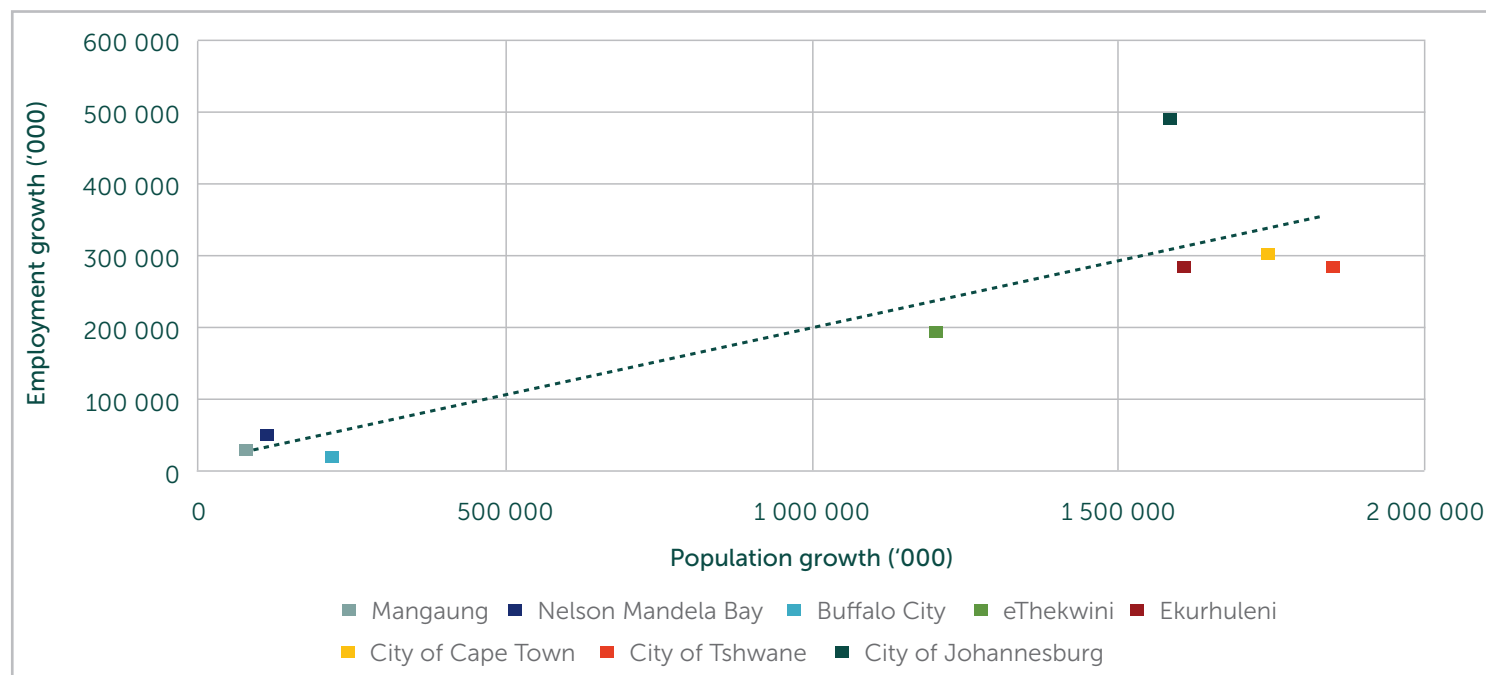
The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

Research findings

1. The relationship between the location of economic growth and where people settle is important

The study revealed that the eight metropolitan municipalities combined make up 41 per cent of the country's population and 57 per cent of the country's total gross domestic product (GDP). The nexus between the location of economic growth and where people settle is particularly important, since employment provides the main source of income for households. Figure 1 provides an indication of the relationship between population growth and employment growth in the eight metros between 2001 and 2022.

Figure 1: Population growth vs employment growth (2001–2022)



