

Local government reforms: What's happening and who is in charge?

In mid-2000 the Centre for Development and Enterprise hosted a round table discussion on local government, municipal demarcation, the new legislative framework for local government, and other changes in this sphere. This initiative brought together local and central government officials, academic and other experts, parliamentarians and business people.

The discussion was designed to stimulate debate and encourage a frank exchange of views. Senior government officials spoke on three major elements of local government reform: the demarcation process; who is in charge of reforming local government; and local government finances. Respondents commented on the

financial viability of local governments, and provided local government perspectives and a view from business. Subsequent discussions revolved around problems and issues arising out of the demarcation process; the coherence and sequencing of reforms; the overall priorities driving the reform process; the question of leadership; and the potential impact of the huge changes in this sphere of government on economic growth and the country's cities and towns. Outstanding policy challenges and critical issues are highlighted in the concluding remarks.

This is an edited version of the day's discussion. Key points from the round table are summarised overleaf.

‘ Without strong and realistic leadership of this ambitious process, the country could be heading for a scenario of confusion and setbacks, with negative consequences for growth and delivery ’

Summary of key points made by participants

Local government transformation

- Local government transformation is an attempt to restructure South Africa's socio-economic landscape, ensuring that the development potential of the whole country is realised. Local government elections are only one dimension of this ambitious programme of transformation. The country will have an entirely new municipal system with new municipal structures and boundaries, enhanced responsibilities for some of these structures, and significant changes in the allocation of powers and functions to different types of municipalities.
- However, despite government planners' efforts, there are signs that they have failed to resolve fundamental growth and development issues confronting the entire country, but particularly its towns and cities.

The demarcation process

- The number of councils has been reduced from 843 to 284. Many boundary anomalies that have survived a decade of local government reforms have been eliminated.
- The process has raised some new issues and problems that will have to be addressed:
 - *Cross-boundary municipalities.* The Municipal Demarcation Board (MDB) has recommended the formation of 17 local municipalities that will cross provincial boundaries. By not tackling the question of redrawing provincial boundaries, severe governance issues may arise in these municipalities. Obtaining private sector investment under such conditions will be difficult.
 - *Traditional leaders.* The MDB was not given clear policy guidelines on the participation of traditional leaders. As a result, important issues remain, including these leader's representation on district councils, and the distribution of powers and functions

Participants in the round table

Elroy Africa, director, municipal planning & policy development, Department of Provincial and Local Government

Ann Bernstein, executive director, CDE

Mohammed Bhabha, chair, local government & administration committee, National Council of Provinces

Bossie Boswel, city engineer, Brits Transitional Local Council

Div Botha, executive manager: operations, DBSA

Yunus Carim, chair, provincial & local government portfolio committee, Parliament

Cas Coovadia, general manager, transformation committee, The Banking Council of South Africa

Dr Tim Clynick, senior manager, CDE

Katherine Cox, planner, Central Johannesburg Partnership

Marius de Jager, chief executive officer, Johannesburg Chamber of Commerce and Industry

Issy Dinat, chief executive officer, Krugersdorp Local Council

Mare-Lise Fourie, treasurer of Pretoria City Council

Dana Gampel, political and labour analyst, ESKOM

Rob Haswell, chief executive officer, Pietermaritzburg/Msunduzi Transitional Local Council

Chris Heymans, associate, Macintosh Xaba and Associates

Richard Humphries, programme manager, democracy & governance group, Human Sciences Research Council

Roland Hunter, chief financial officer, Greater Johannesburg Metropolitan Council

Prof Douglas Irvine, senior associate, CDE

Milly Joseph, secretary, provincial & local government portfolio committee, Parliament

Views expressed by the participants are not necessarily those of CDE.

between the new local government structures and traditional leaders.

– *The viability of new municipalities.*

The MDB has not been able to make every new municipality ‘immediately viable’. Many will therefore continue to struggle to make themselves sustainable while having to provide services to significantly larger populations.

– *Redistribution.* The MDB has argued that urban municipalities have ‘profits’ to ‘plough back’ into underserved rural municipalities. This assumption underpins the feasibility of the model of redistribution the MDB has applied to demarcation. Many participants questioned this assumption, and argued for further discussion before the demarcations were finalised.

– *District councils.* District councils will have executive and legislative authority over local municipalities in their areas. Besides large and small towns, South Africa’s secondary cities will also fall

under their jurisdiction. The district councils will disburse the revenues and rates collected in their areas, and there are concerns that this will impact negatively on services and the economic growth prospects of urban municipalities. In particular, the future of South Africa’s secondary cities seems uncertain.

Who is in charge of local government reforms?

- The ambitious programme of legislative reforms introduced by the Department of Provincial and Local Government (DPLG) improves the present system in many respects. However, shortcomings in terms of strategy, timing and management include:

– *The timing of reform.* The demarcation process has been conducted simultaneously with continuing financial and administrative reforms, thereby undermining current efforts to stabilise the municipal system.

Roy Kerr, manager, Project Viability, Argil Ltd

Bill Lacey, chief economist, South African Chamber of Business

Lincoln Mali, general manager, The Banking Council of South Africa

Geoffrey Matjiu, social investment manager, SAPPI South Africa Ltd

Prof Jeff McCarthy, research professor, Graduate School of Business, University of Durban-Westville

Tim Middleton, director, Intaprop

Ismail Momoniat, chief director: intergovernmental relations, National Treasury

Dr Pierre Morgenrood, senior manager: public sector strategic positioning, ABSA

Mike Muller, director-general, Department of Water Affairs & Forestry

Oosie Oosthuizen, acting chief executive officer, Pretoria City Council

Dr Udesh Pillay, director: delimitation, Independent Electoral Commission

Robin Plumbridge, board member, CDE

Clr Francis Ratlaga, deputy mayor, Brits TLC

Glen Robbins, acting director, Economic Development, Durban Metropolitan Council

Prof Charles Simkins, head, department of economics, University of the Witwatersrand

Dr Michael Sutcliffe, chair, Municipal Demarcation Board

Peter Vaz, international research manager, Department of Provincial and Local Government

Herdi Vermeulen, director: local government finance, Western Cape provincial government

Prof Madoda Zibi, national treasurer, CONTRALESA

- *Leadership of reform.* This is the most ambitious programme of local government reform ever attempted in South Africa. According to key participants, the DPLC has failed to take a firm lead and make it clear that it is the department in charge of the process.
- *Framework for reform.* There is no common strategic framework for implementing local government reforms or for dealing with problems arising out of the process. As a result, government departments have become embroiled in ‘turf battles’ with one another. The roles of the different spheres of government are also unclear, while major players do not know what they must do or what their roles and responsibilities are.
- *Champion of reform.* There is no champion of local government reform, and few opportunities for local government officials and councillors and private sector and community representatives to get together and talk about common problems and issues.
- *Timetable and clear outcomes.* The DPLC is not providing enough practical assistance to local government. It is failing to make proposals and set time frames within which solutions must be found to critical problems.
- *Local democracy.* Critical to the success of reforms is how representative and democratic the system of local government will be. Participants questioned whether the demarcation process respected and reflected the diversity of local views, particularly when combining middle-class areas with others in establishing new municipalities. Effective and participatory local government depends on the participation of all local citizens in a credible system of local representation.
- *Accommodation of diversity.* The framework is in danger of applying a ‘one-size-fits-all’ solution to all municipalities.

In reality many can only afford a certain level of services, as well as remuneration of municipal officials. Vast differences in municipal capacity and prospects require very different approaches to governance, regulation, and other systems of support.

Local government finances

- Local government finances are in a parlous state. Participants noted the absence of business principles in running many local councils, which impact negatively on their ability to provide and fund services, stimulate local economic development, and attract new investments.
- There are outstanding questions that have been well documented and forcefully argued in many existing reports, including:
 - *Governance issues.* Clarity is apparently still lacking within municipalities over what councillors and officials can and cannot do. This makes some totally ineffective.
 - *Oversight and monitoring.* Both national and provincial governments are failing to monitor local government finances. All the role players need to agree on common financial performance indicators that will enable municipal budgets to be effectively monitored.
 - *Budgets.* Municipal budgets are not credible, for a number of reasons: they use one-year, line-item budgets that do not provide management or analytical information; budgeted items are not financially monitored throughout the year; and the budget process is not transparent and consultative. The result is a technically driven, ‘bean-counting’ process that works against managerial accountability and good financial management.
 - *Creditworthiness.* Poor financial monitoring and financial reporting, and the absence of credible budgets based on actual spending outcomes, means that the private sector does not lend to the vast

majority of municipalities. This pattern will not change until there is more confidence in local government as a profitable and stable sphere of investment.

