

# CDE ROUND TABLE

Number seven, 2003

CDE Round Table is an occasional publication reflecting discussions held on key contemporary topics

## Local government in South Africa: priorities for action

A Round Table discussion with the minister  
of provincial and local government

**O**n 8 November 2002 the Centre for Development and Enterprise (CDE) hosted a Round Table on local government's development priorities.

This was CDE's second Round Table on local government. The first, entitled *Local government reforms: What's happening, and who is in charge?* was convened in mid-2000, and focused on the municipal demarcation process, the local government legislative framework, reforming local governments, and local government finances.

It highlighted the undesirability of delimiting municipalities stretching across provincial boundaries, and the impracticality of the two-tier municipal financing model. Unresolved issues surrounding traditional leadership and municipal property rates were identified.

Finally, serious questions emerged around a perceived lack of effective leadership of the local government reform process, and a clear and coherent framework for structuring that process.

In this, the second Round Table on this subject, the spotlight fell on the progress municipalities have made towards achieving the government's goal of 'developmental local government', as well as priorities and challenges for future development.

The keynote address was delivered by Sydney Mufamadi, minister for provincial and local government. The department of provincial and local government (DPLG) was represented by two deputy directors-general and other senior officials.

These as well as senior provincial and local government officials, members of parliament, academics, and local government experts engaged in a frank discussion with business people and other private sector participants.

This publication contains an edited version of the day's discussions. In order to place them in context, it starts with a review of events affecting local government over the past few years.

*'The white paper on local government of 1998 clearly recognises the importance of the private sector for service delivery and sustainability. Many independent experts believe this is not adequately reflected in local government legislation and in the DPLG's approach'*



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**Yunus Carrim**, ANC member of parliament, chair of the portfolio committee on provincial and local government.

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**Alan Dawson**, secretariat, National Coalition for Municipal Service Delivery.

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A list of acronyms and abbreviations used in this publication appears on page 13.



## Summary of key points made by participants

### Progress made; challenges remain

The process of establishing new municipalities is still incomplete, and the local government system has not been fully stabilised

The DPLG has a daunting task. It is managing the largest and most complex set of institutional changes in the country's history. Moreover, many government departments have loaded issues they cannot, or do not wish to, deal with on to the DPLG. Significant progress had been made towards establishing democratic and non-racial local government. However, major challenges remain, and the DPLG's performance has been inadequate in important areas.

### Outstanding issues

Numerous problems remain from the demarcation and amalgamation process: local municipalities are often too large, and include too many weak former municipalities. Overly large district municipalities are experiencing severe problems. Municipalities falling across provincial boundaries also remain a problem.

The process of establishing new municipalities is still incomplete, and the local government system has not been fully stabilised. A uniform system for rating all property needs to be implemented.

There are problems with integrating previously separate municipal administrations, staffing them with enough skilled people, making new municipalities financially viable, and reducing dangerously high levels of municipal debt, now estimated at R25 billion and growing in some municipalities at more than 20 per cent a year.

In December 2002 the DPLG unveiled a municipal revenue enhancement programme (MREP), which was endorsed by the cabinet in July 2003. Aimed at reducing municipal arrears, it is a step in the right direction. But does it go far enough, and is it being implemented with sufficient drive and urgency?

The minister has announced new 'powers and functions' authorisations which, contrary

to the department's initial plans, are not homogenous but differentiated across the country's district and local municipalities, according to the department's assessment of the specific capacities of various municipalities to provide particular municipal services.

The division of powers between B and C municipalities is still very complex, and remains contested.

### New development challenges

Numerous new issues affecting the core developmental activities of new municipalities have emerged:

#### Basic services

Despite an impressive roll-out of housing and water programmes, basic services remain inadequate. Doubling the conditional grants and 'equitable share' allocations to municipalities over the past three years has made little impact. The DPLG must gain greater clarity about how municipalities are to provide basic services, and how these are to be funded. The DPLG must also decide how it will help municipalities to make strategic choices within their financial constraints.

- The announcement of free basic services was mismanaged. Rather than improving service payments by meeting minimum needs over and above which payment would be expected, providing free basic services became a political flag-waving exercise. As a result, people everywhere stopped paying for services, which affected the creditworthiness of municipalities, and restricted their ability to borrow. National government provides less than one sixth of the estimated R38,5 billion a year required to fund free basic services, and local government has to find the difference. A clear policy framework for the provision of free basic services is required, with clear guidelines on finances, the trade-offs municipalities must make, and sequencing.

- National and provincial basic services support programmes are poorly integrated with the integrated development plans (IDPs) of local municipalities. On the other hand, municipalities are not responsive enough to the needs of municipal citizens. Most or all capital is spent on new infrastructure, and existing municipal infrastructure is being neglected. As a result, services are declining, and revenues are shrinking. Municipal financial management is a key constraint on sustaining basic services, and such services are 'rolling back' in many municipalities. Ironically, the consolidated municipal infrastructure programme (CMIP), which is driving new municipal infrastructure delivery, is reinforcing these negative processes.

- Inconsistent policies and 'political tariff-setting' are undermining municipal services. For example, as part of an effort to support 'affordable services to poorer consumers', the National Electricity Regulator (NER) discourages tariff increases – but municipalities rely on them to subsidise free electricity to the poor.
- Most municipalities have high levels of debt and major revenue problems, and are finding it difficult to access funding for rolling out infrastructure to poor people in areas with low income-generating potential. Their financial problems weaken their capacity for borrowing. Most still rely on their own, limited, revenue rather than on intergovernmental transfers.

#### *Unfunded mandates*

Municipalities are expected to assume greater responsibility for a growing range of government programmes without receiving more resources and support from national or provincial government. 'Unfunded mandates', 'devolution by stealth', and the 'creeping assignment' of functions are evident in many areas of municipal activity.

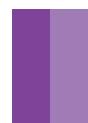
#### *Municipal planning*

The IDP process is overambitious; most IDPs are inadequately detailed, consultant-driven, and not responsive to community inputs. Meant to

serve as municipalities' 'business plans', IDPs are failing in numerous respects, including the following:

- IDPs are treated like 'state secrets'. They are not easily accessible to business people looking for local business opportunities. Municipal officials do not reveal their capital budgets to potential private investors.
- For many councils still dealing with monumental institutional and political changes, drafting IDPs was premature. They did so because they were required to rather than because they wanted to produce useful strategic plans. IDPs were drafted before organisograms and budgets had been finalised. Improving these IDPs is very important, and special emphasis should be placed on the trade-offs that have to be made within existing resource constraints.
- Leadership and strategic direction from national and provincial government are lacking. The support provided by the DPLG-funded planning and implementation management support (PIMS) centres are inadequate; as a result, many IDPs have been drafted by inappropriately skilled consultants rather than community representatives.
- Community input into IDPs is constrained by the absence of functional ward committees. It is universally acknowledged that there has been little or no input from business people, farmers, or farm workers.
- Most or all IDPs are infrastructure-heavy, but neglect to provide for the maintenance of existing public investments. They also neglect social aspects of municipal planning such as skills development and health. Planning for HIV/AIDS is a crucial omission.
- Many municipalities have failed to consider public-private partnerships as a means of enhancing service provision. They follow section 78 of the Municipal System Act which prioritises 'internal solutions'. Specialist bodies such as the Municipal Infrastructure Investment Unit (MIIU) should advise municipalities more actively on the advantages of working with the private sector.

Inconsistent policies and 'political tariff-setting' are undermining municipal services



The local government system lacks a clear vision of what is possible and appropriate outside the metros

- Municipal, regional, and national planning are poorly integrated. The DPLG should guide municipalities more actively, and be less prescriptive.

#### **Local economic development (LED)**

The present LED policy and strategy do not work. They are resulting in short-term, small-scale, project-based community initiatives, and are not creating sustainable jobs, which can only emerge from broad-based local and regional economic activity, particularly in small towns and rural areas.

- LED should be led by the private sector, facilitated by public institutions. National government must state this, and encourage municipalities to explore partnerships with the private sector. Building up a local understanding of how to do business with the private sector is crucial. Business goes where there is well-developed, stable local government that welcomes private sector involvement. LED should aim to help improve the operational efficiencies, investments, and municipal 'quality of life' of businesses.

- Pragmatic growth coalitions (co-operative agreements on priorities, joint projects, and common purposes) offer the best prospects for successful LED. Public and private partners must develop an understanding of the technicalities and modalities of negotiating such coalitions.

• The perception that private firms are out to exploit their municipal customers needs to be addressed by government and business. There is a lack of trust and frank exchanges of opinion; all role players have to learn to understand others' points of view. A common sense of values and perspectives seems to be lacking. Although suspicion has abated, public and private sectors are still talking past each other.

- Municipalities and communities need to recognise that there are limits to the capital that can be absorbed by municipalities. Financially unsustainable municipalities cannot service loans, even with the help of DPLG-funded

CMP programmes. Without local agreements on affordability and cost-recovery, municipalities will end up with high operational costs that will eventually bankrupt them.

- Without tightening up financial monitoring, effective LED is not possible. Municipalities need to focus on their income in addition to their expenditure.
- IDPs need to reflect the trade-offs that councillors and officials have to make in order to place their municipalities on a high growth path. Tough choices have to be made, particularly in respect of capital expenditure; when to invest in infrastructure that will stimulate growth; and how to avoid cross-subsidisation that will harm growth.

#### **Structure and affordability**

The local government system lacks a clear vision of what is possible and appropriate outside the metros. Local authorities currently get far less financial support from the centre than they expected. Councillors and officials feel overburdened with tasks that they believe should be undertaken by other government spheres and departments.

There is competition over the provision and financing of services, and municipalities are low on resources. As a result, many practical steps need to be taken to remove sources of indecision and conflict:

- District and local council officials do not understand the different roles they must play in the new system. District and local municipalities have become areas of contestation and wasteful duplication. Although essential, the minister's long-delayed municipal authorisations presage another round of powers and functions being phased in and out. There is much unhappiness about the allocation of powers and functions, especially among secondary cities.
- The question of what the two-tier local government system can realistically afford has to be answered. The DPLG estimates that it will cost R38,5 billion a year to provide basic services to all South Africans, which is far more

than the funding available to municipalities via conditional grants and 'equitable share' allocations. The DPLG should explain how it believes this shortfall should be financed.

### Strategic leadership

In order to enhance its leadership of the local government transformation process, the DPLG should take the following steps:

- Rather than trying to stop all the gaps – many caused by the fact that line departments aren't contributing – the DPLG must focus on its core business of ensuring that municipalities have institutional support.
- The DPLG should become less prescriptive and more facilitative. Imposing regulations and prescriptions on municipalities will not in itself make local government work.
- The DPLG must focus on co-ordinating the contribution of other national and provincial departments, rather than providing those inputs itself. Line departments need to establish a municipal support programme, co-ordinated by the DPLG, within a framework which is absolutely clear on the division of powers and functions among different municipal structures and among the local and other spheres of government (for example, the LED support programme could be managed by the department of trade and industry, and the CMIP by the department of public works).
- The DPLG must urgently provide strategic leadership on the escalating levels of municipal debt and its impact on basic service delivery and economic support services. The MREP is an important intervention, but the DPLG must convey to municipalities and the national government how urgently action is needed.

### The way forward

The chair of the parliamentary portfolio committee on provincial and local government remarked that 'through experience ... we will discover the weaknesses and frailties of the local government model, and find ways of addressing them'. In the course of the Round Table, numerous 'weaknesses and frailties'

were identified. Five key questions arise:

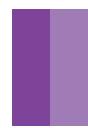
- Has the DPLG defined its role properly? Is its task a manageable one?
- Is it placing enough emphasis on economic growth, and does the DPLG have the right expertise and attitudes to advise municipalities on how to attract and sustain market-driven economic growth?
- Is the DPLG basing its plans on a realistic understanding of the human and financial constraints under which the new municipalities are operating?
- How realistic are the department's goals for expanding services beyond the core urban areas, and developing rural and small-town South Africa?
- Has the demarcation affecting small cities – eg East London (Buffalo City), Bloemfontein (Mangaung), and Pietermaritzburg (Mzunduzi) – and large towns – eg Pietersburg (Polokwane), Nelspruit (Mbombela), and Kimberley (Sol Plaatje) – placed an unmanageable burden on core urban areas, crippling their economic prospects and simultaneously short-changing rural residents?

This Round Table provided participants from the public and private sectors with a valuable opportunity to reflect on what is happening in South Africa's cities and towns. They need to interact far more intensively about appropriate developmental goals, and how the private sector – and think-tanks such as CDE – could help to achieve them.

Public and private sector figures still differ on local government's development priorities. The white paper on local government of 1998 clearly recognises the importance of the private sector to both service delivery and sustainability. Many experts believe that this is not adequately reflected in local government legislation and in the DPLG's approach. It is this concern that underlies CDE's offer to facilitate a more intensive engagement between the private sector and the government, which would be in the interests of successful delivery in both rural and urban South Africa.

How realistic are the department's goals for expanding services beyond the core urban areas, and developing rural and small-town South Africa?

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## The restructuring of local government – an overview

Prior to the elections in December 2000, and working within the Municipal Structures Act of 1998, the Municipal Demarcation Board (MDB) fundamentally redrew the local government map by merging 843 transitional local authorities into 284 new municipalities (see box: *The ABC of South Africa's new municipalities*, this page). In order to achieve a higher level of intra-municipal cross-subsidisation, it tried to include affluent and poor areas as well as rural and urban areas in each municipality. The ANC's election slogan

– 'One city, one tax base' – highlighted the economic thinking behind this system.

The new municipal system was extended to cover the entire country, and every South African became a municipal citizen. This system of 'wall-to-wall developmental local government' contrasted sharply with the fragmented and racially based local government system that had preceded it under apartheid.

The country's six biggest cities were classified as metropolitan municipalities, and given some autonomous powers. The rest of the country was divided up into local municipalities, built around smaller cities and towns. In the case of secondary cities and larger towns, they were built around a single centre, while smaller towns were often grouped together.

All municipalities – whether centred on metropolitan areas, secondary cities, towns, or groups of towns – included surrounding peri-urban and rural areas.

Moreover, all local municipalities – in effect, all South Africa's towns and cities outside the six metros – were placed under the overarching control of district municipalities, a move meant to facilitate the regional co-ordination of services.