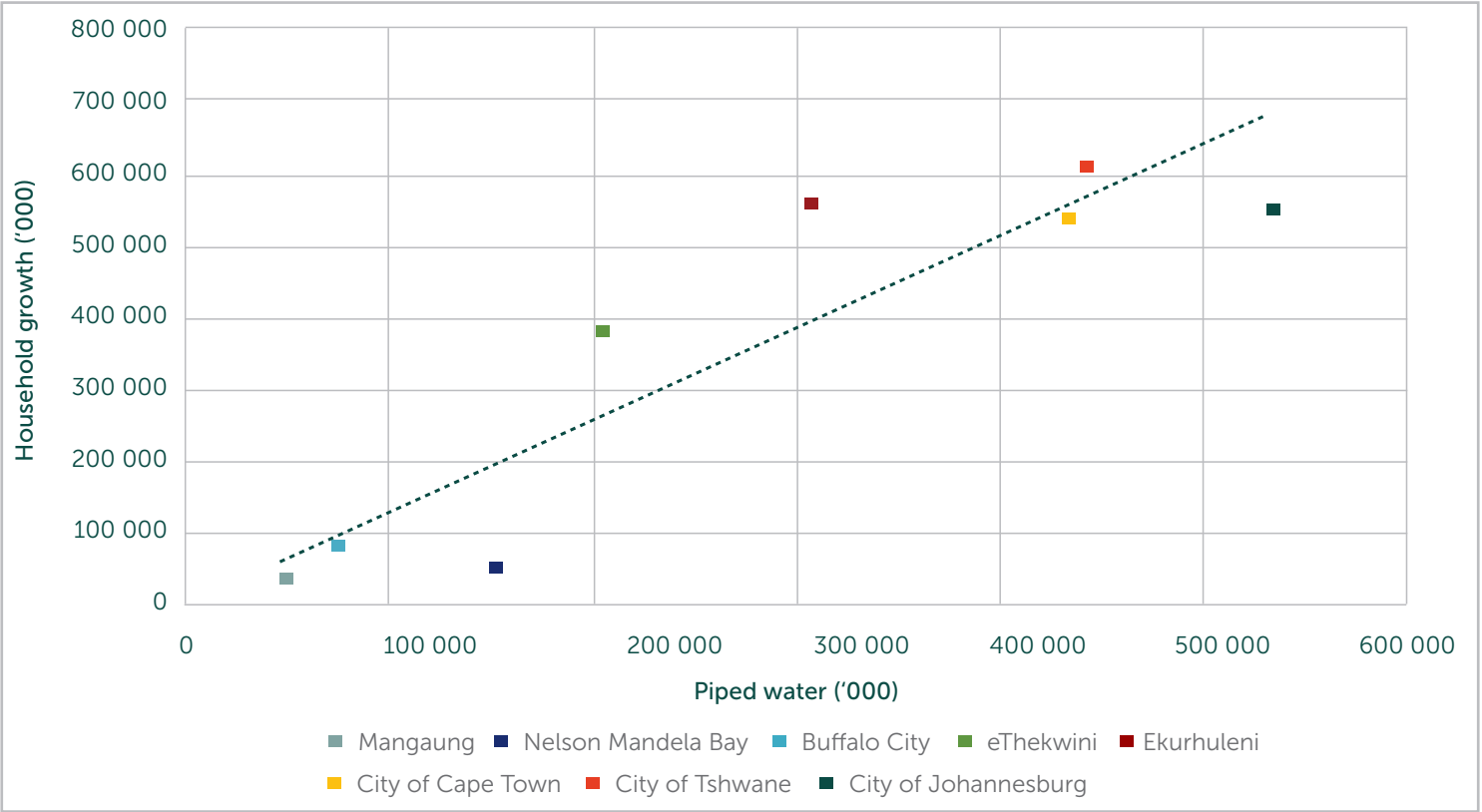
Source: Financial and Fiscal Commission's calculations

Figure 1 shows the reasonably strong correlation between trends in jobs and population growth. In general, employment growth has kept up with population growth in the eight metro areas. This finding is encouraging from the standpoint of sustainable urbanisation since it implies that the primary factor influencing household income tends to align with population growth. Individuals are generally adapting proportionately to the unequal expansion of economic possibilities around the nation. According to the figure, people appear to be relocating to areas like the City of Johannesburg, where they have a better chance of finding employment. The stimulus to jobs brought about by increased local demand for housing, schools, consumer goods and services, and other public facilities due to demographic growth can also be reasons for this correlation. This is also important because, as cities experience rapid population growth, employment creation becomes necessary for them to circumvent the financial burden of providing free basic services to a growing population.

2. There has been a general improvement in basic service delivery in the past two decades

The study highlighted that the provision of urban infrastructure such as water and electricity has kept pace with urbanisation in metropolitan municipalities and secondary cities. Service delivery has improved over the last two decades, with a higher proportion of households than before living in decent conditions. Both metros and secondary cities have shown that they are able to absorb the pressures that emanate from rising populations, hence, their residents are better off compared to those in other areas. However, this should by no means translate into complacency as a sizeable number of urban citizens are still without access to basic services. Therefore, there is still huge room for improvement. Figure 2 shows the nexus between households’ growth and the number people with access to piped water from 2001 to 2022.