– *Balance sheets.* Some municipalities borrow in the short term from capital markets, when funding ought to be over a much longer period, creating higher debt servicing costs. Increased demand for the delivery of basic services places further pressure on income streams.

– *Credit controls and disposal of non-core assets.* Councillors often fail to support the introduction of improved controls, debt collection, and the sale of non-core assets.

- The demarcation process has created potential new financial challenges for municipalities which may compromise their viability. Issues include:
 - the excision of rates-rich suburbs from some of South Africa's largest urban centres, particularly secondary cities;
 - the fiscal powers of district councils in relation to their local municipalities;
 - the effects of new legislation, such as the Property Rates Bill, on revenues;
 - the cost implications for municipalities of transferring responsibility for basic services to district councils; and
 - municipal cross-boundary arrangements, particularly affecting metros.

Concluding remarks

The discussion raised a number of issues:

- Will municipalities across provincial borders meet preconditions essential for growth and delivery? Will the inevitably complicated institutional arrangements attract or deter investors? Why has the MDB avoided the issue of redrawing provincial boundaries?
- Will the new system make it possible for local residents to choose what they want from local government, and the level of services they can afford, when key

regulatory and policy decisions (such as determining salaries) are taken by national and provincial government?

- Will central government encourage and then support the hard decisions that need to be taken if we are to build competitive and viable cities and towns – for example, on privatisation, affordable service delivery, and retrenchments?
- Given the evidence presented by senior officials, the MDB's approach to redistribution needs to be urgently discussed. What are the facts? Is there money available from urban municipalities to 'top up' rural municipalities – an assumption of the demarcation recommendations? The critical policy question is how opportunities and services can be expanded in a sustainable manner, without undermining institutions that can deliver in the process.
- Economic development in South Africa requires far greater attention to the fundamentals of growth, and how to provide the infrastructure needed for companies to survive and compete. If we do not face up to these realities we will struggle to maintain the jobs we have, never mind create new opportunities.
- Can local government be successfully transformed without someone being in charge of co-ordinating, integrating and leading the process? The president and the cabinet need to ensure that strong leadership is provided from now on, to guide and monitor a complex process. Challenges and setbacks must be anticipated where possible and resolved speedily.
- The period after the local government elections will require intensive, highly focused work to ensure that the country emerges from this transformation with a better system of local government. At this stage, this is not guaranteed.

‘The test of all these reforms will be whether our cities and towns will actually deliver for all the people who live in them. That is the criterion against which we – as citizens, lawmakers or officials – have to assess whether we are making progress or not’

Acronyms and abbreviations

| | |
|-------------|--|
| CDE | : Centre for Development and Enterprise |
| CODESA | : Convention for a Democratic South Africa |
| CONTRALESAs | : Congress of Traditional Leaders of South Africa |
| NT | : National Treasury (formerly the Department of Finance) |
| DBSA | : Development Bank of Southern Africa |
| DPLG | : Department of Provincial and Local Government |
| DWAF | : Department of Water Affairs and Forestry |
| ESKOM | : Electricity Supply Commission |
| GJMC | : Greater Johannesburg Metropolitan Council |
| KZN | : KwaZulu-Natal |
| MEC | : Member of the Provincial Executive Council |
| MDB | : Municipal Demarcation Board |
| SALGA | : South African Local Government Association |
| TLC | : Transitional Local Council |

Introduction

Introducing the day's discussion, Ann Bernstein, the CDE's executive director, said:

The face of local government in South Africa is set to change significantly. The department of provincial and local government (DPLG) has set in motion a comprehensive and complex programme of restructuring, starting with an ambitious white paper¹ followed by the tabling of numerous pieces of legislation. The Municipal Demarcation Board (MDB) has redrawn the boundaries of almost every local government in the coun-

try, and this will have a significant impact on how local government functions. The management of South Africa's cities, where the country's economic drivers are overwhelmingly located, will also change fundamentally. These, among other factors, have contributed to the CDE's decision to hold this round table, to give senior government officials a chance to explain what they are trying to achieve, and parliamentarians, municipal officials, business leaders and other stakeholders in local government a chance to respond and raise critical issues.

The demarcation process

Michael Sutcliffe, chair of the MDB, welcomed the round table as an opportunity to discuss demarcation and describe the many challenges that had emerged in the process:

The MDB has demarcated six metropolitan areas (category A municipalities), two of which will cross provincial boundaries. There will also be 231 local (category B) municipalities, and 47 district (category C) municipalities, hereafter referred to as district councils. Some 17 of these are cross-boundary municipalities, ie municipalities stretching across provincial boundaries. The district municipalities include 26 district management areas.

Cross-boundary municipalities are a major issue. They create complex service delivery issues that cannot be resolved without detailed agreements between the provinces involved. Without such agreements, they will not be developed in an integrated manner. Fortunately, most provincial premiers have agreed to co-operate on local government matters across provincial boundaries rather

than delegating their own provincial functions to other provinces. KwaZulu-Natal is an exception. As a result, the MDB has withdrawn its recommendation for a cross-boundary district municipality in the Kokstad/Underberg/Mount Fletcher area between KZN and the Eastern Cape, recommending instead that it be replaced by two separate district councils – one in each province.

Restructuring capacity within the municipal system in favour of district councils without destroying capacity in the country's cities and towns is a key challenge. Even after assessing the administrative and financial capacity of every municipality, the MDB was unable to make every new municipal structure – particularly the district councils – immediately viable. These municipalities should be able to draw on the existing capacity of other viable municipalities in the region, and quite a lot of that resides in South Africa's cities. The government faces a key procedural challenge in

¹ See CDE, Response to the white paper on local government, June 1998.

The significance of demarcation for South Africa's cities and towns²

The Municipal Structures Act (1998) provides for three categories of municipality:

Category A municipalities are governed by single councils with exclusive executive and legislative authority. They will be established in metropolitan areas. There are six category A municipalities: Johannesburg, Cape Town, Durban, Pretoria, the East Rand, and Port Elizabeth.

Category B municipalities share executive and legislative authority with a category C municipality within whose area they fall. South Africa's secondary cities and large and small towns are all examples of category B municipalities; among them are East London, Pietermaritzburg, Nelspruit and Brits.

Category C municipalities, also called district municipalities or district councils, have overall executive and legislative authority over districts consisting of rural areas as well as some local municipalities. These councils will have power over all municipalities in the district and, theoretically, their resources and liabilities. This is a new concept in local government, aimed at ensuring 'equitable and sustainable municipal services' for all citizens in rural and urban areas within a district.⁴ The new Vaal Triangle District Council no 17 is an example of a category C municipality. It has executive and legislative authority over three category B municipalities: Vanderbijlpark, Vereeniging, and Heidelberg. Greater Pietermaritzburg District Council no 22 is another new category C municipality, with authority over seven category B municipalities. These include the secondary city of Pietermaritzburg (including the old magisterial district of Vulindlela), and several other towns (eg New Hanover and Hilton), as well as some rural areas (eg Richmond district).

dividing powers and functions within the new municipal system, particularly among local municipalities and district councils (category B and C municipalities). The Municipal Structures Act (1999) does not state clearly which functions are exclusive, and which are to be shared. The implica-

tion is that every municipality in the country will test its own powers and functions, which will be an enormously costly and wasteful exercise. The government needs to prevent this from happening. The DPLG, the national treasury (NT), and the provinces will have to agree very soon on every power and function before the minister of provincial and local government implements the new system.³

Another problem related to establishing new municipalities is the assignment of fiscal powers. For example, metropolitan areas will be allowed to keep their levies, but district councils will receive levy revenue from their constituent municipalities and then share them out once again. Thus municipalities such as Pietermaritzburg or East London will generate most of the levies in their district council area, but this revenue will be spent by the district council.

Municipalities also face functional challenges. Firstly, the private banking sector does not lend heavily to municipalities. This will not change until the banks have more confidence in local government as a profitable sphere of investment. The banks will only lend more widely within the municipal system when outstanding issues have been resolved. These include the looming 'powers and functions' battle within the municipal system; poor municipal financial management and financial reporting; the lack of municipal corporate governance and accountability; and the insufficient flow and exchange of information among local government stakeholders. Despite all the studies that have been undertaken, the country's knowledge base is very small. It is time

² Examples provided telephonically by Anneliese Ahrens, geography and information officer at the Municipal Demarcation Board, 19 September 2000. We have used popular names to describe the areas rather than their official, alphanumeric designations. The official names are available at www.demarcation.org.za, the MDB's website.