The district municipalities are new institutions with restricted capacity, and remote from the communities they serve. Since there are no ward councillors at the district level, democratic accountability to municipal citizens has been diminished. The impact of district municipalities on the finances of local municipalities has been vigorously debated.

From 1996 onwards, the government implemented a major legislative programme aimed at fundamentally restructuring South Africa's system of local government. Its major elements have been:

- The Municipal Demarcation Act, no 27 of 1998, which provides for the redrawing of municipal boundaries.
- The Municipal Structures Act, no 117 of 1998, which defines the different types of

### The ABC of South Africa's new municipalities

South Africa now has three types of municipalities, as prescribed in the Municipal Structures Act no 117 of 1998.<sup>1</sup>

**Category A municipalities** are governed by single councils with autonomous executive and legislative authority. There are six category A municipalities, encompassing South Africa's largest metropolitan areas: the City of Johannesburg, the City of Cape Town, the City of Tshwane (Pretoria), eThekweni Metropolitan Municipality (Durban), Ekurhuleni Metropolitan Municipality (East Rand), and Nelson Mandela Metropolitan Municipality (Port Elizabeth). They are commonly known as 'metros', or metropolitan municipalities.

**Category B municipalities** are also governed by single councils, but do not exercise autonomous powers; all of them fall under a category C – or district – municipality. There are 231 category B municipalities throughout the country. They include municipalities centred on secondary cities, such as Buffalo City (East London), Mangaung (Bloemfontein), and Mzunduzi (Pietermaritzburg); large towns, such as Polokwane (Pietersburg), Mbombela (Nelspruit), and Sol Plaatje (Kimberley); and small towns, such as Emalahleni (Witbank), and Moqhaka (Kroonstad). Many category B municipalities encompass several towns. Also, all category B municipalities include surrounding peri-urban and rural areas. They are commonly known as 'local municipalities'.

**Category C municipalities** are regional authorities with certain overarching powers over category B municipalities. For example, the Bojanala District Municipality in North West has authority over five local municipalities: Moretele, Madibeng, Rustenburg, Kgetleng Rivier, and Moses Kotane. They are commonly referred to as district municipalities, or district councils. There are 47 category C municipalities in South Africa.

municipalities; outlines their structures, powers, and functions; and prescribes municipal electoral systems.

- The Municipal Structures Amendment Act, no 33 of 2000, which shifts control over the four 'primary' powers and functions – water, electricity, municipal health, and waste/sanitation – from the local to the district municipality level.

Several bills have not yet been finalised; they include the Local Government: Municipal Finance Management Bill, the Municipal Systems Act Amendment Bill, and the Local Government: Property Rates Bill, which are still being vigorously debated. A draft white paper on traditional leadership has been published for comment.

A key aspect of the new dispensation that has not been finalised is the division of powers and functions among the various types of local authorities. As noted earlier, section 84(1) of the Local Government: Municipal Structures Amendment Act, no 33 of 2000 shifted responsibility for primary services from local to district municipalities. The idea was not that the latter should provide the services themselves, but that they should co-ordinate them regionally; therefore, in terms of the act, they would become 'service authorities', and local municipalities would become 'service providers'.

However, this measure had numerous far-reaching implications, both in principle and in practice, some of them unintended. Potentially the most damaging was its impact on the revenue of local municipalities; while district councils could instruct local municipalities to extend services to developing areas at certain rates, the latter would not necessarily be able to recover those revenues – ie, they would lose the ability to correlate revenue and expenses.

This prospect sparked off considerable uncertainty among local governments, as well as vigorous debates. On 28 November 2000, on the eve of the elections, the minister announced that the status quo in respect of powers and functions would remain in force for a transitional period of two years. This

was done to minimise disruptions to services, and to give the new municipalities a period in which to establish themselves. This meant that, for the time being, local municipalities would continue to deliver services in the same way – and within the same boundaries – than before the passage of the act.

However, a great deal of confusion had been created, affecting municipal budgeting, capital spending by municipalities, municipal creditworthiness, and so on. Tension also developed between the DPLG on the one hand and the MDB, national treasury, and Fiscal and Financial Commission (FFC) on the other over the financial consequences of the way in which the DPLG was handling these authorisations.

New ministerial authorisations were finally issued in November 2002, withdrawing the blanket authorisations to district councils, and differentially transferring powers and functions in various sectors to district and local municipalities as well as to different municipalities (see box: *Has the 'powers and functions' issue been resolved?*, page 30).

In January 2001 the DPLG instructed all 284 new municipalities – both district and local – to complete interim and then final integrated development plans (IDPs) by

**A key aspect of the new dispensation that has not been finalised is the division of powers and functions among the various types of local authorities**

## Where have all the towns and cities gone?

Beyond the six metros, municipalities – called local or category B municipalities – now consist of one or several urban centres combined with surrounding rural areas, with a single administration and a single council. This means that South Africa's secondary cities and towns have been included in larger rural/urban areas that now form the new municipalities.

The town of Nelspruit in Mpumalanga is an example: it formerly had its own municipal charter, but is now one of three urban centres which, together with large rural settlements in the former 'homeland' of KwaNgwane, make up the new Mbombela local municipality.

In the Free State, huge local municipalities have been created: the most extreme case is that of Kopanong, which combines nine erstwhile municipalities and has a diameter of 150 kilometres. On average, category B municipalities include three or four urban centres.<sup>2</sup>

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## 'Equitable shares'

The Intergovernmental Fiscal Relations Act, no 97 of 1997, changed the system for distributing national revenue to the other spheres of government. Whereas provincial and local governments previously received operating grants, they would now receive 'equitable shares' of national revenue.

Municipalities' 'equitable share' allocations are based on population size and income levels (ie, municipal citizens' average monthly per capita income). The allocations are then calculated using a formula aimed at ensuring that the gap between the funds needed for 'basic facilities for the operation of local government' and the amount of money each local jurisdiction is expected to raise from local resources is filled.<sup>3</sup>

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March 2002. These development blueprints first became a legal requirement for local municipalities in November 1996 in terms of the Local Government Transition Second Amendment Act, no 97 of 1996. Many municipalities lacked the capacity, skills, and experience needed to produce realistic and achievable plans. Some analysts say the national government as well as provincial governments are not sufficiently involved in this process, and that national, provincial, local, and district municipal budgets and IDPs are not sufficiently aligned.

In March 2001 the minister of provincial and local government appointed an eight-person ministerial advisory committee (MAC) headed by Peter Leon, former leader of the Democratic Alliance (DA) in the Gauteng provincial legislature, to review the transformation of local government, and advise him on how to promote this process.

The MAC was specifically mandated to evaluate the financial viability and capacity of the 284 newly established municipalities, and to ascertain what each was doing to meet its developmental challenges and obligations in terms of service delivery. The MAC was also asked to ascertain whether municipalities had established municipal or metropolitan police forces, and if traditional authorities had established traditional police services.<sup>4</sup> The

MAC produced a critical, hard-hitting report, which it presented to the minister in November 2001 but was only made public in July 2002 (see box: *An indigestible 'Big Mac'?*, page 18).

In July 2001 the implementation of the government's integrated sustainable rural development programme (ISRDP) and urban renewal programme (URP) began at selected pilot sites across the country. These programmes had been moved from the deputy president's office to the DPLG, which was regarded as a more appropriate institutional home.

Thirteen rural nodes have been identified, housing some 120 'anchor projects'. Additional funds have been allocated from the 'equitable share' (see box: *Equitable shares*, this page) and the consolidated CMIP. Under the URP, eight urban nodes – Alexandra, Galeshewe, Inanda, KwaMashu, Mdantsane, Motherwell, Khayelitsha, and Mitchell's Plain – have been identified, and support mobilised from the private sector for 'anchor projects' within them.

Analysts have questioned the criteria used to select these particular nodes, and whether a broader strategy or framework is being evolved for co-ordinating the developmental efforts of various government departments.

Progress made in transforming local government was also reviewed at a special workshop of the President's Co-ordinating Council (PCC) held on 14 December 2001. The PCC is an intergovernmental structure aimed at promoting and facilitating co-operative governance and good intergovernmental relations among different spheres of government.<sup>5</sup> It has replaced the Premiers' Forum and the Intergovernmental Forum, and comprises the president, minister for provincial and local government, and nine premiers. It meets six times a year.

The workshop was attended by the president, the minister, the nine MECs for local government, and the chair of the South African Local Government Association (SALGA). The discussions were based on a report prepared by the DPLG on



## What did the PCC really say?<sup>6</sup>

At the end of its special *lekgotla* on local government transformation held on 14 December 2001, the PCC adopted a lengthy resolution in which it committed itself to an extensive new action plan for strengthening this sphere of government. The following summary of the action plan shows how much remains to be done.

*To strengthen the local government sphere and enhance its status*, the PCC resolved to:

- \* sort out the 'powers and functions' issue by early 2002; finalise a clear framework for national and provincial interventions in local government; implement a state-wide planning system based on IDPs; and build capacity among organised local government and enhance and support its role.

*To build stable institutional and administrative local government systems*, the PCC decided to:

- resolve the issue of cross-boundary municipalities by March 2002; allow provinces to deal with the role of traditional leadership in rural governance; develop a national capacity-building strategy, taking account of provincial and local government circumstances, for building strong political and managerial leadership at the local level; explore the creation of a single public service framework for local government, dealing with remuneration issues and the interim deployment of public servants to municipalities with the greatest needs; regularly assess the implementation and workability of the new local government system; provide local government with clearer targets, milestones, and deadlines in respect of further stabilisation; enhance the participation of all spheres of government in strategy development and policy-making; and urgently set up a team (including SALGA representatives) to work with needy municipalities.

*To deepen local democracy and accountability*, the PCC resolved to:

- extend the *imbizo* process to increase

people's participation in local government; develop a dedicated programme of support to ward committees; develop policies and guidelines to help councillors manage wards; and integrate inter-constituency priorities into a community-wide IDP.

*To improve and accelerate service delivery and economic development*, the PCC resolved to:

- urgently review service delivery boundaries in order to align them with the developmental boundaries of local government; help (especially weaker rural) municipalities to implement the free basic services policy; urgently develop an urban/urbanisation policy; urgently develop and implement emergency measures to fast-track the process of finalising IDPs and service delivery performance monitoring systems; apply lessons learnt from the intergovernmental partnership in the URS and ISRDS to the entire local government sphere; and promote electronic governance in order to improve service delivery.

*To build financially viable local government*, the PCC resolved to:

- re-engineer the intergovernmental and local government financial systems; reaffirm the cabinet decision on electricity restructuring, and monitor its effects on local government; consolidate and disseminate work on national credit control policy; develop a framework for helping municipalities to meet their statutory obligations, and take action against those that consistently do not; organise engagement among the national government, organised local government, and the private sector, aimed at promoting development partnerships that will facilitate municipal access to financial markets; increase the resources available to local government, including district municipalities; and ensure the effective management of treasury functions, including revenue and debt management and financial audits.

This summary of the PCC's action plan shows how much remains to be done

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**One of the longest-standing problems faced by local governments is the low levels of payment for rates and services**

developments in local government since the elections of 5 December 2000. They culminated in a major new action plan on local government (see box: *What did the PCC really say?*, previous page).

In March 2002 the government tabled a trio of bills which, if passed into law, would allow members of parliament, provincial legislatures, and local municipalities to 'cross the floor', or, as the municipal bill put it, 'enable a member of a Municipal Council to become a member of another party whilst retaining membership of that Council'.<sup>7</sup> The bills were hastily drafted after the New National Party (NNP) had withdrawn from the Democratic Alliance (DA) in November 2001. They were intensively debated, both in public and behind the scenes, and were eventually taken to the constitutional court.

While the court ruled out floor-crossing at the national and provincial level (this has since been permitted following legislative amendments), it allowed local councillors to do so. As a result, during a three-week period in October 2002, 555 of 8 939 councillors (or 6.2 per cent) throughout the country changed sides. The ANC gained most, wresting control of several municipalities (especially in the Western Cape, Eastern Cape, and Northern Cape) from the DA.

The floor-crossing issue diverted attention away from more fundamental local government concerns. Many fragile new local municipalities were destabilised during the months of uncertainty surrounding the floor-crossing bill, and the eventual changes of allegiance by hundreds of councillors.

One of the longest-standing problems faced by local governments is the low levels of payment for rates and services. The minister has stated:

'One of the biggest threats to our development objectives is the financial difficulty that municipalities are experiencing. The growing debt of municipalities undermines our ability to deliver on the mandate of a developmental local government. The underlying causes of the staggering debt situation of municipalities are largely administrative.

There is an urgent need to attend to the political leadership at the local level.<sup>18</sup>

Part of the problem is that it is difficult even to quantify the levels of debt. In 2000 it was reported that consumers and ratepayers owed municipalities R12 billion in arrears property rates and service charges, and that this figure was growing by R1 billion a month. In May 2002 it was reported that this figure had risen to R22.2 billion, and by January 2003, to R25 billion. Businesses and government entities were reportedly responsible for more than one third of this amount. ESKOM was owed more than R1 billion.

By January 2003 the accumulated debt in the country's six metropolitan areas amounted to R15.6 billion, and the 16 largest municipalities accounted for R18.6 billion (almost 75 per cent of the total). In 2003 the City of Johannesburg was owed more than all the municipalities in Limpopo, Northern Cape, Mpumalanga, North West, and the Free State combined. Nationally, 26 per cent of the debt was for water, 24 per cent for rates and taxes, and 16 per cent for electricity<sup>9</sup> (see box: *Municipal finance and debt*, page 14).

In December 2002 the DPLG staged a municipal viability indaba to discuss the results of a study it had commissioned on the problem of payment levels and municipal debt with mayors and municipal managers.<sup>10</sup> Some 1 400 municipal delegates attended. The DPLG presented a municipal revenue enhancement programme (MREP), which was adopted by delegates.<sup>11</sup>

Key components included initiatives to establish a revenue enhancement fund, build municipal institutional capacity, provide sustainable delivery, and use more appropriate technology.<sup>12</sup>

The cabinet formally endorsed the MREP in July 2003, and some progress has been made in drawing up a 'delivery calendar' for the programme, analysing the annual reports of the auditor-general and Project Viability on municipalities and on developing management capacity for the MREP within the DPLG.<sup>13</sup>

The Masakhane campaign (launched by former president Nelson Mandela in 1995), aimed at encouraging people to pay for services, has seemingly dropped off the government's agenda.