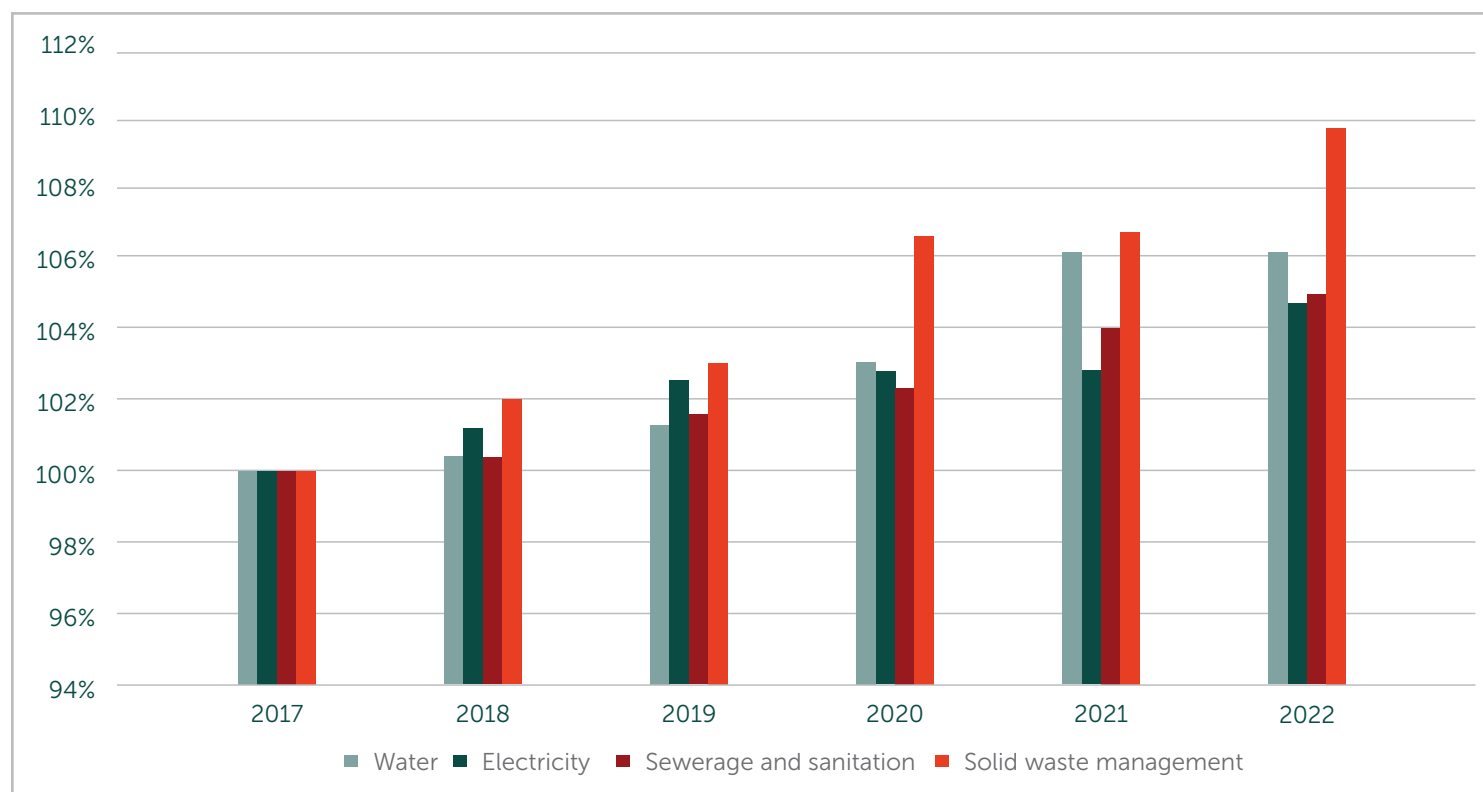
Figure 2: Number of households with access to piped water (2001–2022)



Source: Financial and Fiscal Commission’s calculations

Figure 3 shows the City of Cape Town's trends for access to the four basic services. The figure shows that there is a general improvement regarding access to basic services in the City of Cape Town. The number of consumer units with access to water increased slightly to 100.4 per cent in 2018 and to 101.2 per cent in 2019. This was followed by a further increase to 103.1 per cent in 2020, while the highest increase was a 106.2 per cent increase in 2021 and 2022, respectively.