³ Following the round table, Dr Sutcliffe indicated to CDE that an amendment to the Municipal Structures Act had been drafted to bring 'greater legal certainty' to defining and dividing 'powers and functions' between district and local municipalities.

⁴ DPLG, Discussion document 2: Functions and powers for municipalities, draft document found at www.local.gov.za, 31 May 2000.

everybody stopped protecting their 'turf' and began to create quality information that will be useful to government and the country as a whole.

A second major functional challenge is to ensure the financial viability of the municipal system, and particularly to find a way of funding those areas outside 'formal' municipal government where South Africa's 'social economy' is situated. The real costs of transformation are not those of Johannesburg, Durban and Cape Town, but are those incurred in the 'social economies' located in the former homeland areas, which lack the most basic resources. South Africa cannot rely forever on the major metropolitan areas.

The process of amalgamation should not be viewed narrowly in terms of putting together viable and non-viable local authorities. Anyone who speaks in those terms is still wedded to an outdated conception. People should rather see it as creating a new system of municipalities. The real questions are: What is going to make them work? What should we do to make them work better? What resources do we require? Local government transformation is an attempt to restructure the entire socio-economic landscape, aimed at ensuring that the development potential of the whole country is realised.

The MDB's goal is to integrate four kinds of spaces in South Africa's landscape: its major metropolitan areas (plus aspirant metros); small cities and large towns; small towns (often surrounded by large rural communities); and a fourth set of spaces in the former homelands and other remote rural areas. In these latter spaces people rely almost entirely on government welfare, education, and health services. The income stream needed to sustain development in these areas has to come from local economic development and economic diversification. Local government transformation is based on the logic of creating 'wall-to-wall', functioning, municipalities in these four

spaces so that integrated development planning can take place across the country. Local government transformation that completely marginalises the poor and rural areas will come home to haunt us. Therefore the discussion cannot only be about the viability of cities.

The MDB regards the electricity sector as hopelessly inequitable, and looks to its restructuring to improve the financial viability of municipal structures in the rural areas. For example, the resale and distribution by municipalities of Eskom bulk electricity supplies generate more than half of municipal revenue. This is a R30 billion industry. Many municipalities fund up to 24 per cent of their general services from electricity sales. The MDB wants these profits to be ploughed back into underserved rural municipalities instead of being used to 'top up' services to urban consumers, as they have been until now.

There are also serious outstanding difficulties regarding the role, status, functions and powers of traditional authorities in the new municipal system.

Traditional leaders want their areas to become district management areas, much like the old regional council system in KZN. There are enormous difficulties with this. At a practical level it is difficult to define which areas are controlled by traditional leaders. Policy-makers still do not know where every traditional authority area is, nor can they be accurately mapped. Secondly, many communities have divided loyalties, and this has led to continuing conflict and deaths in many areas. A whole set of land claims issues are still unresolved. Finally, district councils have powers over district management areas and will now take decisions on all matters of local governance. For these reasons, traditional authorities should not be the basis for rural government in the new municipal system.

National government grants such as housing subsidies are gifts most municipalities cannot really afford. They come with other development costs – such as providing proper roads to housing projects – which the municipalities have to bear

Respondents

Rob Haswell, chief executive officer of the Pietermaritzburg/Msunduzi Transitional Local Council, stated that the various municipal categories created profound problems for local government officials:

Like other secondary cities such as East London, Vaal and Bloemfontein, Pietermaritzburg has been classified as a category B municipality, thus becoming one of seven local municipalities in a district council area. In common with all the other secondary cities, Pietermaritzburg faces several major problems as a result.

Although the Municipal Structures Act states that Pietermaritzburg shares executive and legislative authority with the district council, this seems to be a way of saying that certain of the city's powers and functions have been transferred to the district council.

Precisely which powers and functions are to be shared by different municipal structures has not been made clear to the affected local municipalities by either the MDB or the DPLG. How the various municipal services are to be provided and paid for while the matter is being settled also remain unresolved.

In the past, district councils spent their considerable funds almost entirely on capital projects, leaving the central government to pick up the tab for operational or running costs. They played 'Father Christmas' and were not in the business of delivering services; their operating budgets were quite small. The question is whether these councils will now get into the 'operational business', or whether ratepayers in secondary cities such as Pietermaritzburg will have to pay up. Already Pietermaritzburg has received legal opinion advising it that, from the day after the local government elections, the financial onus for such functions as firefighting and health will pass to district councils. It is questionable

whether the district councils will be capable of discharging their new responsibilities.

The MDB appears to have applied a narrow and local concept of redistribution in making its determinations. It has effectively cut the former Pietermaritzburg metropolitan area in half, excising a promontory consisting of two formerly white, wealthy suburbs with considerable rates income and attaching it to a neighbouring authority. This practice of excising well-to-do suburbs from an existing metropolitan area and attaching them to rates-poor municipalities was not intended in the legislation, and threatens municipal financial viability wherever it has occurred.

Bossie Boswel, city engineer of the Brits Transitional Local Council, emphasised the tremendous challenges facing small local municipalities such as Brits following the demarcation process:

The old Brits Transitional Local Council area comprised about 28 square kilometres: the new council area will comprise 3 600 square kilometres, housing half a million people instead of the previous 125 000. This will require additional expenses, including the establishment of new satellite stations, each with its own administration, for delivering municipal services.

The question is, where will the municipality get the revenue from to perform its duties? At present about 95 per cent of the council accounts sent out are paid. On a school report 95 per cent is excellent, but when it comes to the payment of accounts this is just not good enough. Everyone is making a culprit of small consumers from the new areas who do not pay accounts. However, there is another dimension, especially important for economically stagnant towns: one industry provides as much income as 1 000 households. If one industry goes under, it is as bad as 1 000 households not paying.

The question is, where will the municipality get the revenue to perform its duties?

With a local employment rate of only 65 per cent, the prospects of the Brits council increasing its collection rate are also diminishing rather than increasing. The council's ability to extract further revenue from property rates is more promising. However, a new property roll will have to be compiled for the new and old areas of Brits, which will be very expensive and time-consuming.

Therefore, besides their traditional activities of delivering services, small councils need to concentrate on stimulating local economic development in order to provide more jobs and generate economic activity. Councils provide water, sanitation, electricity and road services to residents; however, only the first three services generate any revenue. This means that road maintenance has to be subsidised by these other services. Councils derive much of their income from supplying electricity to private households and industries but not from mines or farms in their area, since ESKOM supplies them directly.

National government grants, such as those from the Housing Board, are gifts most municipalities cannot really afford, because they come with other development costs – such as providing proper roads to housing projects – which the municipalities have to bear.

Prof Madoda Zibi, national treasurer of the Congress of Traditional Leaders of South Africa (CONTRALESA), noted that people were beginning to accept that traditional leaders had a role to play; however, the demarcation process had once again demonstrated that many key stakeholders still misunderstood this institution:

This may have been the result of a failure on the part of traditional leaders to invite discussion or to expose the institution to serious critical research. It is nevertheless evident that many people in government still see no need for the institution of traditional leadership in a modern democratic dispensation.

The MDB has hardly mentioned or involved traditional leaders in discussions and planning in the lead-up to demarcation. This has led to uncertainty, confusion, and a suspicion that the government is about to phase out the institution, particularly since many elected councillors are also very negative towards traditional leaders. As a result, traditional leaders are concerned that their areas will be incorporated into urban areas without consultation.

Instead, CONTRALESA proposes that traditional authorities be recognised as a particular form of local government, and that heads of traditional authorities should be members of district councils, performing the same functions as other councillors. Tribal authorities or traditional authorities are capable of effectively carrying out functions of local government, as they do in some parts of North West, for example. These positive instances of effective traditional local government have been ignored in the legislation. Instead, the Municipal Structures Act entrenches urban municipal structures, such as mayors and councillors, without talking at all about a traditional system of government. As part of its process of drafting a white paper on traditional authorities, the DPLC has asked CONTRALESA to make concrete proposals on the powers and functions of traditional authorities. If these are accepted, local government legislation will have to be amended. In the meantime, the demarcation process has been completed and the date for local government elections has been set for early December 2000. It seems as if the process is being rushed.