Demarcation issues have also been less prominent since the last CDE Round Table, for the obvious reason that the municipal boundaries have been established, and only minor revisions are on the agenda (the exception is the vexed issue of municipalities that fall across provincial boundaries). Although the government published a draft white paper on traditional leadership and governance in late 2002, the complex issues related to traditional leadership in a modern democracy remain unresolved.

Numerous initiatives in other spheres of government will also impact on local govern-

ment. These include the restructuring of the electricity industry, the move away from service delivery by the department of water affairs (DWAF), the restructuring of health service provision by different spheres of government, and the development of a national transport strategy.<sup>14</sup>

The emergence of a new system of local government has been a long process, which began at least as early as 1990 with the local government negotiating forum which developed alongside CODESA. The DPLG believes that progress should be measured from the introduction of the new system in 2000 onwards. It believes that the 'establishment and stabilisation phase' (2000–2) is now concluded, and that local government has entered a 'consolidation phase' (2002–5), to be followed by a 'sustainability phase' (2005–10).

**The Masakhane campaign has seemingly dropped off the government's agenda**

## Acronyms and abbreviations

CDE	The Centre for Development and Enterprise	local government transformation
CMIP	Consolidated municipal infrastructure programme	Municipal Demarcation Board
DA	Democratic Alliance	Member of a provincial executive council
DBSA	Development Bank of Southern Africa	Municipal Infrastructure Investment Unit
DPLG	Department of provincial and local government	Municipal revenue enhancement programme
DTI	Department of trade and industry	Medium term expenditure framework
DWAF	Department of water affairs and forestry	National Electricity Regulator
FFC	Fiscal and Financial Commission	New National Party
GDP	Gross domestic product	President's Co-ordinating Council
HSRC	Human Sciences Research Council	Planning and implementation management support system
IDP	Integrated development plan/planning	National Electricity Regulator
INCA	Infrastructure Finance Corporation Limited	Regional electricity distributors
ISRDP	Integrated sustainable rural development programme	Reconstruction and Development Programme
LED	Local economic development	Return on assets managed
MAC	Ministerial advisory committee on	Regional Services Council
		South African Local Government Association
		Urban Renewal Programme



## Municipal finance and debt

The debts of a third of municipalities are growing faster than 20 per cent a year, and that of a further 37 per cent faster than 10 per cent a year

According to the DPLG, municipalities are faced with two particularly grave financial issues in respect of their ability to deliver services.<sup>15</sup>

### Revenue and debt

The department's figures show that annual shortfalls in income as a proportion of committed expenditure is significant, but not dramatic, typically in the order of 2,2 per cent (in the case of metros) to 11 per cent (in the case of local municipalities).<sup>16</sup>

What is significant is accumulated debt as a proportion of revenue, ranging from 27 per cent to 116 per cent, as shown in figure 1.

The other important factor is the rate of growth of municipal services debt. The debts of a third of municipalities are growing faster than 20 per cent a year, and that of a further 37 per cent are growing faster than 10 per cent a year.

Debtors are primarily households (60 per cent) and businesses (30 per cent), with government agencies making up 6 per cent of all municipal debtors.

### Financial management

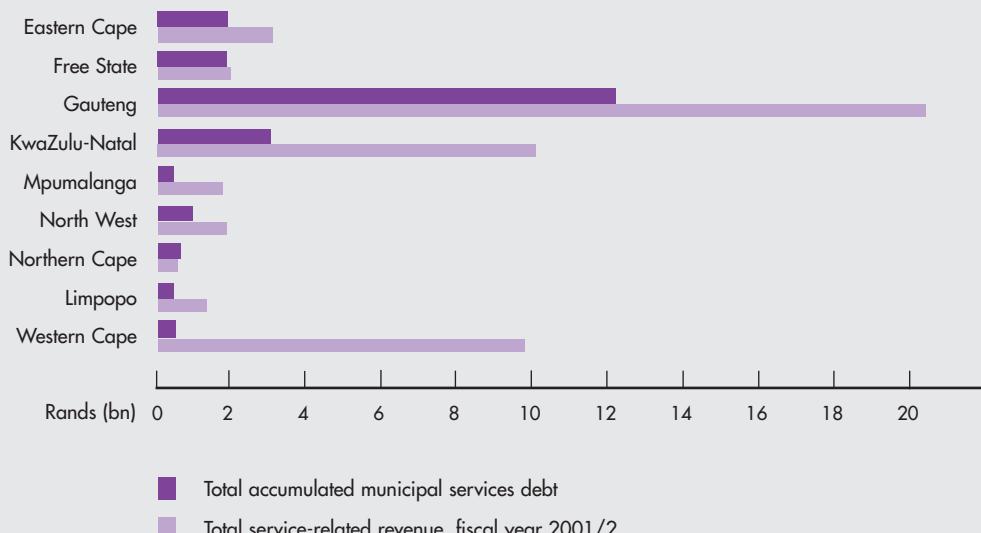
Municipal financial capacity is alarmingly poor: no less than 60 per cent of category B and 40 per cent of category C municipalities do not have internal auditors, and only 6 per cent of category B and 10 per cent of category C municipalities are able to bring their financial records up to date in the following month.<sup>18</sup>

This lack of capacity is also reflected in capital expenditure, which is low considering that, according to the DPLG, 'substantial investment in infrastructure is required over a number of years to eradicate the current backlog in service provision to previously disadvantaged communities'.<sup>19</sup>

Capital expenditure comprises 9,1 per cent of category A, 6,2 per cent of category B, and 9,9 per cent of category C municipalities' budgeted spending.<sup>20</sup>

According to the DPLG, the low level of spending in category B municipalities (6,2 per cent) is particularly worrying, since these make up 231 of the 284 municipalities.

**Figure 1: Accumulated municipal debt versus revenue by province, 2001–2<sup>17</sup>**



CDE 2003



## The Round Table

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**Ann Bernstein**, CDE's executive director, opened the proceedings:

Once again, CDE has brought together a group of people concerned about local government to reflect on key issues surrounding this crucial area of governance. We are delighted to have Sydney Mufamadi, minister for provincial and local government, as our honoured guest.

CDE is an independent think-tank, and we like to encourage debate and hear different opinions. Our task today is to facilitate an exchange of ideas about the complex challenges being thrown at the DPLG.

There is no doubt that this department is managing the largest and most complex set of institutional changes in the country's

history. Many other departments load whatever they don't want to deal with, or can't deal with, on to this department. CDE certainly has a great deal of sympathy for the magnitude of the challenges facing the minister and his team.

At the same time, we believe the most constructive thing we can do to help address those challenges is to subject local government priorities to independent scrutiny, and encourage a vigorous debate that draws on the insights and capabilities of civil society and the private sector.

We therefore hope that people will see today's proceedings as an opportunity to talk frankly about the difficult issues facing local government – things that are going right, and things they are worried about.

## Progress and challenges – the minister's view

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**Sydney Mufamadi**, minister for provincial and local government, welcomed the opportunity to engage in the Round Table, and said:

The department's achievements in respect of local government reform should be assessed in a political context, as the process does not admit to assessments based on criteria of 'technical rationality' alone. After 1994 the government's main goal was to redress the imbalances and inequalities of apartheid, and build an inclusive political system. We had inherited an extremely fragmented state apparatus, and a multiplicity of racially segregated administrations. The majority had been denied access to democratic government, and had also been marginalised economically. One of the main aims of our local government transformation programme has been to help redress these distortions in the sphere of government closest to voters.

Thus democratic local government needs

to play a major role in correcting the historically skewed distribution of resources in this country. This will provide people with the goods and services they need in order to survive. It must also rectify economic imbalances among South Africans by restoring 'dynamic allocative efficiency'.

Some examples follow of positive results since the December 2000 elections, when the new local government system was put in place:

- A total of 177 municipalities have finalised their IDPs. These have been formulated in a participatory, implementation-oriented, and consultative manner. Sustainable community development is now an integrated activity, and planned at a district or metropolitan level.
- Under the URP, members of a vulnerable community on the banks of the Jukskei River in Alexandra, north of Johannesburg, has been relocated and placed in formal housing. An additional 20 000 housing units

**We must expect setbacks: has any transformation process unfolded unerringly without interruptions?**

are being planned for Alexandra; besides providing people with shelter, it is hoped that this will help to kick-start medium-term growth in the area.

- Under the medium term expenditure framework (MTEF), central government's 'equitable share' allocation to local government has increased from R2,6 billion in 2001–2 to R5,5 billion in 2004–5.
- Some 73 per cent of municipalities are delivering free basic water to the poor, and some 63 per cent of South African households now have access to electricity, compared to just 36 per cent in 1994.
- Under the CMIP, more than R3 billion has been spent on infrastructure for servicing about 12 million poor households.
- Under the LED, previously neglected areas have been prioritised, and conditions created for involving the private sector in local economies.

The new local government system is still developing, and is at an early stage. We must expect setbacks: has any transformation process unfolded unerringly without interruptions? Municipalities will need a systematic programme of support. But we cannot assume that they will mature as we expect; there are no guarantees in development.

We must also expect tensions between category B and category C municipalities, particularly in the case of secondary cities where there has been a lack of clarity in their relations with other, smaller towns in their local municipalities as well as with their district municipalities. We have issued new authorisations that clarify the distribution of powers and functions between the Bs and Cs (see box: *Has the 'powers and functions' issue been resolved?*, page 30). Contrary to our initial expectations, these authorisations are now differentiated, because municipal areas are not homogeneous. Neither are the requirements for supplying water and sewerage, electricity, and local health services.

Finally, mayors, municipal managers, and councillors cannot accomplish the objectives of local government transformation without working partnerships with communities. For

these working partnerships we look to the ward committee system. The DPLG has always been open to partnerships with other sectors, and has benefited from co-operation when this has been based on mutual respect, and an acknowledgement that both sides can learn from each other and that efficiency and capacity are not exclusive to either partner.

*Remarks by Ann Bernstein:*

CDE has a long history of involvement in and concern about local government issues. Our focus on local government arises from the need to move away from a discriminatory and segregated past towards a democratic and much more viable system of local development (see box: *CDE publications relevant to local government*, page 23).

We certainly share the minister's view that, in the course of all the talk about partnerships, it would be wrong to assume that there is always much greater capacity, skill, or knowledge on the one side than the other. It is surely a question of recognising the different kinds of strengths that the government and private sector actors can bring to a partnership that will be crucial to success in this sphere.

It may be useful to outline CDE's current thinking about some of the issues surrounding local government. We have recently completed a major study of Johannesburg, the apex of our urban system, and another on land reform in both urban and rural South Africa. We are currently working on a study of entrepreneurship, and how to facilitate a more entrepreneurial society with many more black participants. All these issues affect successful local development.

Arising out of this work, CDE has been struck by some key questions as they relate to local government, and our common aim of creating a system that provides opportunities and services to the millions of people who have historically been excluded from development in this country. We raise these issues in the spirit of respect and enquiry that the minister has put on the table.

One issue that strikes us is the enormous demands that are being placed on this department – by other departments, by the country, by all of us. We are really throwing a many issues and responsibilities at local government, and thus at this department. CDE has, in collaboration with the Kennedy school of government of Harvard University, held a number of workshops on policy analysis and implementation.<sup>21</sup> In these workshops we always stress that one of the keys to successful policy implementation is to define problems in such a way that they can be solved. This does not mean that one should avoid difficult issues, but that one should define one's objectives within the limits imposed by existing resource and other constraints, whether human or financial.

In this context, the first question we wish to put on the table concerns the role of the DPLG. What is the best way of thinking about and defining the role of this department, which has to interact with other central departments about the local implications of their programmes; engage with the nine provinces and their responsibilities for local government issues; and, most importantly, provide a framework for, and support to, 284 local authorities operating in very different circumstances over a vast geographic space? In addition, the DPLG is responsible for the government's urban and rural development strategies.

How does one make the task of the department a manageable one? Where do its responsibilities begin and end? What kind of national framework has to be created? What national programmes must the department run, or help others to run? Which functions and responsibilities should be 'set free' for different local areas to experiment with on their own? How should we think about this department, given the enormous scope of the responsibilities being thrust upon it? What can the department do itself, and what should it facilitate others to do without it?

The second set of difficult issues concerns the differences between rural and urban development, and the most effective relation-

ship between them. Have we thought hard enough about this, and how best to promote development in the very different circumstances across the continuum of rural to urban places? Have we thought deeply enough about how this affects local government?

The third difficult area is that of service delivery. Have we thought hard enough about the relationship of employment to sustainable service delivery and, most importantly, payment for services? It is one thing to 'roll out' services throughout the country, but quite another to sustain this via fragile local governments whose populations are poor and unemployed. We now have to come to grips with the reality of 'rollback' – ie, electricity and telephone cut-offs, water maintenance problems, health clinics that are not staffed and therefore disappear, and so forth. What does nearly ten years under democratic rule mean for local government, service delivery, and financial sustainability?

Our fourth difficult area involves one of the most important dynamics in contemporary South Africa. Have we taken sufficient account of urbanisation, its relationship to jobs and economic growth and individual and community priorities, and, most importantly, its implications for local government? How did the local government demarcation process 'factor in' the realities of rapid urbanisation? Or did it operate with a rather static notion of what is happening in the country? What does urbanisation mean for local government viability or capacity constraints today?

Our last question flows from the first four areas of concern and query. In a country with our history, it is appropriate to have treated the inclusion of all South Africans in a non-racial system of local government as the first priority. This is part of what is meant by 'wall-to-wall local government'. It raises no concerns for CDE; we totally support this, and have argued for this for a very long time.

However, how exactly one does this in a country such as ours is a much more complex question. What does urbanisation, the lack

**Have we thought hard enough about the relationship of employment to sustainable service delivery and, most importantly, payment for services?**



**Our notion of 'wall-to-wall municipalities' is a response to exclusion, and a path to incorporation**

of capacity in rural areas, economic concentration, and mass unemployment mean for the interpretation and implementation of the notion of 'wall-to-wall local government'? We have to ask whether this phrase denotes a feasible policy, or is primarily a slogan that requires considerably more thought on how best it can be operationalised.

*The minister responded:*

Having read the reports of previous CDE Round Tables, I agonised over whether I should attend and associate myself with this one. In my presentation I emphasised the necessity for mutual respect, which is very

important, especially if you are trying to build confidence towards a particular end.

