EXECUTIVE SUMMARY

The recent, globally induced recession and its aftermath have resulted in pressure to get the economy moving, to confront the problems of sluggish exports and to lower high unemployment. The economic crisis has highlighted the growing vulnerabilities that arise from the increasing inter-connectedness of economies. Despite originating in other countries, the crisis has had significant negative ramifications for South Africa and is expected to continue to stall the reduction of poverty and inequality. Despite recent modest economic growth and reduced overall levels of national poverty over several years, South Africa is trapped in a cycle of high inequality and extremely high unemployment. Persistent legacy issues associated with apartheid continue to undermine economic efficiency, job creation and economic growth. Empirical evidence suggests that growth has not always led to more and better jobs – or to increased income opportunities – for the vast majority of the poor, particularly women and youth. Furthermore, regional and ethnic variations and inequities continue to exist (geographically as well as across income groups). Clearly, economic growth alone does not guarantee that the poor and the marginalised will participate in, and benefit from, a growing economy. The existing economic structure coupled with the fact that the country's growth centres are operating from an aging industrial-era infrastructure, which is not labour absorbing but highly capital intensive, suggests scope to focus on policy interventions that create conditions for long-term economic development. Very little systematic thinking has been done around how the Intergovernmental Fiscal Relations (IGFR) system should respond to these pressing social and economic issues, which transcend administrative jurisdictions (i.e. municipal or provincial boundaries).

The past two decades have added a new dimension to the challenge facing South Africa, as the emergence of the global knowledge economy results in the structural transformation of economies around the world. New skills and competencies are required in order to enter and thrive in today's labour markets. Economies are becoming increasingly knowledge intensive and technology based, which is leading to new socio-economic (and indeed regional) gaps, between those who have the right skill sets (or have access to the latest knowledge and information) and those who do not. South Africa is lagging behind in identifying and nurturing these competencies and skills. The lack of awareness and understanding of the policy reforms required to respond to the demands of a knowledge economy is limiting the country's ability to meet inclusive growth as set out in its priorities.

The goal of the 2013/14 *Submission for the Division of Revenue* is to propose new insights and options for promoting policies that facilitate inclusive growth. The key hypothesis underlying the approach is that, despite tensions between growth and inclusion, growth can lead to increased economic opportunities for the poor and reduced inequality. The Submission specifically explores what local, provincial and national governments might do to enhance stronger economic development and more employment. The focus is on the IGFR system's instruments that contribute to economic development (of regions), and the transmission mechanisms, and how they unblock structural obstacles to inclusive growth. When looking specifically at the emerging knowledge economy, a key challenge for the intergovernmental system is that the emerging functional economic regions will typically not match the administrative geographic jurisdictions (such as municipalities and provinces) but transcend them in ways that will change dynamically over time. In all this, the aim is to investigate how the different elements of the IGFR system, as well as the different spheres of government, can be used efficiently to address inclusive growth and stimulate innovation[1].

The Submission is divided into three interrelated parts and contains 10 chapters. Part 1 is on *Supporting inclusive growth: jobs, knowledge and regional development.* Part 2 is on *Climate change and environmental sustainability: opportunities and risks for inclusive growth and innovation.* Part 3 of the Submission brings in capacity and equity issues and is entitled *Institutional development for inclusive growth and innovation.* A unifying theme underpinning the three parts is the role of the innovation and knowledge economy in facilitating inclusive development. This is organised around two thematic focuses: (i) enhancing the framework for subnational development and innovation; and (ii) facilitating growth with jobs.