Points raised in discussion

- The issue of cross-boundary municipalities is fraught with potential dangers. The MDB is creating new governance problems by pre-empting the debate on provincial boundaries. If these boundaries are

The MDB has largely concerned itself with grouping 'haves' with 'have-nots' in a very narrow, localised process that threatens the viability of many municipalities and potentially undermines their capacity to sustain economic development

Cross-boundary municipalities⁵

The 17 cross-border municipalities proposed by the Municipal Demarcation Board are:

| Transitional local councils involved | Provinces involved | Municipality |
|--|--------------------------------------|--------------|
| Deben, Kathu, Kuruman | Northern Cape/North West | CBDC1 |
| Hammanskraal Local Area Council, Roodeplaat Local Area Council, Cullinan/Rayton, Bronkhorstspuit | Gauteng/Mpumalanga | CBDC2 |
| Marblehall, Groblersdal, Steelpoort, Burgersfort, Ohrigstad | Mpumalanga/Northern Province | CBDC3 |
| Phalaborwa, Bushbuckridge | Mpumalanga/Northern Province | CBDC4 |
| Maluti, Mount Fletcher, Kokstad, Underberg, Himeville, Creighton, Umzimkulu ⁶ | Eastern Cape/KwaZulu-Natal | CBDC5 |
| Magaliesburg Local Area Council, Krugersdorp, Randfontein, Westonaria, Fochville, Carletonville | Gauteng/North West | CBDC8 |
| Kuruman | Northern Cape/North West | CBLC1 |
| Bronkhorstspuit | Gauteng/Mpumalanga | CBLC2 |
| Marblehall | Mpumalanga/Northern Province | CBLC3 |
| Groblersdal | Mpumalanga/Northern Province | CBLC4 |
| Steelpoort, Burgersfort, Ohrigstad | Mpumalanga/Northern Province | CBLC5 |
| Hazyview | Mpumalanga/Northern Province | CBLC6 |
| Hartswater, Jan Kempdorp | Northern Cape/North West | CBLC7 |
| Carletonville, Fochville | Gauteng/North West | CBLC8 |
| Alberton, Germiston, Boksburg, Brakpan, Benoni, Springs, Nigel | Gauteng (East Rand Metro)/Mpumalanga | East Rand |
| Ga-Rankuwa, Winterveld, Mabopane, Temba | Gauteng (Pretoria Metro)/North West | Pretoria |
| Hartswater, Jan Kempdorp, Warrenton, Windsorton, Kimberley, Delpportshoop, Barkly West, Ritchie | Northern Cape/North West | CBDC9 |

indeed a problem, this should be addressed head-on and they should be changed. It is inappropriate to try to deal with the issue of provincial boundaries by changing municipal demarcations. This will create many problems, as the respective provinces

and municipalities will have to work through various issues around jurisdiction.

- The MDB has largely concerned itself with grouping ‘haves’ with ‘have-nots’ in a very narrow, localised process that threatens the viability of many municipalities

⁵ Source: MDB website, www.demarcation.org.za; telephone conversation with Mulalo Nemavhando, consultant to the MDB (5 September 2000), confirmed by Dr Michael Sutcliffe, chair, MDB, 6 September 2000. Information on the TLCs involved provided telephonically by Anneliese Ahrens of the MDB, 19 September 2000.

⁶ In the case of this proposed cross-boundary municipality, between KwaZulu-Natal and the Eastern Cape, no agreement was forthcoming. Two separate district councils, one in each province, has been proposed.

and potentially undermines their capacity to sustain economic development. Much more debate is needed on the definition of redistribution, and how – and at which levels of government – it can be achieved in a broad-based and sustainable manner.

- Cross-boundary delimitations will have a major impact on a number of large municipalities. Large populations with significant service backlogs will be incorporated in two of the country’s major metropolitan areas: Pretoria and the East Rand. In fact, no less than one third of North West’s population will be absorbed into Pretoria. What will this mean for the country’s fourth biggest metro? What will it mean for the province? Can cross-boundary municipalities work in practice? Has the MDB investigated this thoroughly enough?
- How various powers and functions are to be distributed among local municipalities

and district councils has not been made clear. Many issues remain unresolved, including such important aspects as where service capacity resides within the municipal system, or whether district councils have the resources to perform various functions. The government does not appear to have a plan to ensure that the process goes ahead smoothly and coherently.

- There are no clear guidelines on the role, functions and powers of traditional leaders. The government is only now proceeding with a white paper on traditional leadership. Although, given its time and resource constraints, the MDB has done a reasonable job of consulting traditional leaders, some critical issues remain, including the representation of traditional authorities on district councils, their powers over the allocation of land, and other governance issues. These could derail the whole process.

How various powers and functions are to be distributed among local municipalities and district councils has not been made clear

Reforming local government

Elroy Africa, director of municipal planning and policy development in the DPLG, said:

The country does not have a common consensual framework within which the strategic challenges that confront local government can be addressed, and various actors can understand and manage this period of transition. Its absence means that the activities of the various actors in the local government sphere have not been properly co-ordinated. Putting this strategic framework in place to manage the current transition period is the key policy challenge.

Some feel that the department’s existing framework of developmental outcomes-based local government is adequate. Others suggest that the DPLG needs a more refined approach to address-

ing the various strategic priorities emerging during this transitional period.

The DPLG is looking to the Municipal Systems Act to help generate such a framework, but exactly how it will look still has to be decided. The act gives the department greater powers to regulate the core activities of local government. It also redefines what a municipality is through the inclusion of residents together with councillors and council officials as essential components of local government. It puts in place a robust system of planning, so that resource allocation and deployment is clear and stable across all spheres of government. A performance management system is also central to the new system.

Transforming the institutional make-up of local government will be possible now that the DPLG can regulate its core

A decade of changes to municipal boundaries and local governments⁷

- In 1991 the Interim Measures for Local Government Act provided for the establishment of the Local Government Negotiating Forum.
- At the forum, parliamentary and extra-parliamentary groups negotiated the Local Government Transition Act of 1993, and recommended a three-phase process to achieve unified non-racial local government.
- Transitional local councils became the most basic level of local government and managed local areas until the 1994 local government elections.
- After these elections, a two-tier system consisting of transitional metropolitan councils and metropolitan substructures was established in larger urban areas. Rural areas also had a two-tier system, with district councils replacing regional service councils and joint service boards, and transitional rural or representative councils being developed as primary or base-level rural local government institutions.
- Provincial local government MECs determined boundaries on the advice of provincial demarcation boards. In February 1999 these nine boards were replaced by the Municipal Demarcation Board.
- In 1995, in terms of the Local Government Transition Act of 1993, about 1 260 local government bodies were amalgamated into 843 municipalities.
- In 1998 the demarcation process was revisited. The MDB, established in terms of the new Municipal Demarcation Act of 1998, reduced the number of municipalities to 284.

activities, which it has not been able to do until now.

The demarcation process has thrown up many day-to-day implementation challenges for the DPLG, including:

- managing the transition from 843 former municipalities to the envisaged 284;
- streamlining and introducing consistency in local government legislation;
- overcoming municipal financial difficulties;

- improving poor intergovernmental relations and weak co-operative governance;
- defining municipal powers and functions;
- ensuring capacity for municipal planning;
- reducing service delivery backlogs; and
- integrating fragmented service delivery initiatives.

Among many other initiatives, the DPLG is focusing on supporting district councils, since they have emerged as critical nodal points in the local government process and can be expected to have maximum effect on service delivery. However, given present resource and capacity constraints within the district councils, the question of how this is going to happen remains a big challenge.

Respondents

Roy Kerr, manager of Project Viability, a government support programme for municipalities with financial problems, felt the present process of demarcation was undermining some of the good work that had already been done in helping to stabilise local authorities financially:

The reasons why some local authorities are in financial difficulty are simple and require very basic, pragmatic remedies.

Some are as basic as getting the government to pay its bills – for example, the department of correctional services is often in arrears with its electricity payments. Others include provincial departments of education which budget more for teachers' salaries than the entire education budget, with nothing left over to pay local authorities for services rendered.

Loss of potential revenue is another problem. Johannesburg, for example, is

⁷ From C Heymans and D Mmakola, Local government in South Africa: a history, written for the 1998 white paper on local government, and Dr M Sutcliffe, Introduction to the Municipal Demarcation Board and the municipal demarcation process, *Sunday Tribune*, 10 June 1999.