Our notion of 'wall-to-wall municipalities' is a response to exclusion, and a path to incorporation. It may sound like an unnuanced slogan, but it is not. It is important that we proceed from the premise that we are all capable of being nuanced. It may well be that certain notions do not resonate immediately with some of the participants here, because we have different maps of social reality.

But I think it's important to sit back and try to listen. You might actually find that there is something a bit more profound in what appears to be slogans than you thought

## An indigestible 'Big Mac'?

On 12 March 2001 Sydney Mufamadi, minister of provincial and local government, appointed a ministerial advisory committee (MAC) to advise him on the transformation of local government.

Headed by Peter Leon, former leader of the DA in the Gauteng provincial legislature, and a partner in a prominent Johannesburg law firm, the MAC was tasked with evaluating the financial viability and capacity of the 284 newly established municipalities, ascertaining whether and how they were meeting their developmental challenges, and whether they were fulfilling their constitutional service delivery obligations in the light of changes to their powers and functions.

The report was made public on 4 July 2002; its main findings and recommendations are summarised below.

### Division of powers and functions

- Conferring substantial powers on to district municipalities do not give them equal capacity in practice. Policy contradictions and constitutional questions arise, and changes have been insufficiently thought through. Locating service delivery authority at the district level

'will ultimately impact negatively on transformation, and at the same time compromises the financial viability and capacity of non-metropolitan local government'.

### Development challenges

- Many interim IDPs are just shopping lists of potential projects, providing insufficient strategic vision to municipalities. They are infrastructure-heavy, lack budgets, neglect maintenance, and lead to conflicts with the planning processes of sectoral departments.
- Municipalities often have to assume responsibility for inappropriate centrally developed projects.

### Transformation and capacity

- Centralisation and regulation by national and provincial government can compromise local government's ability to govern, and actualise its developmental imperatives. The employment costs of integration are high. The DPLG's support programmes lack direction and information. The DPLG should be a co-ordinating and oversight department rather than a line function department.
- DWAF is acting in a high-handed manner by

initially. I just think it's important to create a base which is conducive to a good exchange.

We don't feel that we have overemphasised rural over urban development. Certainly, there cannot be empirical evidence to back up these allegations. Precisely because we recognise the crucial importance of cities in our economy, the DPLG has set up the South African Cities Network to promote sound city management.

We all know the substantial percentage of GDP that cities account for; therefore, we can't hope to reinvigorate our economy by overemphasising anything at the expense of attending to the good management of cities. We are saying that we must see the potential

of rural regions as areas of new economic growth and opportunity. It makes economic sense to give attention to them, and many businesses are in fact grasping these opportunities.

As regards tensions between category B and C municipalities, I think it is to be expected that in the beginning you will have a lack of clarity, and some tensions. Some category B municipalities – particularly those including secondary cities, such as Pietermaritzburg and East London – are better endowed than others. But we need to look at our most recent authorisations on powers and functions (see box: *Has the 'powers and functions' issue been resolved?*, page 30). We did

Municipalities face the twin challenges of extending services to the poor and improving the standard of services to existing non-poor citizens

foisting infrastructure (and staff) on to under-capacitated municipalities.

### **Financial viability**

- Diverse municipalities make a uniform strategy difficult to develop. Few cross-boundary municipalities have an adequate economic base, or manageable infrastructure backlogs. New district municipalities lack income bases. Others use funds inefficiently and sub-optimally. Many poorer municipalities lack access to finance.
- Municipalities face the twin challenges of extending services to the poor and improving the standard of services to existing non-poor citizens, the backbone of their tax base. Local authorities emphasised that 'underfunded' or 'unfunded' mandates created huge financial strains.

### **Recommendations**

- Section 84 of the Municipal Structures Amendment Act, no 33 of 2000 should be amended to restore the responsibility for primary services to local municipalities.
- The 'equitable share' allocations to municipalities need to be increased, while recognising that chronic underspending problems exist among them. The financial years of the IDP and MTEF processes should be aligned. All municipalities should be audited, to explain their financial

difficulties. Billing and payment collection systems should be updated and integrated. The DPLG must take capacity and financial resources into account when setting specific municipal targets. A uniform property rates system is urgently required.

- Some secondary cities such as Pietermaritzburg, East London and Bloemfontein – which currently form part of larger local municipalities – should be classified as category A (metropolitan) municipalities.
- The scope of IDPs should be broadened to include social, economic, and capacity enhancement projects, greater sectoral integration, and integrated and aligned government fiscal processes.
- The DPLG should be refocused to think more strategically and holistically. The activities of national and provincial departments at the local level should be better co-ordinated.
- 'Equitable share' allocations to local governments should be increased to help them pay councillors more adequately. Councillors need more training.
- The DPLG needs an effective communications strategy, and should provide a learning network for other municipalities besides metros and aspirant metros.

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**Does South Africa  
have the capacity  
to sustain a  
regional level  
(ie district  
municipalities)  
in its local  
government  
model?**

not adopt an undifferentiated approach, precisely because we are dealing with municipal areas that are not homogeneous. But there are certain capacity-building challenges that we have acknowledged, and which we will have to attend to, so that over time we will be able to eliminate the basis for some of the confusion and the tensions alluded to.

I think the assumption has to be that we will make mistakes, but that we at least know what we are trying to do. You will not have a local area that guarantees you opportunities unless you also participate in creating those opportunities, through ward committees.

We are all South Africans who hail from one local area or another. You are better placed to make an impact on your community if you try get closer to your local ward committee. The distance that people tend to maintain results in them arriving at uninformed conclusions about a situation which, in essence, is theirs – they are invited to take part in it.

*At this point the minister had to leave the Round Table for a meeting in the Democratic Republic of the Congo.*

Ann Bernstein thanked the minister for participating. CDE appreciated the spirit of that decision. She assured the minister that, despite any other areas of disagreement, CDE was committed to helping to improve the circumstances and quality of life of all South Africans, whether urban or rural dwellers.

How this should be done was a matter for debate, and probably some disagreement. However, that people need to be included in society and given equal opportunities was not at issue between the minister and CDE.

### Points made during discussion

- The two-tier municipal system addresses the urban–rural divide on the premise that urban areas should assume responsibility for adjoining rural populations. The idea is that, by blanketing the country with 'wall-to-wall' municipalities, urban and rural areas will

become better integrated than in the past. Clearly, both the rural and urban parts of the economy need to work.

- A practical problem with 'wall-to-wall' demarcation is that, rather than working together as envisaged, district and local municipalities have become areas of contestation and wasteful duplication.

- Despite the theory behind the new legislation, municipalities misunderstand the different roles they are expected to play in the new system. A good example is the distinction between service authorities (accountable for ensuring that services operate efficiently) and service providers (actually reticulating the water, or supplying the electricity). District municipalities were never intended to provide services themselves; they have to ensure that such services are provided, but delegate the actual provision to local municipalities through service provider agreements.

- Does South Africa have the capacity to sustain a regional level (ie district municipalities) in its local government model? Is Europe an appropriate model for a country such as this?

- A crucial issue is how municipalities should create opportunities for their citizens. Building growth and development coalitions is one method, which has implications for the appropriate redistribution of local resources, but strong coalitions are absent in South African cities. Ward committees are not succeeding in providing the connection between councillors and their constituents to the extent claimed by the minister.

- Consolidating the hundreds of apartheid-era local government bodies into 284 non-racial municipalities within a decade has been a remarkable achievement. Nevertheless, how can local governments provide the range of services required when they still lack so much capacity at the political and administrative levels?

- Why does South Africa need to consolidate to such an extent? What is wrong with having many non-racial local authorities – say, double the current number?



## The DPLG – achievements and objectives

*Elroy Africa, deputy director-general: governance and development of the DPLG, presented an overview of the department's activities:*

The DPLG bases its programmes on the notion of 'wall-to-wall developmental local government', which is derived from the 1996 constitution.

The DPLG's own assessment is that local government reform is a resounding success. Local government is now a distinct sphere of government.

The basis has been laid for the vision of 'one city, one tax base'. South Africa has managed two successful local government elections. Basic service delivery has improved.

Local government finance has been made more rational and developmental. In its review in December 2002 the PCC concluded that significant progress had been made with the local government transformation process.

In terms of continuing progress, the DPLG views the local government transformation process after the December 2000 local government elections in three phases: an establishment and stabilisation phase (from the local government elections up to 2002); a consolidation phase (2002–5); and a sustainability phase (2005 and beyond).

During the first phase, successful local government elections were held, and institutions established to help prepare IDPs, support service delivery, and establish various monitoring and co-ordination functions.

The second, current, phase (2002–5) is centred on extending core systems, accelerating service delivery and infrastructure investment, and creating financially viable local governments.

These goals have not yet been achieved. Various conditional capital grants have to be rationalised (the Local Government Transitional Grant, the Municipal Systems Improvement Grant, the Local Government

Support Grant, the CMIP, and the LED Fund are to be streamlined into a new grant).

Two key challenges remain: addressing the backlog in basic services and infrastructure, and achieving integrated development planning.

Providing basic services to all people in this country will cost R38,5 billion, and providing them with full services at least R230 billion. With the help of additional 'equitable share' funds, some 210 municipalities now provide free basic water, and 11 free basic electricity pilot programmes are in place nationwide.

We now have a complete set of IDPs. Our research shows that they have improved, but often still resemble 'shopping lists' rather than strategic instruments. Most municipalities see IDPs in terms of compliance with legislation.

However, there are problems surrounding the intergovernmental aspects of integrated development planning. Provinces need to be more structured in their involvement with local governments. Provincial involvement in municipalities must be bound by the IDPs drafted by those municipalities.

The time is also right for legislation making IDPs prescriptive on national departments. The cabinet planning cycle now encompasses all three spheres of government, and the DPLG hopes to build on these efforts at integration and synergy among all the spheres of government. The DPLG is planning to create a national IDP nerve centre as a single-point information service, accessible from anywhere, on any IDP in South Africa.

The URP and ISRDP are nodal programmes primarily aimed at alleviating poverty and reversing underdevelopment. Such nodes give the government the opportunity to experiment aggressively with policies in the poorest parts of the country. It is finalising a national urban implementation framework, as well as a national urban policy.

**The DPLG's own assessment is that local government reform is a resounding success**

**LED should primarily be undertaken by the private sector, facilitated by public institutions**

An LED Fund has been established to enable municipalities to play a much more active, direct, and strategic role in economic development. The CMIP and LED Fund have been deliberately located within the DPLG, since both these instruments help local governments to understand and play their developmental roles.

The DPLG has not always had good experiences with other departments, many of which are more interested in meeting targets rather than really helping to develop local governments.

The government is on course with its strategic approach to continuing local government transformation. Challenges remain from the apartheid era, and in terms of the establishment and implementation phases. However, the department's vision is entirely appropriate, and the policy fundamentals and key systems are in place.

### **Points made during discussion**

- The DPLG's claim that its policy framework is adequate, and that the challenge now is to focus on implementation, should be interrogated. If policies don't work, they need to be corrected.
- The DPLG's core business should be the systematic institutional support of local government. This makes it the most important national department. The DPLG must focus on this task, and not keep on 'stopping the gap' because line departments aren't contributing. Non-core programmes such as the CMIP could be housed within the department of public works, and LED could go to the department of trade and industry (DTI). The DPLG's arguments for retaining these programmes are unconvincing.
- The DPLG indicated that it did not necessarily want to retain these programmes for ever.
- Municipalities have made impressive progress in rolling out housing and water programmes. Nevertheless, many have been extremely unresponsive to people's real needs. Many are poor at practical interaction

with communities. The IDP approach has disappointed in this regard. Part of the reason is that national and provincial government programmes and projects often cut right across what the IDPs say. IDPs should carry more weight, and become prescriptive for other departments.

- It is folly to write an IDP for a municipality without first developing an organogram or a budget. First using a financial model to ascertain a municipality's resources and possible external funding sources would produce more realistic IDPs, based on more modest expectations. Provincial departments of local government lack the technical capacity to interpret and understand the elaborate and ambitious IDPs being produced by local governments under their jurisdiction.
- Most or all IDPs are 'infrastructure-heavy'. More balance is required in IDP strategies for growth, such as more productive investment in the social aspects of development, especially the acquisition of work-related skills, general education, and health.
- The central government is spending far more on directly subsidising local-level facilities such as clinics, schools and police stations, as well as on social grants, than on local government-related projects. Local governments should start asking whether their constituents are getting the best possible value from total government expenditure in their areas, and whether ways can be found for such expenditure to promote LED.
- The current municipal LED strategy does not work. It is resulting in short-term, small-scale, project-based, community initiatives, and does not create sustainable jobs. LED should primarily be undertaken by the private sector, facilitated by public institutions.
- LED policy does not adequately allow the private sector to be involved in strategic economic planning.
- Much more work is required to ascertain how best to create differential programmes to deal with the specific issues facing cities, medium-sized towns, districts, small towns, and rural areas.



## Key municipal finance issues

**Charles Simkins**, Helen Suzman professor of political economy at the University of the Witwatersrand, outlined economic and financial issues involved in local government reform:

South Africa does not necessarily have to have the particular pattern of 'wall-to-wall' local authorities that the MDB proposed. Even today there are differing views within government about the present model's pros and cons.

For example, the national treasury contests the financial viability and sustainability of the three-tier municipal government system, particularly in respect of the inclusion of South Africa's secondary cities in larger local municipalities. These include East London (Buffalo City), Bloemfontein (Mangaung), Pietermaritzburg (Mzunduzi), Pietersburg (Polokwane), and Kimberley (Sol Plaatje). Unlike the six metros, these local – or category B – municipalities also fall under district – or category C – municipalities, and have to help support large and impoverished adjoining rural and peri-urban areas.

It is important to remember that rural areas have many voters, and that demarcation was also a political issue. In many rural areas, the demarcation process shifted the balance of votes (if not the balance of power) towards the ruling party.

Median voters in the cities are wealthier than their fellow municipal citizens in adjacent rural areas, and possess greater economic resources. Most people in these rural hinterlands are therefore interested in the redistribution of these economic resources.

Local authorities are engaged in a dynamic game, economically speaking. They make trade-offs, and perform a balancing act between economic development and 'redistribution' (ie broadening service delivery to poor communities).

They make a series of choices over time: should they commit too little to economic

development now, there will be less to distribute around the whole system in the future, including to poorer people. However, committing too many resources to economic development will provoke political discontent, because median voters want as much redistribution as possible.