Figure 3: Access to basic services in the City of Cape Town (2017–2022)



Source: Financial and Fiscal Commission's calculations

Figure 3 shows that access to electricity increased to 104.8 per cent from 2017 to 2022, while access to sewerage and sanitation, and solid waste management increased to 105 per cent and 109.7 per cent, respectively. Generally, it appears that the City of Cape Town has made great strides in ensuring that the quality of life of the people is improved.

3. The relationship between urbanisation and service delivery is positive

The Commission made use of a panel OLS model to estimate the impact of urbanisation on service delivery. The results are presented in Table 1. The empirical findings reveal that there is a positive and significant relationship between urbanisation and access to the basic services of water, sanitation, electricity and waste removal, i.e. a 1 per cent increase in urbanisation leads to a 1.42 per cent increase in service delivery. The findings also reveal that high unemployment, inequality (as represented by the Gini coefficient) and municipal expenditure all have a negative impact on service delivery. The results are significant, except for the impact of municipal expenditure.

Table 1: Impact of urbanisation on service delivery

Variable	Coefficient	Standard error	t-statistic	Probability
Population growth	1.422	0.798	1.782	0.076
Population density	0.052	0.017	3.051	0.003
Unemployment rate	-0.004	0.0007	-5.897	0.000
Gini coefficient	-0.875	0.091	-9.629	0.000
Income	0.509	0.032	15.767	0.000
Expenditure	-0.027	0.027	-0.987	0.325
C	-1.399	0.166	-8.440	0.000
R-squared	0.941	Mean dependent variable		0.239
Adjusted R-squared	0.939	Standard deviation		0.263
Standard error of regression	0.065	Dependent variable		-2.597
Sum squared resid	0.900	Akaike info Criterion		-2.489
Log likelihood	292.679	Schwarz Criterion		-2.553
F-statistic	564.288	Hannan-Quinn Criterion		0.574
Prob(F-statistic)	0.000	Durbin-Watson statistic		

Source: Financial and Fiscal Commission's calculations

In the case of municipal expenditure, the results present an alarming finding as municipal expenditure is expected to bolster service delivery. However, this may be attributable to a number of factors. Firstly, poor infrastructure project planning can lead to resource wastage and delayed service delivery. Secondly, neglecting the maintenance of existing infrastructure and overemphasising new projects may result in the deterioration of infrastructure and reduced service delivery in urban areas. Thirdly, the lack of funds for repairs and maintenance in highly urbanised areas can cause breakdowns and delays in service delivery. Lastly, resource wastage through fruitless and wasteful expenditure might explain this relationship.

Conclusion

The study investigated the impact of urbanisation on basic service delivery in South Africa. Some key findings were observed. Firstly, population trends across metropolitan municipalities and secondary cities have tended to coincide with employment growth over the last two decades. This is an important finding as it means that those who migrate to large cities have better prospects of finding employment and can therefore pay for basic services. However, the unemployment problem is still a concern in big cities, just as it is in other parts of South Africa.

Secondly, the study highlights that the provision of urban infrastructure such as water and electricity infrastructure has kept pace with urbanisation in metropolitan municipalities and secondary cities. Service delivery has improved over the last two decades, with a higher proportion of households than before living in decent conditions. Both metros and secondary cities have shown that they are able to absorb the pressures that emanate from rising populations, provided that there is a corresponding growth in employment; hence, their residents are better off compared to other areas. However, this should by no means translate into complacency as a sizeable number of urban citizens are still without access to basic services.

Lastly, the relationship between urbanisation and service delivery was estimated. The econometric model revealed that there is indeed a positive relationship between urbanisation and service delivery in South Africa. This means that a 1 per cent population growth leads to a 1.42 per cent increase in service delivery in urban areas. The results also show that socio-economic factors such as the unemployment rate and inequality have a negative impact on service delivery.

Recommendations

The Commission recommends that:

1. The Commission reiterates its recommendation from the 2018/19 Submission on the Division of Revenue that the Minister of Finance should create an awareness of the land value capture fiscal instruments among large cities and extend the scope of the Financial Management Grant to cater for capacity building in the design and implementation of land value capture mechanisms.
2. The Minister of Cooperative Governance and Traditional Affairs, in conjunction with the Minister of Finance, should speed up the review of the local government equitable share formula. The new formula must reflect growth in urban populations, as well as the rising cost of service delivery and the unique challenges faced by urban municipalities.
3. Municipal councils should introduce innovative ways for their municipalities to generate revenue. This can be done through the modernisation of the property tax collection system through digital valuation and automated billing systems.

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