Who is in charge?

'One of the difficulties is that we haven't said that the department of provincial and local government is the department that leads on all matters of local government, and everyone else then must co-ordinate their programmes through that department.'

– *Michael Sutcliffe, chair, Municipal Demarcation Board*

'We need to put in place a strategic framework so that various actors can both understand and manage the transition period that we are in. At the moment there is no such common strategic framework for local government reforms.'

– *Elroy Africa, director, Department of Provincial and Local Government*

'There is institutional bickering and turf fights inside government about whether a single department should provide an umbrella framework for other departments' programmes or all support to local government goes through a single programme in one department. The approach taken should be one that delivers the best results to people on the ground.'

– *Mike Muller, director-general, Department of Forestry and Water Affairs*

'The present process of demarcation is undermining the good work that has already been done in assisting the stabilisation of local authorities in financial difficulty.'

– *Roy Kerr, manager, Project Viability*

losing more than 20 percent of its potential revenue through theft and decaying infrastructure. In many other councils this loss is as much as 30 to 40 percent. Why is this so? When driving around some towns one can see illegal cables from ESKOM boxes running into the townships. This is a political problem, since many councillors are not prepared to do anything about it, particularly with local government elections coming up. Non-payment of service bills also amount to 10–15 percent nationally.

Altogether, local authorities lose nearly 40 percent of their potential income. This very basic neglect of business principles in running local government is the basis of their financial difficulties.

In many small towns where there is very little economic activity there are housing projects for the poor complete

with roads, electricity, and running water. Because services are not allocated on the basis of household income, in nine out of ten cases households quickly run up a large bill for electricity, for example, and eventually the municipality is forced to suspend their services. The outstanding bill is never paid, and very often there is no intention of ever paying the bill. Occupants then go to ESKOM and get a pre-paid meter.

Municipal rates from the sale of water and electricity are often the municipalities' main source of revenue. The government now proposes to take electricity distribution away from municipalities. This will have a negative impact on many of the country's councils. Duiwelskloof in Northern Province is a typical example. It generates 53 percent of its income by distributing electricity and water. Payment of the electricity bill is a precondition for the provision of other services by the municipi-

Reducing the number of municipalities will not necessarily improve their effectiveness or capacity

pality. Taking electricity distribution away from local councils is tantamount to turning off the lights in the town and closing it up. It is clear that all the integration elements required to reform local government have not been thought through.

Though suggestions have been put forward – such as asking for a standing committee between the department of mineral and energy affairs and the DPLG to co-ordinate changes affecting municipal rates bases – there is very little reaction, and no discussion.

Points raised in discussion

- Why are local government reform and demarcation taking place simultaneously? There is now a ‘fatal combination’ of new people, new legislation, new structures, and new jurisdictions.
- Who is running this enormous process of transformation? Is anyone in charge? Two and a half years into the process the DPLG, the department at the centre of the process, says it does not have a framework for what it is doing. How can one embark on a process of change without this?
- There is a need for greater strategic cohesion within government. Its absence causes institutional bickering and turf fights among departments and different levels of government, as well as wastage of resources and expertise, including those potentially available from the private sector.
- Co-operative governance hinders rather than helps the finding of solutions, since each sphere of government passes responsibility on to the next. Matters are at the point where they have to be resolved in court.
- Following the demarcation process, the DPLG is not giving local governments enough practical help. It must make proposals and set time frames within which solutions will be found to such

critical issues as restructuring local government debt, issuing sound financial statements, resolving the issue of who can and can’t afford to pay for services, and helping municipalities to dispose of non-core assets.

- Government service delivery is badly co-ordinated. National government capital grants provide water supply infrastructure in many formerly underserved areas, while district councils use provincial and national grants intended to finance and operate such services to fund additional capital projects. The national department of water affairs and forestry (DWAF) currently provides services to 6 million people in rural areas, at a cost of nearly R2 billion a year. How will district councils pay these operational costs following the local government elections? What will the effect be on local municipalities falling in district council areas?
- Local government is the backbone of the county’s economy, since investors increasingly make investment decisions based on local infrastructure, the regulatory regime promoted by local councils, and their approach to local economic development. If the process of local government reform is not properly managed, and rapidly completed, economic development will stagnate and the private sector will not invest.
- Are South Africans ready for democratic local government? The government has legislated extensively in an attempt to develop a democratic culture within communities and rebuild administration around the notion of ‘developmental local government’. A number of questions have subsequently arisen, such as: Is this enough to keep local councillors in check? Will a combination of strong community participation and ‘popular’ politicians weaken the ability of the administration to implement credit controls while pursuing greater equity in

Why are local government reform and demarcation taking place simultaneously? There is now a ‘fatal combination’ of new people, new legislation, new structures, and new jurisdictions

services, for example? In Johannesburg there are very strong community groups, predominantly in the 'rich city', who have begun to manage their own affairs and take control of their communities. Examples include residents' associations and local business organisations. There is a crisis looming in their relationship with local councillors who perceive their activities as a threat rather than a helpful development that could free up council resources for other, more needy areas.

- Local government needs a champion to raise its profile. One possibility could be a CODESA-like process in which local government, the private sector and community representatives get together to talk about problems and issues in the context of developmental local government. The minister of provincial and local government must raise the profile of developmental local government, but that is not happening. The minister should be seen as the champion of the whole process.

If the process of local government reform is not properly managed, and rapidly completed, economic development will stagnate and the private sector will not invest

Local government finances

Ismail Momoniat, chief director: inter-governmental relations in the National Treasury, focused on the budgeting and financial reforms of local government:

Municipalities still use antiquated budgeting and financial systems inherited from the old order. These include one-year, line-item, 'telephone directory' budgets that provide no management or analytical information. Municipalities also lack proper budgeting processes. The result is a technically driven, 'bean-counting' approach in which councillors are not empowered to make meaningful contributions. Other features of the current system are:

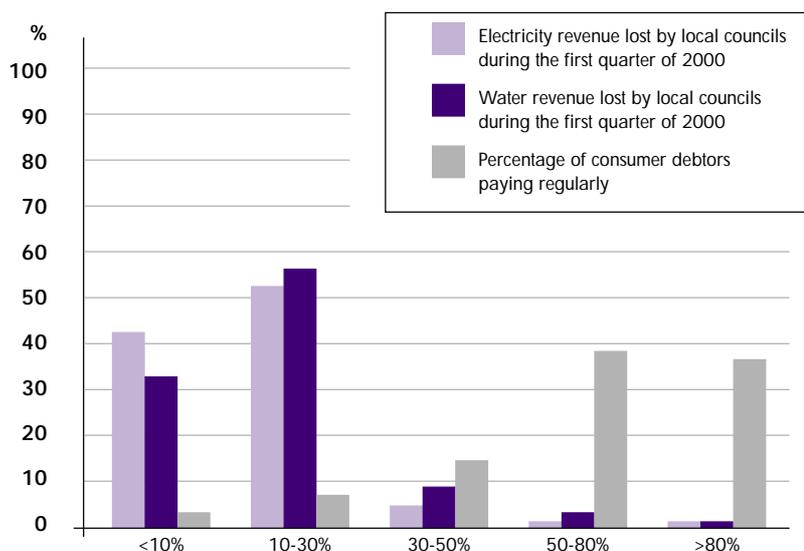
- poor accountability;
- poor financial management;
- a failure to financially monitor budget items throughout the year;
- a continuing culture of non-payment for services; and
- capital markets for municipalities have largely dried up, and only the government and the Development Bank of Southern Africa (DBSA) lend to municipalities in the long term. When other institutions lend, they do so in the short term.

Key challenges are to reform municipalities' budget processes, and improve

their financial accountability. This means that better budget formats and accounting systems must be introduced, and credit controls put in place. The Municipal Finance Management Bill (drafted in 2000) aims to achieve this. The national treasury has also implemented a series of budget and accounting systems reforms known as GAMAP (Generally Accepted Municipal Accounting Procedures).