Trade-off decisions have to be made at the local level for sustainability to emerge, which means that finances remain constant, or rise over time. Decision-making is not simple, since the data on which to base trade-offs are not presently available to local officials.

### CDE publications relevant to local government

- Post-apartheid local government reforms: a small town perspective.* CDE Focus no 8, March 2003.
- Johannesburg – Africa's world city: a challenge to action.* CDE Big Cities Series no 5, October 2002.
- Local government reforms: what's happening, and who is in charge?* CDE Round Table no 5, November 2000.
- Policy-making in a new democracy: South Africa's challenges for the 21st century.* CDE Research no 10, August 1999.
- South Africa's 'discarded people': survival, adaptation, and current policy challenges.* CDE Research no 9, October 1998.
- Pretoria: from apartheid's model city to a rising African star.* CDE Big Cities Series no 4, July 1998.
- CDE's response to the white paper on local government,* June 1998.
- CDE's response to the green paper on local government,* November 1997.
- The East Rand: can South Africa's workshop be revived?* CDE Big Cities Series no 3, June 1997.
- Durban – South Africa's global competitor?* CDE Big Cities Series no 2, October 1996.
- Cities and the global economy: new challenges for South Africa.* CDE Big Cities Series no 1, October 1996.
- South Africa's small towns: new strategies for growth and development.* CDE Research no 2, May 1996.
- CDE's response to the government's draft rural strategy document,* March 1996.
- CDE's response to the government's draft urban strategy document,* March 1996.

CDE 2003

**The system lacks a vision of what is possible and appropriate outside the metros. What can realistically be afforded?**

Currently, the system lacks a vision of what is possible and appropriate outside the metros. What can realistically be afforded?

The DPLG has estimated that it will cost R38,5 billion a year to provide basic services to all South Africans; however, the conditional grant system currently delivers only R275 million a year, and, even though it has doubled during the current MTEF cycle from 2001 to 2004, the 'equitable share' also comes nowhere close to the requisite level. Given this, the level of financial assistance from the centre has to be reviewed.

Local authorities expected much more from the centre than has been forthcoming. Local-level politicians and officials are overburdened with tasks that they see belonging to other government spheres and departments, and are low on resources. The government needs to be more forthright about its vision for local government.

Administratively, rates and user charge systems, including collections, must be sound, which currently they are not. Municipalities must give more attention to income as opposed to expenditure. Levels of outstanding consumer debt (mainly from uncollected income) are dangerously high. A crucial income component that has not been properly addressed is urban and rural property taxes.

*Johan Kruger, chief executive officer of the Infrastructure Finance Company (INCA), gave a private sector lender's views on local government finance:*

INCA is a privately owned infrastructure debt fund, the leading private sector financier of local authorities, established in response to the government's call for increased private sector involvement in infrastructure funding. It has been active since 1997.

INCA is extremely concerned about the lack of local economic activity, and hence the ability of municipalities to afford projects. INCA is also disturbed by the economic decline of smaller towns and rural areas. Without a solid economic base, crucial

problems cannot be addressed, however good the policies and systems might be.

The IDP process must be integrated, which it currently is not. Stand-alone municipal LED programmes cannot really start addressing a national systemic issue. INCA stresses the long-term objective of reducing volatility in the local government system, and completing and stabilising the transformation.

It is important to recognise that there are limits to the capital that can be absorbed by municipalities. Financially unsustainable municipalities cannot service their loans. Even under the CMIP programme, increased operational cost arising from capital projects could bankrupt municipalities if they aren't carefully monitored.

Access to finance is not the real issue; there is enough finance available from the Development Bank of Southern Africa (DBSA), INCA, and other institutions. It is a question of being able to absorb that money, and use it optimally.

INCA has grave concerns about the financial impact of regional electricity distributors (REDs) on municipal finances. Analysis shows that many municipalities are highly dependent on profits from electricity supplies, and losing this source of funding will have disastrous consequences for them, despite upbeat assurances from government.

Municipalities are also growing increasingly concerned about a dangerous emerging pattern of 'unfunded mandates'. Central government is increasingly making difficult problems the responsibility of local government.

### **Points made during discussion**

- A senior DPLG official maintained that there were no such things as 'unfunded mandates'. The official explained that there was a well-managed process in place for national departments wanting to devolve functions to the local sphere. The Municipal Systems Act laid down a framework that required discussion by the relevant department with the minister of finance, a cost evaluation, and

consultation with organised local government. In 2000, for example, the cabinet refused to allow the department of home affairs to devolve the issuing of birth certificates and identity documents to the local sphere. Municipalities have used 'unfunded mandates' as a political slogan or rallying call for more money.

- Other participants provided several examples of 'unfunded mandates', one of them being the DWAF's transfer of unprofitable and derelict rural water schemes to 'unsuspecting local municipalities'. This had led to staff relocation, pay disputes, and salary disparities. One stated: 'Replacing a DWAF running costs subsidy with a portion of the equitable share doesn't add up.'
- A participant from the department of health said he was concerned about the effects on local governments of the shift in health care away from provincial hospitals to primary clinics and other facilities. While local governments were expected to provide a far greater portion of public health services, their budgets had not been increased commensurately. HIV/AIDS was exacerbating the demand for local health services currently provided by many municipalities.

- Local authorities are required to provide high levels of service to provincial housing projects for low-income households, with negative consequences for their running costs. This is resulting in badly maintained services, unpaid service bills, high administrative costs for the municipality, and environmental damage. Municipalities should not commit themselves to providing levels of service which they cannot afford to install or maintain. High service levels are simply not affordable, and attempts to supply them are bankrupting municipalities and making their task of promoting 'developmental local government' an impossible one.

- The department of land affairs wants municipalities to budget for commonage projects aimed at supporting landless people, and to accept supporting funds from the department for these efforts. However, the hidden costs of managing and delivering

such services have not been calculated.

- Municipalities must change their mindsets and become more income-driven. Too much attention is being paid to expenditure. Municipalities must also be more determined to collect the vast amounts of money owed, and budget adequately for bad debt. About 10 per cent of municipal debt is just not collectable. Also, duplications in databases must be cleaned up, in order to get an accurate picture of outstanding revenue.
- Service tariff increases must be politically agreed and effectively sold to the public. The financial implications of not doing so are evident in service payment boycotts, rising consumer debt, cash flow problems, and an inability to absorb and utilise finance.
- While the financial viability of a given municipality derives largely from its balance sheet, the key question is really whether it has an adequate economic base. Active steps must be taken to grow local economies. Most IDPs fail to reflect the trade-offs and choices that councillors and officials will have to make.
- Without regular income from a job, people cannot pay for services, or repay home loans. The government's roll-out of electricity, telephones, water, and housing since 1994 is extremely impressive. But people do not have money to pay for these goods and services, and considerable roll-back is occurring. Unless economic growth improves dramatically and results in many more job opportunities, these services are unsustainable.
- South Africa must make tough choices to get economic growth going. Growth takes place where people have an idea, and make it happen. An example is Potchefstroom in North West, which is making a lot of money as an international training base for athletes, based on excellent infrastructure and local knowledge. There are other 'good news' stories that must be built upon.
- Municipalities should not overinvest in inappropriate infrastructure at the wrong moment in their economic development cycle. This results in cross-subsidies within the local economy that suppress growth.

**Municipalities should not commit themselves to providing levels of service which they cannot afford to install or maintain**

South Africa's current demarcation system has created many anomalies in respect of small cities and larger towns

- Developmental local government needs to be supported by the totality of government policies, and each government department needs to have a support programme, co-ordinated by the DPLG. It would be more helpful to disaggregate a support strategy, and not pin everything on the DPLG. Furthermore, the precise roles of the nine provinces and SALGA in promoting developmental local government are not clear.
- Cross-boundary municipalities are creating more problems than they solve. The government has finally acknowledged this. In its res-

olution of November 2002 the PCC stated that no municipality should straddle provincial boundaries, and that all these municipalities should be located under the jurisdiction of just one province.

- South Africa's current demarcation system has created many anomalies in respect of small cities and larger towns. They are being asked to deliver services to far greater numbers of people in far bigger areas. They also have to manage complex interactions with new and inexperienced district municipalities under whose jurisdiction they ultimately fall.

## Case studies: views from the coalface

*Brian Shepherd, chief financial officer of Buffalo City, outlined its main financial challenges:*

Buffalo City is an amalgamation of the erstwhile municipalities of King William's Town, East London, and certain rural areas of Amatola. It has a population of about 850 000 people, 65 per cent of whom live in urban areas, and the balance in villages and on farmland. About 43 per cent earn from nothing up to R800 a month, and about 21 per cent earn more than R3 500.

Buffalo City has an annual budget of about R1,3 billion (R1 billion operational, and R300 million capital). One third of this budget is funded from its own resources, and the rest from external sources. Government entities and the business community contribute about 46 per cent to the rates income, while residential customers contribute about 54 per cent.

The formation of Buffalo City has required the integration of three different financial systems, and the reallocation of many members of staff. Since SALGA and the National Bargaining Council have not yet finalised uniform conditions of service for municipal employees, employees are demotivated and insecure, and their performance has declined.

The amalgamation has not created new sources of revenue, and the municipality now includes large rural areas, many of whose residents have inflated expectations of upgraded standards.

Officials also need to get to grips with new legislation, such as the Municipal Finance Bill and the Rating Bill. A Rating Act is urgently required, so that rates and tariffs can be considered jointly and related to each other. Rating must also take equity issues into account, and be fair across the municipality.

Buffalo City has a 'pro-poor' policy in terms of which it is attempting to remove indigent people from the accounts system, leaving it free to concentrate on those who can afford to pay for their services. Municipal officials spent 90 per cent of their time dealing with the accounts of poor people who cannot pay. In the course of a 'pay-and-save campaign', an indigent population of 31 000 family units has been identified (25 per cent of these have turned out to be fraudulent registrations). Their arrears have been 'parked', effectively putting these debts on hold. These people now receive a R100 subsidy and free basic services regardless of their outstanding debt.

The municipality has directed its 'equitable share' allocation towards providing free basic water services, but is being squeezed by higher water prices charged by DWAF and the

water boards. The NER is discouraging tariff increases as part of an effort to make service more affordable to poorer people.

Buffalo City has a high debt burden, but is also finding it difficult to access loan funding. The DBSA offers project-oriented funding, which makes it difficult to roll out infrastructure in rural areas with poor income-generating potential. It is expensive to borrow from INCA.

Buffalo City's service arrears were more than R300 million at one stage, but are currently less than R260 million, and the downward trend seems to be continuing. Funding sources created at the central government level, such as the CMIP, require excessive paperwork, which retards the delivery process.

It will take time to align and restructure municipal budgets to accommodate IDPs. A backlog of more than R700 million has built up in expenditure on maintaining infrastructure.

*Dr Doreen Atkinson, a research manager at the Human Sciences Research Council (HSRC), explored challenges facing South Africa's smaller and more rural municipalities in the Free State and Northern Cape:<sup>22</sup>*

Some of the new amalgamated district municipalities are inordinately large in geographic terms – for example, Xhariep is the size of Hungary, Northern Free State has the same diameter as Belgium, and Namakwa is as long as Kansas. Some local municipalities are also vast: in the Northern Cape, some municipalities are built around three or four towns, and have diameters of up to 150 kilometres. Kopanong in the Free State is also 150 kilometres in diameter, and encompasses nine former municipalities.

The scale of administrative, IT, and financial integration has proved far more time-consuming and complex than envisioned by decision-makers. Funding is insufficient, management capacity is lacking, and it has proved very hard to integrate staff, computer systems, tariffs, and policies.

Financial management problems have been discussed at length, but other basic organisational and developmental questions seem not to have been addressed at all. These include the relationship between municipal head offices and outlying offices; the creation of co-operative mechanisms among municipal departments; and municipalities' public relations with their own communities.

Many of the old transitional local municipalities were bankrupt, which exacerbated problems of simultaneously undertaking both institutional amalgamation and financial reorientation. Often, the financial reserves of some better managed old municipalities have had to be used to pay the outstanding debts of bankrupt municipalities that now fall within the same new municipality.

Monumental institutional and political changes have occurred at the same time as these new municipalities have been asked to produce complex IDPs. Despite central government support via the PIMS centres, the process of writing IDPs has been difficult and protracted. It has been too abstract, too consultant-driven, and too ambitious. Many IDPs are merely 'wish-lists', lacking strategic vision, and emphasising infrastructure and job creation projects. Central government provides too little guidance on structuring municipalities to become the 'developmental agencies' which the 1998 white paper on local government intended.

Reasons for the generally low quality of IDPs include the tight March 2002 submission deadline; the understaffing, under-use, or inappropriate use of PIMS centres; the use of inappropriately skilled consultants to write IDPs; a lack of leadership and strategic direction from municipalities; a lack of involvement by national and provincial line departments; and very limited public participation, with some constituencies (especially farmers and farm workers) not represented, and business people only nominally involved.

These IDPs have raised enormous expectations and challenges, and the process has revealed just how little capacity new municipalities in South Africa have.

Central government provides too little guidance on structuring municipalities to become 'developmental agencies'



**Municipal staff lack experience in offering advice to entrepreneurs or in managing alternative private sector or community support for LED initiatives**

While new demarcations were necessary, additional management systems are needed to cope with them. Staff and councillors are overwhelmed by the organisational tasks. Ward committees are weak, and lack clarity on whether they are representative or implementation institutions.

The 'powers and functions' debate between category B and C municipalities is really about a recognition that each of the service sectors is unique, and that a differentiated solution is required for each sector. We cannot treat sewerage and electricity in the same way. District and local municipalities each have a role to play.

'Devolution by stealth' is a major problem in these smaller, more rural municipalities. This process describes departments making increasing demands on municipalities without realising the full implications of what they are asking. The evidence also shows that huge unfunded mandates are coming through the system, from environmental affairs to transport to water to finance.

National government has changed the way in which municipalities may use their 'equitable share', which is in effect a 'creeping assignment' of responsibilities, with damaging unintended consequences. Municipalities now have to use their 'equitable share' to subsidise the municipal accounts of indigent people. This has hugely increased the workload of officials, as indigents must be registered. These records need to be constantly updated, as people's employment circumstances change.