The Submission explores specifically unemployment in general and that of the youth in particular. One way to move people out of poverty is to ensure that the intergovernmental fiscal system supports job creation and regional development. Since the poor are disproportionately affected by disasters and climate change, a pro-poor intergovernmental relations system

1 Participation and development in innovation affect South Africa unequally. For example, government and university expenditure on R&D is focused almost exclusively in Gauteng (i.e. innovation happens mainly in metros and not as much in district and local municipalities). Given the correlation between lack of innovation and inequality, this has implications for the FFC's intergovernmental mandate.

should mitigate this risk. Finally, the poor also rely mainly on public services. Therefore, they are the hardest hit if the capacities of all spheres of government are not sufficient to ensure that grant allocations etc. are converted to effective delivery of services to those who need them most. Hence, the need is to focus on institutional development and innovation. Gender and capacity enhancement is a cross-cutting theme, with an emphasis on women's economic empowerment. Exploring synergies with climate change, the Submission gradually builds recommendations on issues related to environmental sustainability, and in particular 'green growth', which constitutes the bedrock of sustainable development.

Below is the list of the recommendations of the Commission for the 2013/14 Division of Revenue.

With respect to unemployment and the intergovernmental transfer system, the Commission recommends that government should:

- Re-direct government spending towards those activities that directly or indirectly create jobs through enhancing productivity performance. Activities such as healthcare, durable goods manufacturing, agriculture, community services, and hospitality and food service should also form the basis of much of the expanded infrastructure expenditure plan which traditionally have gone chiefly to construction activities (e.g. building highways and bridges, dams and flood control structures).

- Promote lower-paying positions, which have the highest potential for the most job gains, including those found in the informal service sector (which can help undo the losses felt by groups hardest hit by the recession of 2008–2009).

- Reduce unemployment by addressing factors other than the weak demand for goods and services. This should be done by:

    - Re-designing the state procurement framework to incorporate and grow the informal economy and formal micro-enterprises, e.g. requiring recipients of large government contracts to include an informal sector partner in their tender submissions. In addition, the Department of Performance Monitoring and Evaluation should stringently monitor the outcomes of these contracts.

    - Earmarking government procurement contracts for low-technology or service-oriented contracts (e.g. catering) for informal sector companies or micro-enterprises.

    - Better targeting of supply-side interventions for re-skilling, mobility. These policies could be implemented using mechanisms such as block grants (e.g. transport subsidy for unemployed vulnerable groups (women, youth and the disabled) so that they are better connected to employment opportunities and improving labour market information availability).

- Encourage, particularly through the relevant Departments of Labour and Performance Monitoring and Evaluation, those companies that are yielding the highest employment levels both directly and indirectly. This would entail:

    - setting up an employment performance-reward scheme for enterprises that excel in job creation

    - publicising the scheme widely and giving it a high profile.

- Develop and implement credible job plans for each sphere of government. To unblock prisoner's dilemma scenarios and work towards amicable social compacts:

    - Provide clarity on permitted and non-permitted economic activity through the job plans

    - Ensure coherence and coordination of the plans across boundaries

    - Ensure collaboration across a broad set of actors – not only employers, but also unions, economic development agencies, Sector Education and Training Authorities (SETAs), secondary schools, colleges, universities, vocational training centres and business support providers and

    - Ensure the plans are used in the budget process

    - Use the criteria proposed in Box 1.1 in Chapter 1 to evaluate respective job plans.

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With respect to financing e-education and achieving policy goals in public ordinary schools in South Africa, the Commission recommends that:

- The e-education policy should be funded as a part of government's operating budget for the programme, just like teacher salaries, school buildings and other teaching aids.

- A well-structured, inter-governmental financing mechanism should be established with explicit guidelines to provincial departments of education regarding the budget line items that must be prioritised in their annual budget allocations, as well as those budget line items that will be contained in the national budget allocation. Decisions on the particular line items can be informed by a review of policy documents and various studies conducted on e-education over several years and by a broader review of the available knowledge of e-education financing across the globe.

- The national and provincial education sector requires firm and expert guidance on designing e-education, and such expertise should relate to e-education, not merely to information technology. In order to promote advances in e-education, it may be necessary to consider the establishment of an e-Education Commission, constituted of government officials and e-education specialists to act as an advisory body.