The biggest challenge that has faced the demarcation process is to create financially sustainable municipalities. The national treasury supports the creation of metros and district councils, and the reduction of the number of municipalities to fewer than 300. There are too many small, non-viable municipalities with very little capacity. The larger secondary cities ('aspirant metros'), and their relationships with their district councils will have to be closely monitored. The national treasury must ensure that the approach taken in the demarcation process does not worsen their financial status, and that their creditworthiness is not reduced. Should we fail, more municipalities will become dependent on government grants, resulting in less money being available for poor households. The 'equitable share' allocations that fund some of the activities of

ELECTRICITY, WATER, REPAYMENT



Source: Project Viability

local government are well targeted to poor households. However, the problem is that statistics in this respect are not available by municipality.

The monitoring roles of national and provincial government are also crucial. Contrary to the view that we have three equal spheres of government, the constitution establishes a clear hierarchy of three spheres. National government is expected to monitor the performance of provinces and to intervene if a province fails to deliver on an executive obligation. The provinces have an obligation to monitor local government, and to intervene when the latter fail to adhere to national norms or standards.

The national treasury's objective is to establish a more effective system of monitoring. Under the current system it is expected to monitor all 843 municipal budgets, but it cannot. The plan is to develop key financial performance indicators to be assessed by provincial authorities. Most importantly, however, these indicators must be used by city managers to manage the municipality, and by councillors to hold city managers accountable. In-year budget monitoring by the city manager will complement the

municipal quarterly reports on expenditure, to be provided to the national treasury. This information from municipal finance officials will play a crucial role in helping municipal managers to manage their budgets.

Another reform will be a draft budget process begun three or four months before the tabling of the formal municipal budget, and aimed at improving community participation and consultation. Working more closely with the South African Local Government Association (SALGA) will also deepen the budget process. SALGA in turn has to build its capacity to engage with budget and financial issues.

The aim is to introduce basic local government financial reforms implemented elsewhere in countries such as Australia and New Zealand, including improved municipal management capacity, greater financial accountability of councillors, and modernised internal financial systems. Beginning with the country's 20 big cities, the National Treasury plans to introduce best-practice financial reforms, monitoring their spending and developing relationships with each in the spirit of co-operative governance. This approach will then be extended to other municipalities over the next few years.

The Municipal Finance Management Bill will also improve the borrowing capacity of municipalities. Municipalities are obliged to practise greater financial and budgetary discipline, and should they default, the bill provides for a judicial management process to kick in. It is hoped, however, that municipalities will improve their financial management so fundamentally that the capital markets will begin to lend them money. The big question now is how to build up municipal financial capacity.

There has been too much 'bean-counting' in municipal finance, a type of

culture embedded in the various municipal treasuries. South Africa's municipalities need to move away from this to a more modern organisational culture.

Respondents

Div Botha, executive manager of operations of the DBSA, said it was urgently necessary for local government to be managed in terms of business principles:

The creditworthiness of local authorities impacts directly on their ability to raise finance for infrastructure development and service delivery. The major challenges are to foster more appropriate financial skills among local councillors and council bureaucrats; a good system of monitoring, particularly by provinces; improved corporate governance; and developing a credible municipal budgeting system.

Reducing the number of municipalities will not necessarily improve their effectiveness or capacity. Councillors also have to develop the political will to support improved credit control, debt collection, and the sale of non-core assets. Local councils will need to take bold steps to ensure that people pay their rates and taxes. If they fail to do so, local authorities will face a bleak financial future.

Demarcation will also require local authorities to restructure their balance sheets. There is often a total mismatch between their assets and liabilities. Some have borrowed in the short term from the capital markets when funding should have been obtained over ten to 20 years. This will create major cash flow dilemmas for local authorities, faced with increasing the delivery of sustainable basic services, if it is not addressed now.

Local government has been made responsible for providing basic services to local communities, but can it fund these new obligations from its share of

the intergovernmental grant? This issue will have to be grappled with now, as many municipalities will experience major income shortfalls that will have to be financed somehow. The major national service departments and the local authorities have not yet sat down together to decide how to phase in and phase out existing subsidies. They will have to do so very soon if a major collapse is to be averted.

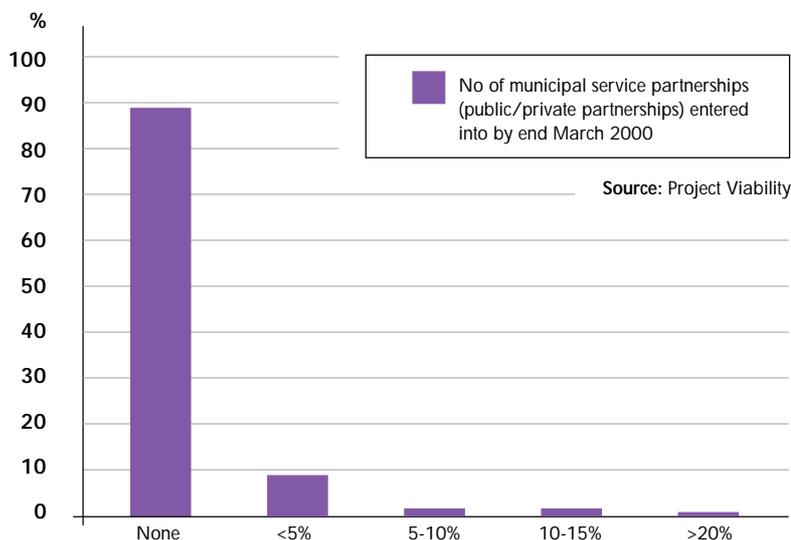
Creating a municipal bond market will only be possible if the creditworthiness of each local authority is improved. This requires a predictable regulatory environment, backed by systematic capacity-building. National government must step in more decisively, or otherwise involve private institutions. Without this, such a market will not emerge.

Tim Middleton, a director of Intaprop, felt that the commercial interests of South Africa's towns and cities needed to be managed on the basis of business principles, but this was not the case:

As an example, the dictum that time is money is not recognised. It took me about seven years to get a decision out of one of Johannesburg's five subcouncils to begin a

Demarcation will require local authorities to restructure their balance sheets. There is often a total mismatch between their assets and liabilities

PUBLIC/PRIVATE PARTNERSHIPS



major property development in the city involving an investment of R750 million. This type of project has significant local economic benefits such as job creation and the generation of rates revenue, but is treated more as a problem than an opportunity.

It is essential for local councils to begin to grasp the role of business in enhancing the value of their cities, and to tap into this for the economic benefit of all. Decision-makers must understand that where business makes its major investments is where it will be prepared to take on further responsibility. These developments hold enormous potential benefits for cities. Besides increasing property values, helping to build infrastructure and adding to general urban management, the commercial nodes are special areas where the running of the city can be partnered with land owners and tenants via special districts, business improvement districts, or residents' associations. Local government must not miss the opportunity to make it possible for the private sector to help run cities.

However, besides running a city as a business, it must also be managed as a family. Its welfare function and the provision of basic health and other services are equally important. It is nevertheless crucial to appreciate the symbiosis between the business and family functions.

In Johannesburg it appears as if the family function has overshadowed the business side of things, and the council has forgotten that running the city as a business is actually what funds running the city as a family.

Running the city as a business applies not only to the city's finances but all the activities taking place in it, including identifying its profit centres, which provides its primary rates income. Johannesburg derives 30 percent of its rates income from its business nodes, which

occupy only 1 percent of its land area.

Successfully managing change involves good timing, and maintaining core competencies. Should local government reform be coupled with demarcations that will result in radical organisational and administrative restructuring? The combination of new people and new legislation is fatal in doing business with the city.

City councils also need carefully to monitor the performance of core financial functions. In Johannesburg the property roll has not been reassessed since 1993, yet this is the basis for the city's rates revenue. Organisational restructuring should not stop the implementation of core fiscal disciplines, such as tracking changing property values and collecting rates. Even in Sandton, Johannesburg's most vibrant area economically, the valuation and treasury systems are significantly underresourced.

Points raised in discussion

- Partnerships with the business community are crucial, but they are not happening. International experience shows that business will not become involved where there is administrative confusion and competing government jurisdictions, such as those promised by cross-boundary municipalities. Similarly, private investors will not invest in new local authorities that clearly face insurmountable financial and capacity constraints – whether these are the result of demarcation or simply inadequate management. The contagion effect on private investors, particularly international ones, is substantial.
- The role of cities in the growth process has been played down. While rural development is crucial, more than 80 percent of South Africa's GDP is generated in the country's cities and large towns. Without economic growth in the urban areas, rural areas cannot be developed, and poverty cannot be eliminated.