Informal sources of income are frequently ignored, due to the administrative challenges posed. This means that the numbers of indigents are inflated, which puts further pressure on the system, and undermines municipalities' revenue base.

The DPLG has made large grants available to municipalities to promote LED, but municipal staff lack experience in offering advice to entrepreneurs or in managing alternative private sector or community support for LED initiatives. Here 'creeping devolution' has damaged local government's ability to 'get the

basics right' by weakening their administrative capacity. Often municipalities would benefit more from LED management training than from project money that they cannot use effectively.

All this talk about IDPs will be pointless unless national government faces up to the fact that many municipalities, as currently structured, funded, and supported, simply cannot become the developmental agencies that the white paper on local government envisaged them to be.

If South Africa remains wedded to this model of local administration, huge sums of money and even larger quantities of administrative skill and public patience will be required.

*What does the current demarcation mean for secondary cities? Dr Tim Clynick, senior manager at CDE, spoke on the Mbombela local municipality's experience of local government reform:<sup>23</sup>*

Situated in eastern Mpumalanga, within the Ehlanzeni district municipality, the local municipality of Mbombela consists of the towns of Nelspruit and Hazyview, the former White River/Nelspruit transitional representative council (TRC) areas, and one third of the former 'homeland' of KaNgwane. While Nelspruit has a population of 35 000 people, 85 per cent of Mbombela's population of about 600 000 people is from the former KaNgwane.

At present, 58 per cent of the municipal population live in dense urban informal settlements. Poverty is acute in these areas, as well as on commercial farms and in tribal villages. Outside Nelspruit, Hazyview and White River for example, 90 per cent of households spend less than R3 500 a month.

Mbombela is cash-strapped, and has cash flow problems. The municipality is too big, and houses too many people. Research conducted for CDE indicates the following key financial indicators for Mbombela:

- Cash reserves are very low (about R3,6 million).

- Capital expenditure is also low (R90 million) versus an operating budget of about R350 million. About 82 per cent of capital expenditure goes to basic needs, almost exclusively rural roads, water, and sanitation.
- Mbombela's main sources of income are electricity (37 per cent) and property rates (24 per cent), which must now finance services to a huge new population.
- Bad debt stands at R89 million, up from R54 million in December 2000.
- Overall payment levels are about 88 per cent (2001–2), but range between 15 and 35 per cent in several heavily populated informal settlements.

Mbombela cannot manage this region financially. It cannot generate sufficient revenue from water or electricity, as a wide and varied range of service providers deliver these. Up to 70 per cent of Mbombela's households do not own land on a freehold basis, which effectively exempts them from municipal rates.

Most water is delivered beyond the formal urban areas; it is not co-ordinated by the municipality, and is therefore not billable by it or even by the service provider (mainly DWAF).

There are thousands of illegal water connections in Mbombela, and many people do not pay for services. In September 2001 bad debt was 65 per cent greater than anticipated in the budget. Many people receive no sanitation services.

Since its formation in December 2000, the new municipality has been extremely busy. It has produced a 'pro-poor' budget, an IDP, linked its IDP to its three-year budget, and compiled a comprehensive LED plan. It supports a series of CBD interventions in its urban centres, has established links with business, including small business, filled 86 per cent of its organogram, and appointed a senior management team.

Despite these inputs and programmes, the municipality has experienced serious problems, including the high cost of municipal amalgamation. Crime is rising, yet plans for a municipal police force was dropped for cost

reasons. HIV/AIDS will have an enormous impact on Mbombela. The municipality has struggled to implement employment equity, fearing its impact in terms of experience and skills shortage.

To illustrate just how critically understaffed the municipality is in key areas, Mbombela has only three planners (one per 200 000 people), three electrical engineers (one per 200 000 people), four civil engineers (one per 150 000 people), six building inspectors (one per 100 000 people) and 16 traffic officers (one per 37 500 people).

'Powers and functions' problems arise in terms of whether delivery of water, sewerage, electricity, and public health services should be delivered by Mbombela or by the district municipality, Ehlanzeni, within which this local municipality falls. These problems have definitely compounded service delivery issues, despite a relatively good relationship between the local council and the district municipality.

Manifestations of these problems include: splitting scarce resources (for example should Mbombela's Regional Services Council levy be spent within the municipality or spread to needier parts of the district?); duplicating staff positions; a failure to co-ordinate planning; and indecision over powers and functions in respect of service delivery.

The municipality's 'pro-poor' budget provides only R1 million to cover 10 000 households. It has a potential rates base of about 100 000 people; however, just one third appear to be receiving regular municipal accounts.

Mbombela has no final property evaluation roll for the entire area under its jurisdiction. There are no big industries to cross-subsidise tariffs.

All in all, given Mbombela's high levels of poverty and low levels of payment, it will be hard to sustain even minimum services. Nelspruit, the capital of Mpumalanga, and a key economic node, simply does not have the resources, staff, or expertise to adequately serve this enormous and impoverished new municipality.

**Given Mbombela's high poverty levels and low payment levels, it will be hard to sustain even minimum services**



## Has the 'powers and functions' issue been resolved?

Government officials and others have questioned whether these reforms will strengthen or undermine the financial viability and effectiveness of local government

In October 2000 the Municipal Structures Act of 1998 was amended to provide for the transfer of powers and functions in respect of primary services – ie water, sanitation, electricity, and municipal health – from category B to category C municipalities. The underlying idea was that district municipalities would eventually act as 'service authorities', and local municipalities as 'service providers'. The detailed transfers would be effected by ministerial authorisations in terms of the act.

On 28 November 2000 – on the eve of the local government elections – the minister authorised the maintenance of the status quo for a transitional period of two years; ie, services would be delivered in the same way, and within pre-2000 boundaries, thereby minimising disruptions, and giving new municipalities time to establish themselves.

On 7 November 2002 the minister issued a new set of authorisations. In an apparent response to widespread criticism, powers and functions were not all transferred to district municipalities; instead, they were differentially transferred in the various sectors, and also in respect of different municipalities.

However, both the amendments to the act and the new authorisations ignored the recommendations of the MAC, which had found that the transfer of the most significant local government functions from local to district municipalities would raise serious problems of accountability, undermine the vertical redistribution of resources as well as effective service delivery, effectively create four levels of government in a developing country – which could scarcely be afforded – and lead to economic distortions. Instead, the MAC recommended that the DPLG should permanently restore the status quo ante – ie, permanently restore major service delivery functions to local municipalities.

In its November 2002 authorisations, the DPLG chose to 'partly extend' the 2000 authorisations, 'thus prolonging the agony of uncer-

tainty which local municipalities face over their powers and functions,' according to the chair of MAC, Peter Leon.<sup>24</sup>

The new authorisations have these effects:

**Electricity:** Provided a local municipality supplied electricity to consumers prior to December 2000, the *status quo ante* remains. This means that electricity will continue to be supplied by almost 300 suppliers, comprising ESKOM as well as local municipalities which buy bulk electricity from it. As plans are being made to restructure the entire electricity industry, the *status quo* has been preserved in order to avoid 'double restructuring'.

**Health:** Control over municipal health – defined as 'environmental health services' – has been transferred to district municipalities. However, the latter may appoint local municipalities as service providers. Municipalities currently delivering health services beyond 'environmental health' should continue to do so, but should begin to enter into service agreements with provincial government. The *status quo* will continue for a transitional period until 1 July 2004. In the interim, municipalities are compelled to continue providing services at the current levels.

**Water and sanitation:** These will now be linked functions. Certain B municipalities have been authorised to act as service authorities as well as service providers. They may make policy in respect of tariffs; determine tariffs; appoint service providers; and must plan, budget for, and regulate this function. Various arrangements may be made to ensure continuity of service delivery. For example, a C can appoint a B as a service provider, or multijurisdictional service delivery options may be pursued, involving a number of Bs or even Cs.

This system of service delivery is extremely complex. Both government officials and others have questioned whether these reforms will strengthen or undermine the financial viability and effectiveness of local government.

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## What does the private sector need?

**Professor Jeff McCarthy**, research fellow of the Graduate School of Business, University of Durban-Westville, elaborated on the pre-conditions for private sector investment at the local level:

Eighty per cent of economic development (employment and fixed investment) within South African municipalities depends on the private sector. This is consistent with international patterns. The private sector is not, however, a vocal role player in debates about local government; it only becomes vocal when things go wrong.

South Africa's graduate business schools generally ignore the relationship between private sector profit and local government. It is taken as a given that business goes where there is well-developed and stable local government. There is a theory for this: business responds to incentives based on 'return on assets managed', or ROAM.<sup>25</sup>

Local government matters to business in three primary areas. Firstly, businesses seek operational efficiencies; ROAM is constrained when the local environment has problems in delivering services. Secondly, businesses want capital appreciation; when capital depreciates, it moves elsewhere. For example, several significant South African companies have migrated capital to London in search of ROAM. Thirdly, business people pursue quality of life. The efficiency of local government is crucial to attracting the most skilled employees.

Pragmatic coalitions – co-operative agreements towards realising joint projects and purposes – offer the best prospects for positive interaction between business and local government. In some South African municipalities, leading business people and mayors boost each other, and co-operate around projects. This represents the start of 'growth coalition-building'.

However, the relevant role players have generally failed to think through the techni-

calities and modalities of the negotiation and collaboration needed for pragmatic growth coalitions to emerge in our towns and cities.

South Africa needs a sustained period of town and city rebuilding that will require further capital investments, and a focus on sustainable developmental projects.

We must learn from what has occurred internationally. A crucial area of neglect in South Africa is a failure to understand the role merchant banks have played in rebuilding many of the greatest 21st-century world cities.

**Colin Batchelor**, managing director of Biwater, a multinational involved in supplying water to the town of Nelspruit and surrounding areas, outlined some of the problems his company has experienced in dealing with local government:

Biwater, a multinational water treatment and supply company, was established in the United Kingdom in 1968. It has grown substantially over the past 35 years by acquiring established companies, forming joint ventures, and increasing its own expertise. It was involved in the privatisation of Britain's water in the late 1980s and 1990s. It has operated in more than 60 countries, and has more than 25 businesses worldwide. Since 1998 water in Nelspruit has been supplied by the Greater Nelspruit Utility Company – a joint venture between Biwater and a black empowerment group, Sivukile.

There seems to be a perception that private sector firms are out to exploit their municipal customers. This is a counterproductive view. In reality, the private sector wants to sustain the customer. The private sector is committed to the long term, for sustainable revenues and profits.

There is a lack of trust and honesty between local government and business. Local government often tries to hide its problems. This heightens mistrust, because

There seems to be a perception that private sector firms are out to exploit their municipal customers

**Business people sometimes get the feeling that the government only wants to talk to the private sector as a last resort**

important technological and financial facts are concealed from potential business partners.

Private sector objectives are linked to growth and profit. Local government necessarily has different objectives, but there is common ground between those two agendas. This is when partnerships work; they emerge from trying to understand and be sympathetic to each other's point of view. This would be conducive to better growth and a 'win-win' situation.

There is a lot of anti-privatisation propaganda in the media, and among government representatives. Business people sometimes get the feeling that the government only wants to talk to the private sector as a last resort; if it could do everything alone, it would not want the private sector anywhere near. Its attitudes are often shaped by inaccurate information.

Without business there would be no employment, no taxes, and no public salaries; there would in fact be no local government. We need to re-examine the rhetoric, and how we communicate.

The private sector is not really focused on local government. But it should not be left out of the loop, because it is often willing and able to contribute. The private sector is often forgotten in consultative processes.

Communicating the 'free water' concept to the public was totally mismanaged. It became a political flag-waving exercise. Service providers in the country, whether municipal or private, sustained losses as people everywhere stopped paying water bills, because the newspapers said that water was free. This undid several years-worth of educating communities on the need to pay for services.

IDPs seem like state secrets; they are not easily and freely available. The information needed for approaching bankers and mobilising other resources is not available. Town clerks do not reveal their capital budgets.

Decision-making is painfully slow. On the Nelspruit water concession, it took between December 1996 and March 1999 for the con-

tract to be awarded – that is, two and a half years of having merchant bankers and commercial lawyers on retainer. It was a very expensive process, with no certainty in it at all.

We need to encourage and put resources into specialist think-tanks or institutions such as the MIIU. High-strength skills are not needed constantly in all places, so let us create focused skills centres that people can use when they need it.

There is also a sense of 'local is inferior'. Due to very stringent requirements, local companies were effectively excluded from bidding for the Johannesburg water tender. Few companies in the world would have qualified. Too many people believe South Africans cannot do it.

Local government needs to realise that private enterprises are not confined to South Africa, and that there are public entities elsewhere vying for their services. In 2002 Biwater South Africa did 99 per cent of its business outside the country.

Every time you talk to a local municipality, there's a long waiting list, lots of secrecy, and not much encouragement. If you want delivery in South Africa, this will have to change.

***James Dohrman, project manager of the IIU, outlined its work in infrastructure development:***

The department of constitutional development, forerunner to the DPLG, created the MIIU in 1998 to help municipalities assess service delivery via partnerships. The MIIU is an independent section 21 company, but takes its direction from the DPLG. It is an on-the-ground implementing mechanism for DPLG policy on municipal services.

There is significant city-building going on in South Africa. Over the past four years the MIIU has completed 56 projects in all nine provinces, and currently has 68 active projects throughout the country. Almost half are in the solid waste sector. MIIU has mobilised R3 billion for basic services, and R7 billion for all projects. There is a lot of interest from

municipalities in putting together municipal service partnerships.

Many MIIU projects are in the Western Cape; this is because that province has more capacity than most others, and also a higher income base, which make partnerships easier to forge. It is much harder to establish partnerships in rural areas in the Northern Province or Mpumalanga, for example. The culture of non-payment for services in those areas further exacerbates those problems.

The MIIU decided to begin implementation concurrent with the policy-making process, rolling out while the legislation was being written. Mistakes were made, for example on the Dolphin Coast and in Nelspruit, but current legislation is better because it embodies the lessons learnt from these experiences.

MIIU activities include the following:

- It has helped to implement the first multi-jurisdictional municipal service district, in KwaZulu-Natal, where three district municipalities now jointly administer water services. A total of R17,5 million of DWAF and EU funding was leveraged in this project.
- It has helped to privatise Johannesburg's Kelvin Power Station, and similar plans are being made for Cape Town's Athlone Power Station. About R2 million a year will be saved.
- It is helping Nelson Mandela Metropolitan Municipality to develop a hazardous waste facility for Coega.
- In Potgietersrus, it is structuring a unique partnership between the Anglo Platinum mine, the local and district municipalities, and the Water Board. Anglo has agreed to pay for a new pipeline, as its growth opportunities would otherwise be restricted.

