

# Municipalities need private sector to survive and thrive

As political parties thrash out the details of potential coalitions, whichever organisations ultimately run municipalities will need to work more closely with the private sector to deliver quality services to citizens.

This is according to Eyal Shevel, head of corporate and local authority ratings at Global Credit Ratings (GCR), who says South Africa's local governments are under increasing pressure to wean themselves off the coffers of the national treasury.

## Public private partnerships

“National Treasury has asked municipalities, regardless of which political party governs, to find new sources of revenue to alleviate the existing pressure on the national government amid both local and global fiscal constraints,” says Shevel.

He says private public partnerships (PPPs) can be an effective solution to improving service delivery because both the public and private sectors stand to benefit, while risk is allocated to the party best equipped to manage it.

“These partnerships allow the public sector to harness the skills and efficiencies that the private sector traditionally possesses in providing services,” Shevel says, “Furthermore, the public sector does not have to borrow money to make capital investments through the use of PPPs.”

## Challenges

However, Shevel cautions, PPPs also present significant challenges. “The primary challenge is ensuring all stakeholders have a common vision for the project and what is needed. Where this is not the case, potential PPPs tend to get bogged down in ongoing disputes about key deliverables and pricing which can result in projects being severely delayed or falling away altogether.”

Disputes between the parties may also arise where income forecasts are not met. “The government may be forced to provide subsidies or the private player accept some losses, but given the large quantum involved, most often these issues land up in court. Another major concern is that PPPs open the door for nepotism and corruption in the bidding process. Even if there is just a perception of favouritism in contract awards, projects can be held up indefinitely by court actions,” Shevel says.



The Gautrain, the [biggest PPP project in Africa](#), is an example of how the state and private sector can work together with shared commercial risk. The private partners, under the Bombela Concession Company, was tasked with designing, building, operating and partially finance the Gautrain project while the Gauteng provincial government was responsible for land procurement and milestone payments.

“From an operational perspective the project has been successful in that passenger numbers are exceeding expectations but, the Gauteng government continues to subsidise the project and there remains several ongoing legal disputes between Bombela and the government,” adds Shevel.

## **PPPs crucial for metros**

PPPs are especially crucial in the metros, where urbanisation is increasingly resulting in service delivery backlogs, as local governments have the task of addressing these while simultaneously operating within budgetary requirements.

“A particular focus has been placed on integrated land development projects that can attract private capital to support the government’s contribution,” Shevel says.

Over R130bn in such projects are currently underway, covering all the major metropolitan areas. These include rapid transport systems that have been rolled out in Johannesburg, Cape Town and George, with similar projects planned for eThekweni and Ekurhuleni.

## **Outsourcing**

Another approach to improving service delivery that has been utilised by local governments is outsourcing, which has been exploited in the past.

“Although outsourcing can be valuable in bridging the capacity and skills constraints within municipalities, it has also been abused by certain municipal staff who have outsourced the provision of services for which there are already persons employed, duplicating the cost base,” he says.

GCR does not consider staff costs of below 30% to be excessive and, on average, staff expenditure across municipalities stands at about 28% of total expenditure. However, what should be monitored is the efficiency of staff in servicing the community and managing the various sources of revenue for delivering services to the people they represent.

Shevel concludes, “In the midst of a difficult economic climate, municipalities are going to have to work hard to make their budgets go further in order to deliver services to the people.

“PPPs present a viable method for improving service delivery and infrastructure development because the funding, benefits and the risks are shared between the public and private sectors. A common vision, with tangible deliverables and pricing, needs to be agreed upon before embarking on such partnerships to avoid disputes which can hamper projects further down

the line.”

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