It is essential for local councils to begin to grasp the role of business in enhancing the value of their cities, and to tap into this for the economic benefit of all

How Johannesburg was bankrupted

In 1997 the Greater Johannesburg Metropolitan Council (GJMC), the largest metro in the country, was technically bankrupt. Its chief financial officer, Roland Hunter, explained Johannesburg's financial straits in terms of 'a poorly managed transition' between 1995 and 1997.

Five ways to ruin your municipality

1. In its first two budgets all five of Johannesburg's sub-councils spent aggressively on capital projects, and the city simply could not finance these. Underlying the large capital budget was the belief that Johannesburg was extraordinarily wealthy and could accommodate just about any challenge thrown at it.
2. Year after year the city also overspent on its operating budget and continued to accumulate deficits through poor budget controls. The city was also failing to collect about R400 million a year in revenues, and this shortfall was covered by short-term borrowing in the capital markets. This meant a massive cash flow problem was building up because the city was spending a lot more than it was going to collect.
3. Johannesburg embraced a management-heavy organisational design to run its five substructures, based on the assumption that the city employed 47 000 people. At the time, however, the city only employed 32 000 people. Equivalent managerial structures were established in each of the five substructures, with an executive officer in charge of each local function, such as local and economic development, finance, and so on. There were too many managers, who failed to manage the staff they actually had.
4. There was political interference in the running of the five substructures: politicians often instructed officials to sort out particular problems. As a result, the whole political-administration interface was in a 'total shambles.' No one knew who to take instructions from or to whom they were accountable. This effected credit controls negatively.
5. The city failed to make good new management appointments. This resulted in extremely low productivity. Large numbers of council employees are in fact not working a full or even a half-day. There is no performance management system in place in the city.

In 1997, when the GJMC attempted to raise an offshore loan it desperately needed, the then Department of Finance stepped in and barred the application. As a result, the council fell into deep cash flow trouble with nothing in the bank.

The DBSA subsequently provided a lifeline, under certain conditions: the council had to cede a good portion of its regional services council levy income, and implement corrective action. In terms of a formal Gauteng provincial government instruction, the GJMC established the Committee of Ten (which became the Committee of 15) to run the stabilisation programme called Igoli 2002.

Private investors will not invest in local authorities that face insurmountable financial and capacity constraints

Pretoria's finances: Contrasting styles, new challenges

Pretoria's city treasurer, Mare-Lise Fourie, explained that the city's experiences had been very different to those of Johannesburg:

Pretoria managed its initial transition to a post-apartheid city in 1995-6 reasonably smoothly. The new challenge, following the demarcation process, is that Pretoria will become substantially bigger. New areas have to be integrated into the metropolitan area, and new projects implemented to bring basic services to the people of Pretoria's 'lost suburbs' of Winterveld, Mabopane and Ga-Rankuwa.

Pretoria is in a relatively sound financial position, because in the past it maintained a reliable budgeting process and knew what its income and expenditure ratios were. It has had an integrated development plan in place for a number of years.

Pretoria is well placed to meet the new service delivery challenges, since it has successfully retained experienced employees in all departments who are skilled enough to ensure that service delivery will be maintained at a reasonably high level.

Pretoria's payment level over the past four to five years was above 94 percent. This may sound good, but even a 6 percent non-payment level creates problems. Pretoria's recent initiatives have increased the payment level on a moving average to as high as 98 percent. But the question is, can it be sustained?

Socio-economic environments obviously create the situation where payment for services cannot always be supported. Pretoria has a policy in place to provide subsidised services

to the indigent. About 6 000 of the poorest residents are registered with the council. Their bill currently stands at R70 million. Pretoria receives about R8 million from the national equitable share grant – clearly, this does not go very far in helping the city to provide basic services to all its citizens.

Social ill-discipline is evident in illegal reconnections, for example. Pretoria loses 30 percent of its water and 8 percent of its electricity revenue through theft. These losses have to be recovered elsewhere in the city.

The city has tried many approaches. Initially it took a hard line with debtors, which only succeeded in causing a crisis. Two subsequent community summits involving representatives of all communities helped to identify more effective approaches. Some successes include the reduction of arrears, reducing the illegal consumption of electricity and water, and introducing an amnesty period for consumers. The key to Pretoria's success has been a massive communication campaign with residents.

The major long-term challenge lies in re-creating a positive culture of payment. The city's contribution to this new culture has to be through increased and better services to consumers at affordable levels. However, putting in new infrastructure also increases the cost of services. The challenge is to find a match between service levels and affordability. Services must obviously be standardised. If you open a tap, there must be water. If you turn on a switch, there must be light. But the level at which services are provided should be affordable.

Organisational restructuring of local municipalities should not stop the implementation of core fiscal disciplines

Concluding remarks

Ann Bernstein stressed that the CDE fully supported the transformation of local government:

The country still has a number of what are effectively apartheid cities and towns, and CDE supports the amalgamation of poorer communities and established municipal areas from which the former have been excluded solely for reasons of segregation and racial discrimination.⁸ CDE shares the government's lack of sympathy with those centres that have failed to come to grips with poorer communities within their orbit. They will now be compelled to do so; the critical issue is how this should be done most effectively.⁹

A one-day workshop cannot be comprehensive, but it is important to underscore the key issues raised in the discussions.

Will cross-boundary municipalities work?

The chairman of the MDB has explained the creation of 17 municipalities across provincial boundaries. Most affected provinces have accepted a framework within which services will be provided by agreement between different local municipalities. The chief director of intergovernmental relations in the NT has argued that this will not resolve matters, but potentially complicate them. The question must be asked: why are we ducking the issue of redrawing provincial boundaries? The question of the provinces, their roles, powers and functions needs to be addressed, as it affects the powers and functions delegated to cities and

particularly large metros. There are important interprovincial financial and service equity issues to be thought through, besides institutional and service delivery issues resulting from the differing provincial government systems. The crucial question raised in this discussion is whether these new arrangements will provide good governance and the other preconditions essential for growth and delivery. Will investors be attracted to these areas where municipalities will be dealing simultaneously with the complexities of the new arrangement as well as the consequences of demarcation?

Is diversity sufficiently accommodated?

Until now, much of the discussion about local government has been extremely undifferentiated – as though running Nylstroom and Pretoria were the same kind of operation. The Municipal Structures Act now distinguishes between metros and intermediate cities, and the country has a new approach to district councils. The huge difference in the capacity and prospects of different towns, cities and metros has been vividly brought to our attention. Many participants have expressed their concern that the present framework is in danger of applying a 'one-size-fits-all' solution.

A good example is that of municipal salaries and services. Many communities can only afford a certain level of services, as well as remuneration of municipal officials. However, both the levels of basic services and the salaries paid to municipal officials are set nationally.

Addressing local affordability issues while

The question of the provinces, their roles, powers and functions needs to be addressed, as it affects the powers and functions delegated to cities and particularly large metros

⁸ CDE's views nevertheless differ from the government's current approach in various ways, as our response to the 1998 white paper indicated. See CDE, Response to the white paper on local government, June 1998.

⁹ See CDE Research no 9, *South Africa's discarded people: survival, adaptation, and current challenges*, October 1998, in which we urged the amalgamation of Pretoria and Winterveld, an agency relationship between Pretoria and southern KwaNdebele, and a possible partnership agency relationship between Witbank/Middelburg and Siyabuswa.

at the same time finding ways to strengthen the capacity and operational effectiveness of local municipalities less able to pay the salaries necessary to attract more skilled staff will require much research and clear thinking. There is nevertheless a growing recognition that various parts of the new municipal system have unique features and characteristics that require vastly different approaches to governance, regulation, and other systems of support. The present approach threatens to obscure these differences, with potentially harmful effects on democratic representation and growth.

Representative democracy underplayed

The representative function of local government has been underplayed in the current approach to transformation. Some participants have argued that the demarcation process has been driven by technical considerations, and that in the process the diversity of local views has been lost or insufficiently accommodated – for example, in combining middle-class areas with others in establishing new municipalities. If the decisions were taken solely on the basis of the views of residents, the MDB might not have been able to do its work at all. It is nonetheless evident that many middle-class residents feel alienated from the process, and that this will impact on their future participation.

Effective representation of, and accountability to, voters is a critical factor in local government, and should not be forgotten. Concerns have been expressed whether all citizens will be able to choose what they get from local government. How accountable will their representative be? Will they have a say in choosing the level of services they can afford? Whether all citizens will have their wishes and interests effectively represented and debated at local government level is a key outstanding challenge facing our democracy.