Mistakes were made, for example on the Dolphin Coast and in Nelspruit, but current legislation is better because it incorporates lessons learnt from these experiences

## Round Table discussion

*Yunus Carrim, chair of the parliamentary portfolio committee on provincial and local government, commented on the importance of acknowledging the context of local government reforms, as well as the apparent lack of a common sense of values and perspectives:*

The Municipal Structures Act was not amended to expressly transfer power from local to district municipalities. Districts are necessary in a developing society with huge income inequalities. District municipalities are not unique to South Africa. Many countries, including Spain and Germany, have a form of regional local government. District municipalities can support local municipalities in many ways, including through capacity-building, and a modest level of redistribution.

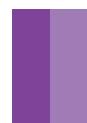
As the minister said, when assessing local government transformation, we cannot only look at technical-rational criteria. Local government transformation must be located in the broader context of what the ANC calls

the 'national democratic transition'. The proper implementation of the new local government system could take 10 to 15 years.

As suggested earlier, it is true that we haven't done enough around what people refer to as the technical-rational side. The DPLG would probably acknowledge this. I don't think the DPLG is coming on board to the extent that it should. At the same time, there are many things that have been said here that don't cover what they actually do.

While accepting that more should be done about the technical-rational side, we should not imply that there is no national direction. In respect of municipal services, there is the national framework agreement negotiated at the end of December 1998 to provide for municipal partnerships, the white paper on municipal service partnerships, the Municipal Systems Act, the MIIU, and so forth.

The suspicion between the private sector and labour has actually abated substantially since 1994. Improving the situation in this sphere as well is our collective responsibility.



**A significant minority of local municipalities, especially the larger and stronger ones, questioned the need for district municipalities**

There are also many examples of the private sector failing to come on board.

What is the alternative to 'wall-to-wall' municipalities? Nobody offers an alternative that is democratic. The two-tier system has been introduced precisely to address the urban/rural divide.

For example, Pietermaritzburg-Msunduzi now has to take responsibility for rural people, previously just outside their boundaries, within the Mgungundlovu district municipality.

I think the DPLG's core policies are intact,

and are not up for review. They have been painstakingly negotiated from 1992 onwards in a forum that ran parallel to CODESA. Crucial now is the concerted effort towards implementation of these policies by us all. Through their implementation, instances of policy review will arise. It is not so much through abstract discussions, however valuable, but through experience that we will discover the weaknesses and frailties of the model, and how to address them.

People are talking past each other. Role players must make a greater effort to

## Parliamentary study tour, 2003<sup>26</sup>

In January 2003 the parliamentary portfolio committee on provincial and local government undertook a study tour of municipalities and related institutions throughout the country. Committee members interacted with 61 municipalities and more than 2 200 people, both at the local and provincial level. Their report was released in May 2003. Key findings include:

### Powers and functions

Relations between district and local municipalities varied from cordial and co-operative to conflictual and unproductive. Most municipalities expressed concern about the lack of clarity on the division of powers and functions between district and local municipalities. A significant minority of local municipalities, especially the larger and stronger ones, questioned the need for district municipalities.

### Integrated governance and planning

Almost all municipalities had completed their IDPs, but many acknowledged that they were of poor quality. Several said they had sacrificed quality to meet impossible deadlines set by the DPLG. Several said the IDPs of district municipalities and local municipalities were poorly aligned. Municipalities were aware of

the need to link IDPs and budgets, but most had not done so adequately. They said it was difficult to do so when provincial and national government did not allocate money to municipalities in terms of the priorities identified in their IDPs, often doing so in an ad hoc manner.

Almost every municipality complained that provincial and national government largely ignored their IDPs, and went ahead with programmes and projects that were not consistent with their IDP priorities.

### Local government finances

A new financial system for the new model of developmental local government was urgently needed. Most municipalities had credit control and debt collection policies, but did not implement them effectively. A significant number said they were not yet billing everybody receiving services, as they did not have proper systems in place. The biggest problems were in the rural areas, where no legal or administrative structures existed.

Several municipalities said they lacked suitably qualified personnel. One said it had two meter readers for more than 540 000 people.

Many municipalities pointed out that the introduction of free basic services had served to discourage residents from paying for services. Many complained that national and provincial govern-

concentrate on the pragmatic, working partnerships mentioned.

The local government transformation exercise has been extremely ambitious and complex. In some senses, I think we have exceeded our expectations, while in others we haven't, and we have to pose the appropriate questions. I also want to stress the magnitude of the transformation. Many people, including CDE, have spoken of the largest and most complex institutional challenges in the history of this country, and they are right. We must acknowledge our achievements,

which are admired by many from abroad. No other developing society has done this.

Frankly, even the most industrialised countries would find it very challenging.

For developmental local government to work, national and provincial government must come on board to a greater extent than they have, and communities must get more involved. Human capital is crucial to success. All South Africans are part of this society, and are obliged to help improve it.

Some of us feel that, besides the national treasury, the most important government

**Almost all municipalities said their 'equitable share' allocations were far from adequate for providing free basic services**

ments failed to pay them for rates and services and for agency functions performed on their behalf. They also said they had to bear the administrative costs of housing delivery, without receiving any additional financial support for this from the provinces.

The committee concluded that, unless 'drastic steps' were taken, some municipalities without the most minimal financial, economic, or revenue base would simply not be viable.

### Service delivery

Ultimately, the report noted, the test of the new system of local government would be the extent to which it would lead to substantial improvements in service delivery and development. While municipalities had made significant progress, especially in delivering free basic services, they still had a long way to go, and needed far more assistance from national and provincial government and other stakeholders. Almost all municipalities said their 'equitable share' allocations were far from adequate for providing free basic services. They also expressed concern about the impact of the restructuring of the electricity industry on their provision of free basic electricity, and about having to take over water projects and schemes from DWAF as from 1 July 2003.

### Relations with provincial governments

Relations between municipalities and provincial governments varied. Several municipalities said

while they received useful support from their provincial department of local government, other provincial departments were not co-operative.

The representatives of some municipalities suggested that provinces or their provincial departments of local government did not have the capacity or the funds to support them. Others spoke of poor communication between provincial departments and municipalities.

### Overview

The committee found that the new local government system was 'fundamentally sound'. Legislation needed to be amended in some respects; however, the major challenges did not centre on conceptual and policy issues, but on implementation.

Despite their limited resources and capacity, municipalities had made some progress. However, they had to become 'significantly more effective'.

A greater understanding of the need for the two-tier system had to be engendered among councillors, officials, communities, and other stakeholders.

However, DA committee members believed the two-tier system was 'fundamentally flawed', and that district municipalities should be phased out as soon as possible.

CDE 2003



**There is an urgent need to develop a common vision of LED**

department should be the DPLG. After all, it deals with whole spheres of governance. In a sense, other departments should be subordinate to the DPLG, as was once envisaged for the RDP department.

The debate at this workshop has been unduly polarised. It is not about 'either-or', but about balance: delivery and growth, income and expenditure. The urban–rural divide must be addressed. The new municipal boundaries include rural areas. We are not 'Pol Pot-ists', wanting to destroy the urban areas. We are seeking to reduce these divides in a sensible manner.

I endorse this idea of working partnerships. CDE is an independent organisation; it should feel free to speak its mind, and it does not need to apologise. But that must be balanced with a basic understanding that, for co-operation with the department and politicians, there must be a shared national consensus, and shared values.

### Points made during discussion

- Ideology has undermined trust between the government and its political supporters on the one hand, and the private sector on the other. However, mutual suspicion has diminished substantially since 1994: improving the situation is a collective responsibility. Honest exchanges, such as this Round Table, are now required.
- Institutional forums where a public–private 'marriage' can start happening, in order to develop the technicalities and modalities of co-operation, do not yet exist. NEDLAC is not working in this respect. The DPLG must help to facilitate these conversations, and leave others to roll out projects.
- By setting up the innovative MIIU, the DPLG has taken a significant first step towards working with the private sector. The MIIU has freed the department from running around municipalities and having to look at the details of contracts.
- The DPLG has also created the South African Cities Network as a forum for bringing cities together to discuss common

interests and concerns. The department will soon launch a knowledge-sharing facility, aimed at helping non-metropolitan municipalities, and promoting interaction among municipalities, other spheres of government, and the private sector.

- Partners will apply different criteria to assessing the success or failure of LED. Because of this, there is an urgent need to develop a common vision of LED. The public sector often neither understands nor likes markets and the people who drive them. Markets seem to have negative consequences for many communities. Municipalities often apply invalid criteria: they try to attract investment from Chinese-like 'smoke-stack' industries, or chase after tourism projects. Organised business representatives in cities often behave like petty ratepayers, with a very narrow focus on small parts of the city. Businessmen only home in on the bottom line; they lack breadth of vision.
- The ROAM concept is useful for helping the government to understand what business needs. Separate LED units focusing on so-called community development or poverty-reducing projects do not contribute to sustainable economic growth. The government should do away with LED units, and ensure that all resources and capacity are focused on promoting economic development.
- Small private sector projects will seldom have the clout and leverage of big corporates in getting the attention of local authorities for the infrastructure they require. Local environments must be more conducive to attracting and retaining smaller projects. For example, many businesses and property owners in Johannesburg have established and funded city improvement districts, an indication that local government is not adequately managing the public domain.
- The private sector and its property rates base will become increasingly important to local government as the provision of electricity, water, and all the utilities start to impact heavily on municipal expenditure, without commensurate revenue.



## Priorities for action: different views

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### CDE's view

We need to acknowledge the extent and complexity of the tasks addressed by the DPLG, ranging from complicated administrative amalgamation, through extending services to underserviced and poor areas, to local economic development and the modernisation of local administrations.

Considerable progress has been made. Since 1994, two successful municipal elections have been held. Financial management systems have been put in place, and legislation now before parliament proposes common guidelines for the management of local authorities' financial affairs, their accountability to provinces, and the fiscal circumstances that will trigger intervention by the national treasury in the case of financial mismanagement. Central government now has a system for transferring money to local authorities, which is being streamlined and consolidated. The DPLG is managing capacity-building programmes for local councillors and officials, aimed at helping them to meet their complex new responsibilities.

No one can doubt the enormous effort being made by committed officials of the DPLG. The minister has generously given of his time to participate in this Round Table, as have senior DPLG officials and the chair of the parliamentary portfolio committee, who has helped to organise it. The DPLG has shown a willingness to engage with the private sector and others on issues of mutual interest and concern.

### Fundamental debate required

Since 1994 the government has guided South Africa away from a segregated, fragmented, and discriminatory local government system towards a single, unified, and non-racial one. This is a considerable achievement. Democratic local government is available to all, and the systematic denial of municipal services

and governance to millions of South Africans on the grounds of race and residence has been reversed. This component of the new framework for local government is one that CDE wholeheartedly endorses.

The second component of a new framework relates to how to demarcate local municipalities throughout the country; deal with rural and urban issues in the context of local government; think about redistribution at the local level; and equalise access to services and resources. These are more difficult issues. And it is here that CDE has fundamental questions about the wisdom and feasibility of the new demarcations, the idealistic assumptions about how development and services could be extended beyond the formerly privileged core urban areas, and similarly idealistic aims for developing rural and small-town South Africa.

The new demarcation has dramatically reduced the number of municipalities. Many of them are now very large and diverse, straddling urban and rural areas. Some even fall across provincial boundaries, but are still required to deliver uniform services, which is very difficult. District municipalities are also responsible for very large areas: they are entirely new structures whose strategic role has been hampered by the uncertainty and conflicts surrounding the allocation of powers and functions to them and to local municipalities.

The local government framework assumes – wrongly, in our view – that South Africa's smaller cities and bigger towns have the financial resources to provide basic services to large numbers of poor people in surrounding rural areas. The framework also assumes that this can be done without undermining the economic growth potential of racially integrated urban areas – the very urban entities that will drive growth and job provision for their larger regions. The demarcation assumed that new municipalities would have the administrative capacity and systems

CDE has fundamental questions about the wisdom and feasibility of the new demarcations, and the assumptions that underpin them

The effects of mistakenly expanding the boundaries of urban local authorities far into rural South Africa will be felt in urban and rural areas

needed to grow their revenues and distribute their 'equitable share' allocations to poor and rural people. However such administrative capacity rarely exists at the level of sophistication required, and the DPLG has failed to address this issue adequately. (The national treasury has been addressing the issue of financial management skills.)

The effects of mistakenly expanding the boundaries of urban local authorities far into rural South Africa will be felt in urban and rural areas. The needs of growing urban

centres such as Nelspruit differ greatly from the needs of rural areas in the former KaNgwane. Putting the two together and hoping that a single council will be able to deal with the demands of urban expansion on the one hand, and those of rural development on the other, will end up harming both these necessary objectives. The consequences will be detrimental to the poor, and will undermine growth and prosperity in urban and rural areas.

To question the approach to demarcation

### CDE's view: the key points

- The government has correctly moved towards creating a single, unified, and non-racial local government system. However, the fiscal and demarcation aspects of the current model are inadequate, will not deliver what is being promised, and are not sustainable.
- Many new municipalities are very large and diverse, and straddle urban and rural areas. Some overlap provincial boundaries. Single local municipalities are now expected to deal with the demands of urban expansion and rural development, without a commensurate growth in administrative capacity and financial resources.
- The urban centres included in new local municipalities cannot sustain the delivery of uniform services across those municipalities, particularly free basic services to the poor, while continuing to make the investments necessary to grow local economies.
- The national government seems to regard private participation in LED as a last resort. Rather, the private sector's role in urban and rural development needs to be spelled out unambiguously, and discussions held on how to improve its involvement in development.
- Municipalities rarely have the administrative and managerial skills they need to grow their revenues, bill consumers for services and collect the payments, effectively use the public and private resources available, and distribute resources and services to poorer and more rural populations.
- IDPs reflect this lack of skills, as well as unrealistic growth and development expectations. They also reflect a suspicion of the private sector, which is apparently widespread among national, provincial, and local officials.
- District municipalities are institutionally weak instruments for co-ordinating municipal planning, and ensuring district-wide economic growth and development. Efforts to establish a sound financial base for district municipalities by designating them as primary service authorities are having detrimental effects on many local municipalities, particularly those including secondary cities. This issue needs to be discussed and resolved.
- Government as a whole needs to develop its vision of local government, define who has to do what, and what funding and support should be available to local authorities. Without a clear understanding of the role of local government, it will be difficult to develop the appropriate skills – for example, it is not clear whether direct service delivery skills or contract management skills should be developed.
- Local governments must explore more systematically the opportunities for outsourcing certain functions, while developing the skills needed to manage those contracts.
- The role of the DPLG needs to be clarified, so that its tasks become more manageable. The DPLG

and the assumptions about governance and redistribution on which it is based does not mean that we question the principle of non-racialism, or the inclusion of rural South Africans in an expanding network of opportunities. But we are asking whether the fiscal, financial, and demarcation aspects of the current local government model are adequate, will deliver what has been promised, and will be sustainable in the long term.

There is no doubt that the issues are complex, and that more detailed information is

required on the situation in different parts of the country. This, in turn, requires more intensive research. Many of the challenges raised by private sector players and other experts in the course of the Round Table are clearly subsidiary to the 'framework' issue. These include the difficult issues arising from the way in which the establishment phase of the newly demarcated local municipalities has been handled, including the vastly inadequate provision of 'once-off' establishment funding and its knock-on

The fiscal and demarcation aspects of the current model are inadequate, will not deliver what is being promised, and are not sustainable

must approach its functions more strategically, and manage the support programmes of other national departments within an overall strategic framework.

- The DPLG must also establish the broad principles within which local governments should operate, drawing a line between what local authorities and communities should decide themselves, and what is appropriate for the DPLG to do. The institutional mechanisms for local accountability and adequate decision-making, such as ward committees and development and business forums, need to be strengthened.
- Government and the DPLG is operating without a clear urban policy or rural strategy, which has major negative implications for the country's approach to local government. Municipal demarcations are a case in point: urban and rural areas with very specific growth and development needs have been grouped together.
- Besides the current emphasis on municipal expenditure, there is a need to focus on income. This relates to the need for greater economic activity and its associated revenue benefits, but also to billing and debt recovery. The municipal revenue enhancement programme (MREP) initiated by the department is a step in the right direction; however, is it enough, and is it being implemented with enough drive and urgency?
- The current financial model for local

government and the adequacy of national funding via 'equitable share' allocations and capital grants need to be urgently discussed. A clear statement of the principles that will guide such a review and the resolution of this problem proposed in the immediate short term is required. Care must be taken to limit political pressures that may undermine local government reforms, such as the provision of free basic services to the poor, which have resulted in many non-poor consumers suspending their services payments.

- HIV/AIDS and its impact on local government (on officials, politicians, revenue, growth in indigent populations, welfare implications, smaller towns, health services, and urbanisation) needs considered and urgent attention.
- The maintenance of existing municipal infrastructure is particularly important; many municipalities are being encouraged to spend their own capital and CMIP grants on new infrastructure, but not enough attention is being paid to maintaining existing public resources in municipal budgets or in the present round of IDPs.
- Urgent attention must be paid to the claims by municipalities that many national and provincial 'support' programmes are 'unfunded mandates', and/or represent a 'creeping assignment of functions'.

CDE 2003



## Is the department trying to do too much, and is its conception of its role the most productive one?

effect on municipal budgets and staffing costs. Other issues arise from the government's underestimation of the complexity and skills required to integrate formerly segregated administrative and financial systems, and simultaneously implement new and complex comprehensive development plans. There are also concerns about the leadership capacity of the new municipalities, both political and administrative.

However, if we do not grasp the nettle and attempt to resolve these fundamental questions, exhorting local municipalities to work better, harder, or smarter will be in vain. And local municipalities in many parts of the country will not emerge as the developmental agencies that the white paper on local government envisaged, and the country needs. Even worse, some municipalities with real growth potential will be hampered (even crippled) by the fiscal and other consequences of demarcation.

### *Areas of concern*

The Round Table indicates that there is a high level of consensus among government officials, local councillors, members of parliament, and private sector figures about the nature of the challenges facing local government. However, this consensus breaks down when we come to the question of how we should proceed.

Reflecting on the day, CDE has a number of concerns:

**1** What role is the DPLG playing, and what role should it play? Clearly, it must provide certain core functions, such as formulating appropriate legislation and, together with the national treasury, devising the financial system within which local governments must operate. It must establish the broad principles within which local authorities need to operate – such as equal opportunities irrespective of race, and the approach to service provision. It should ensure that there are sufficient training opportunities for people involved in local government; sufficient

national resources for local authorities; and an adequate framework for good governance. It should also ensure that essential information about what is happening in local areas around the country is available, and publicise success stories and innovations so that others can learn from them. However, a line must be drawn between what is appropriate for a national department to do (ie, provide the appropriate frameworks – legal, financial, and good governance – and ensure that the resources, financial, training and networking are available if required by local authorities) and what local authorities and communities should decide themselves. Is the department trying to do too much, and is its conception of its role the most productive one?

**2** Far more attention needs to be paid to the 'local' component of the third sphere of government. It sometimes seems as if we all think of 'local government' in a manner akin to 'the civil service', or 'the public sector'. The fact is that local is particular, and we need to free up local areas to do what they think is best under their particular circumstances. Why, for example, are local government salaries and conditions of service determined nationally? This must be one of the major causes of the growing size of the local government salary bill, which recently alarmed the minister of finance. Within the ambit of the constitutional principle of integrated, non-racial municipalities, and the legal and financial frameworks laid down by national departments, communities should choose their own priorities, decide what they are prepared to pay their politicians and officials, and get on with local development in the way they think best. If there is a concern about exorbitant salaries, the national treasury should set a ceiling – ie, a maximum that cannot be breached. Many municipalities will fail, but many are failing now. However, some will succeed in improving the quality of life, opportunities, and services in their area, and these successes will indicate the best way forward. Existing mechanisms for enhancing community participation and decision-

making, such as ward committees, will need to be revisited, so that municipalities and individual councillors can account directly to those who elect and appoint them.

**3** The most important issue facing all local governments in South Africa is economic development. Without economic growth, cities and towns will struggle to provide for their inhabitants. The Round Table has revealed a disturbing lack of focus among national and local officials on economic issues, a growing disillusionment with the current LED approach, and an ambivalent attitude towards the private sector. Presently, the national government seems to regard private participation in LED as a last resort (section 78 of the Municipal System Act requires municipalities to first consider 'internal solutions'). Participants from the public and private sectors were sometimes antagonistic towards one another.

Statements by private sector participants about their 'other options' for investment besides involvement with suspicious and unenthusiastic local governments seemed to go unheeded. What is required is for the national government's stated commitment to growth and its appreciation of the drivers of economic activity to be communicated much more effectively through the DPLG and senior ANC officials and politicians. A far deeper understanding of the private sector's role in urban (and rural) development is urgently needed, as is considered discussion – building on local and international experience – about how best to develop it.

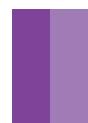
**4** One of the major difficulties is that, notwithstanding its current nodal approach to urban and rural development, the government is operating without a clear urban policy or rural strategy. This has major implications for the country's approach to local government; far too many issues are being shifted on to local authorities because there is no comprehensive strategic approach to urban and rural development that, among other things, clarifies the appropriate role

and function of different national departments, the provinces, local authorities, private sector players, households, and individuals. How we think about local government must be integrated with and supported by well-thought-through and effectively communicated national and provincial programmes and policies. This is not happening at present, which partly explains the shortcomings of the IDP process as it affects local and district municipalities, provinces, and national departments. The situation is complicated further because the country does not have an urbanisation strategy, a serious shortcoming that has resulted in municipal demarcations with significant negative consequences for the country's large towns and cities.

**5** The capacity and skills constraints on local governments need to be more clearly recognised. This is not the fault of the department, but of apartheid and the crime of 'Bantu' education. They are realities nonetheless, and some time will elapse before 'learnerships' and other initiatives undertaken by the local government sector education and training authority take effect. The implications for our ambitious local government framework are far-reaching. Local governments will have to look hard at ways to retain skilled staff, attract newly qualified professionals, and reduce staff costs. Unless we have a clear understanding of the role of local government, it will be difficult to quickly develop adequate skills – for example, should we develop direct service delivery skills or contract management skills?

Local government will also have to explore far more systematically and enthusiastically the opportunities for outsourcing and contracting out certain functions, while developing the skills needed for managing those contracts. And local councils will have to think hard about which development programmes can realistically be implemented with present resources. Again, the right approach to partnerships and the involvement of the private sector is essential.

The Round Table has revealed a lack of focus on economic issues, disillusionment with the current LED approach, and an ambivalent attitude towards the private sector



CDE is willing to help facilitate a more intensive engagement between private sector players and the government

**6** The Round Table has brought to the fore a number of other issues. It is clear that local authorities should pay far more attention to their incomes, as against the current emphasis on expenditure. This relates to the need for greater economic activity and its associated revenue benefits, but also to billing and debt recovery. The MREP introduced by the department – aimed at addressing escalating levels of municipal debt, and improving municipal revenues – is a step in the right direction. But does this go far enough, and is it being implemented as vigorously and quickly as it should? The question of HIV/AIDS and its impact on local government (officials, politicians, revenue, growth in indigent populations, welfare implications, smaller towns, health services, and urbanisation) needs considered and urgent attention. The maintenance of infrastructure is also particularly important; not enough attention is being paid to this issue. Lastly, the complicated and large-scale impact of 'unfunded mandates' needs immediate attention.

**7** Government as a whole needs to further develop its vision of local government, define who has to do what, and clarify the funding and support available to individual local authorities. In the process, the role of the DPLG needs to be clarified, so as to ensure that its task is a manageable one. There is no point in loading endless tasks on to this department and local governments if they operate within an inadequate framework, or don't have the capacity to deliver.

This Round Table was an important event. The minister agreed to attend despite being sharply criticised at the previous Round Table on local government. This willingness to engage with his critics is welcomed. Also of note is the interest shown by the private sector. Participants on both sides of the public-private divide agree on the magnitude and importance of the issues on the table. However, real differences in perceptions and priorities were evident. As the chair of the

parliamentary portfolio committee on provincial and local government indicated, there is clearly a need for far more intensive interaction about priorities, and how best to involve the private sector – whether this includes companies or privately funded independent think-tanks such as CDE. More must be done to clarify where public and private sector representatives really agree or disagree about principles and values, and how to ensure sustainable and effective delivery.

CDE is willing to help facilitate a more intensive engagement between private sector players and the government, in the interests of successful delivery in both urban and rural South Africa.

### The minister's view

One of the great attributes of South Africa's young democracy is the willingness to engage openly regarding the range of views in the political spectrum. As the democratically elected government, we have shown this willingness to engage on many occasions, and indeed it was again evidenced by our participation in CDE's Round Table. While this report points to various differences of opinion between the government and CDE, we respect CDE's right to hold divergent views, and to engage critically with us on these views.

A balanced assessment of the progress government has made in building a new local government system should take into account a number of commonly agreed indicators of this progress. Perhaps if we were to assess progress within a commonly understood normative framework, accounting for both the political and socio-economic constraints that have challenged and continue to challenge us, this would lead to a similar understanding of local government transformation: how it is defined, and the merits of its final outcome. However, in the absence of agreement on transformation, we as government find ourselves forced by the mandate we have received from the people of South Africa to forge ahead as best we can.

Key to the government's views on transformation was the recognition of the stark inequity that existed in our localities when we took power in 1994, and the need to transform the structures, systems, and boundaries of municipalities in order to address these inequities.

This transformation has regrettably but unavoidably resulted in a degree of destabilisation of the local government sphere over the past eight years. However, we remain convinced that anything short of the transformation local government has endured would have compromised our core ideals of an inclusive, representative, and sustainable local sphere.

While we believe the progress made in transforming local government is very real

(these have been detailed in the report), significant challenges remain. But these are challenges that need to be responded to collectively.

Organisations such as CDE need to assist by helping to mobilise the resources of those groupings in the local sphere outside of government which are able to contribute to local government. This could occur by helping to increase the participation of stakeholders such as ratepayers' associations in local fora such as ward committees, or by assisting us to lobby the private sector to help build local economic development.

Collaboration is crucial. We must make a commitment to work together and learn from each other on the basis of mutual respect, for the greater good of our country.

We must make a commitment to work together and learn from each other on the basis of mutual respect

## Endnotes

- 1 <http://www.gov.za/structure/local-gov.htm>.
- 2 See CDE, *Post-apartheid local government reforms: a small town perspective*, CDE Focus no 8, March 2003, p 3.
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- 4 Ministerial Advisory Committee on Local Government Transformation (MAC), Interim report on the challenges facing local government, submitted to the minister of provincial and local government, 22 November 2001, p 7.
- 5 D Burger (ed), *South Africa Yearbook 2000/01*, Pretoria: GCIS, 2000.
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- 9 *Mail & Guardian*, 7–13 February 2003.
- 10 See <http://www.pmg.org.za/docs/2003/view-minute.php?id=2473>.
- 11 DPLG presentation on the municipal viability *indaba* to the provincial and local government portfolio committee, 4 March 2003.
- 12 Ibid.
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- 14 DPLG, Report on the status of municipalities, 30 June 2002, p 11.
- 15 DPLG presentation.
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- 17 Ibid.
- 18 Ibid.
- 19 DPLG, Report on the status of municipalities.
- 20 DPLG presentation.
- 21 See CDE, *Building policy skills in South Africa*, CDE Resource Booklet no 1, November 1995. CDE held policy workshops in 1997, 1998, and 1999.
- 22 Material in this section is based on Dr Atkinson's input into the Round Table, as well as CDE, *Post-apartheid local government reforms: a small town perspective*.
- 23 Based on research undertaken for CDE by Professor Robert Cameron, department of political studies, University of Cape Town, 2002.
- 24 Personal correspondence with Peter Leon, 14 March 2003.
- 25 See A Andrews and T Black, *Who moved my share price? All roads lead to ROAM or RUIN*, Johannesburg: Jonathan Ball Publishers, August 2002.
- 26 National assembly, portfolio committee on provincial and local government, Report on study tour of municipalities, 27 May 2003.
- 27 Information obtained from the SA Cities Network website at <http://www.sacities.net/left/about.stm>, accessed in May 2003.



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