On the evidence presented to the round table by senior officials, the MDB's approach to redistribution needs to be urgently discussed

Redistribution

We have heard the MDB chair argue that municipalities use the 'profits' from distributing water and electricity to top up their services to urban consumers, and that the MDB wants these profits to be ploughed back into underserved rural municipalities. Other participants, including Brits's city engineer, Pietermaritzburg's chief executive officer, and the Greater Johannesburg's chief financial officer, have contended that these 'profits' constitute the revenue needed to provide basic services such as roads, emergency, and other general services to residents. What are the facts? Is there money available from urban municipalities to 'top up' rural municipalities, as the MDB is suggesting? This appears to be a question of fact surrounded by confusion and serious disagreement. However it is an important assumption underpinning the feasibility of the model of redistribution the MDB has applied to demarcation. On the evidence presented to the round table by senior officials, this approach to redistribution needs to be urgently discussed. The critical policy question is how we ensure the expansion of opportunities and services in a sustainable manner, without undermining institutions that can deliver in the process.

Economic growth in cities and towns

A number of participants have expressed fears that the MDB may have damaged the growth prospects of certain cities and towns by grouping the 'haves' and the 'have-nots' together without considering the economic impact of this, and thus the impact on the sustainable delivery of services. What is required are cities and towns that are economically strengthened and made competitive as quickly as possible, so that those municipalities can address poverty and the inequality of services in a sustainable and effective manner.

Officials from local municipalities falling under the proposed district councils have explained that, even under current conditions, maintaining present service levels will be a challenge. Given that key regulatory and other policy decisions (for example, the setting of local government salaries in the central bargaining council) are taken by national and provincial government, will local communities be able to pursue their own growth and development strategies? And will the national government support local efforts where, for example, building competitive, viable cities and towns involves hard decisions on retrenchments and the disposal of assets that carry political costs? This issue is almost never discussed when local government transformation is talked about. However Johannesburg has discovered – as we have heard today – that local government transformation is intimately tied up with these issues. Other cities and towns will no doubt have the same experience.

In looking at the transformation of local government, it is tempting to see the forthcoming elections as the end of a period of hard work by the government, the parliamentary portfolio committee, the demarcation board, and others. Unfortunately, this is only the beginning of a long road.

The test of all this work will be whether our cities and towns will actually deliver for all the people who live in them. That is the criterion against which we – as citizens, lawmakers or officials – have to assess whether we are making progress or not. Many municipalities are struggling to balance their books, keep the businesses they have, and attract new investment. They have to deal simultaneously with expanding populations and an increased demand for services. Their only chance of beginning to deal with poverty and the legacy of racial discrimination is if they can generate increased economic growth. This

will not be enough on its own, but without growth very few people's lives will improve, and things will actually get worse.

Economic development in the urban areas requires far greater attention to the fundamentals of growth. Business participants in this round table feel that much more attention should be paid to the question of how the necessary infrastructure for economic development should be provided. This involves training, education, and basic health, but also has to do with transport, telecommunications, appropriately serviced industrial and commercial sites, and other infrastructure that companies need to survive and compete.

These realities raise some big and politically uncomfortable questions for the people involved in this process. We have to focus on the right issues. That means, for example, that unless telecommunications are restructured and deregulated to improve efficiency and drive down prices, South African cities and (particularly) small distant towns will become increasingly unattractive places in which to do business. If we do not do this, we will struggle to keep the jobs we have, let alone create new opportunities.

Local economic development

Without economic growth and expanding employment, local authorities will be delivering services to people who will increasingly be unable to pay for them. The NT has clearly indicated that it will not bail out municipalities in financial difficulties unless their financial regulation and management systems have really improved. Even so, given the government's macroeconomic commitments, money is scarce.

Brits's city engineer has pointed out that services payment levels of 95 percent are simply not good enough, even before demarcation has effectively doubled this municipality's size and trebled its

Much more attention should be paid to how the necessary infrastructure for economic growth is to be provided

population. Given the envisaged increased demand for services arising out of the incorporation of new areas, the Pretoria metro needs to sustain repayment levels of close to 98 per cent – a major challenge. According to Project Viability, local government nationally loses up to 40 percent of its potential revenue through theft, non-payment, and other inefficiencies resulting from decaying infrastructure. The implication is that unless repayment levels improve significantly, essential services in most municipalities will decline, with little revenue left over for investment in infrastructure to lure investors and grow the local economy.

The MDB chair, DPLC director, and nearly every representative of local government have identified local economic development and improved infrastructure as central to addressing poverty alleviation. The question must be asked: how will this happen under the new system? Rising unemployment, growing demand for services, and a declining municipal revenue base clearly restrict the ways in which local municipalities can facilitate local economic development. Municipalities often lack the financial and other resources to support local economic development initiatives such as tourism and local business advice centres. Yet many local councils are not involved in partnerships with the private sector, and do not run their towns or cities according to business principles. These issues should be front and centre in the debate, but they are not. This is cause for grave concern.

Strategic leadership by national government

The government needs to provide leadership to ensure that local government reforms are successfully implemented, and challenges and setbacks anticipated and resolved. We have been told that demarcation was carried out without clear guidance on the place of traditional

authorities in the new municipal system, with potentially significant and negative consequences. We have heard senior officials call on government to resolve which department is in charge of the process, and to provide the necessary leadership. Participants' concerns that there has been too much change all at once, and in the wrong sequence, relate back to a lack of leadership.

The country is now entering a very demanding phase of change, with new municipal structures being established nationwide. This is the most ambitious programme of local government transformation ever attempted in South Africa. Several participants have remarked on the government's poor track record in implementing good plans and frameworks. Can local government be successfully transformed without someone co-ordinating, integrating, and leading the process? Participants from local municipalities and senior government officials have indicated that they are all pulling in different directions, and that the service delivery efforts of local, provincial and national governments are insufficiently co-ordinated. CDE strongly agrees with the DPLC director that, as a matter of priority, agreement should be reached on the strategic framework within which these reforms are to be implemented, solutions to outstanding issues found, and critical services co-ordinated, financed and delivered.

The leadership problem rather dramatically underlined in the day's discussions must be resolved as quickly as possible, so that this very demanding process of wholesale change in the local government system is managed with confidence and coherence. The phase after the demarcation changes and the local government elections will require a long period of intensive work to ensure that the country emerges from this transformation with a better system of local government.

Participants' concerns that there has been too much change all at once, and in the wrong sequence, relate back to a lack of leadership. The serious leadership problem must be resolved

There are no guarantees of that at this stage of the process.

Clear guidelines need to be provided as quickly as possible for newly demarcated local authority areas. Co-ordination and greater integration of the approaches of different departments and levels of government affecting service delivery require resolution and assertive leadership.

The success of the local government transformation will be seen in the results that emerge. Local authorities need to know what is expected of them in the new dispensation. What strategies should be followed to yield the kind of development we desperately need? Without strong and realistic leadership, the country could be heading for a scenario of confusion and setbacks, with negative consequences for growth and delivery. This leadership and co-ordination must provide clear frameworks for practical action, but without imposing uniform regulations that make it impossible for individual municipalities to prioritise steps and set standards that meet

their particular circumstances.

Thinking about the administrative challenges facing the country in terms of local government reform should not lead us to forget that citizens will measure success in terms of the actual services delivered, as well as their economic prospects. The title of the white paper on local government – *Developmental local government* – was a good one (even if we disagree with much of its contents). Given the country's socio-economic disparities, the real debate is on how the country will achieve the economic growth and management capacity necessary to deliver in a sustainable way. Local government transformation and the process of demarcation are a large and ambitious project, with many desirable goals and objectives. Unfortunately, it appears to be failing in many of the aspects of detail that will facilitate the implementation of its objectives, and lead to successful results. This round table discussion has raised issues of considerable concern.

The real debate is on how the country will achieve the economic growth and management capacity necessary to deliver in a sustainable way

‘This is the most ambitious programme of local government transformation ever attempted in South Africa. The discussion has raised issues of considerable concern, and there is no guarantee of success at this stage of the process.’



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 Pilrig Place, 5 Eton Road, Parktown, Johannesburg 2193, South Africa
 P O Box 1936, Johannesburg 2000, South Africa
 Tel 27-11-482 5140 Fax 27-11-482 5089
 e-mail: info@cde.org.za
<http://www.cde.org.za>

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