- Limited data is available on e-education expenditure and specifically on e-learning expenditure, despite clear policy goals adopted in 2004 and targets established for 2013. This should be remedied through reporting on e-learning budget allocations and expenditure and, more broadly, on e-education in the annual reporting process. Such data can inform national and provincial planning, curriculum design and the development of education human resources. It can also inform the work of an e-Education Commission, enabling such a structure to advise government effectively. Furthermore, explicit reporting on financial data will enable a better analysis of the strengths and weaknesses relevant to achieving the policy goals of the White Paper on e-Education. As a baseline, the data set out in the Table 2.6 in Chapter 2 would be required.

- In addition to the above, the impact of e-education policy and financing should be continuously assessed, taking into account cross-departmental issues and supporting measures from a range of government departments and relevant public sector bodies (Department of Basic Education, Department of Higher Education and Training, Department of Labour, Department of Science and Technology, Department of Communications, metropolitan municipalities, ICASA and others).

    - Such assessment would consider both school-level and economy-wide impacts. From an analytical perspective, the requirements would be twofold:

        - To understand how e-education affects students' decisions about acquiring ongoing skills in the education system (econometric analysis coupled with case studies, repeated over time);

        - To consider interactions between e-education and the rest of the economy. Quantifying these interactions allows the value of various policy and financing options to be compared.

- When the delivery agreement on *Outcome 5: Build a skilled and capable labour force* is next reviewed, greater emphasis should be given to overseeing the implementation of the e-education policy, noting in particular the sub-output "Enhance research, development and innovation in human capital for a growing knowledge economy". Most of the relevant departments are already signatories to the agreement, and the delivery forum can be expanded to include other relevant role players such as those mentioned in (4) (b) above. Thus, using existing coordination structures, progress on e-education can be reported to Cabinet on a quarterly basis, thereby raising the profile of e-education.

With respect to funding higher education and the post-school system as a whole, the Commission recommends that:

- Government should introduce a differentiated funding framework for a differentiated public university system, by shifting from a unitary system to three funding frameworks – one for each cluster.

    - For Cluster 1: this funding framework would reward further advances in equity, development and improved performance in the input and output indicators;

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- For Cluster 2: this funding framework would reward improved performance in the input and output indicators, and moving up into Cluster 1; and

- For Cluster 3: this funding framework would reward improved performance in the input and output indicators, and moving up into Cluster 2, pushing for performance in order to win rewards.

- In order to better understand and analyse the performance and funding of the further education training (FET) sector, government should expand the HEMIS system to incorporate FET sector data, or introduce a parallel system to collect relevant data for analysis of the FET sector, a FEMIS (further education management information system). Readily available financial, funding and performance data is needed to inform a future funding framework and annual funding allocations, and to support decision making by FET colleges.

With respect to addressing impacts of climate change in rural areas, the Commission recommends that:

- The Department of Environmental Affairs (DEA) and the National Disaster Management Centre (NDMC) should develop a municipal vulnerability index and disaster-risk modelling tools to assist municipalities assess their vulnerability to climate change and non-climate change disasters and determine associated contingent liabilities.

- The DEA and NDMC should:

  - Develop a standardised Vulnerability Index that government can adopt as the basis for:

    i. identifying and monitoring municipal jurisdictions and municipalities that are most vulnerable to disasters;

    ii. coordinating and providing targeted national and provincial support to vulnerable municipalities;

    iii. enabling improved planning and risk management by all municipalities.

  - The vulnerability index, at a minimum, should take into account the exposure, sensitivity and adaptive capacity of an area to disasters. Suggested indicators for these criteria are provided in the Technical Report that accompanies this Submission.

  - Standardise and use disaster-risk modelling techniques to project the potential damage of disasters on human life, livelihoods, infrastructure and property. For example, the estimated number of people who will become homeless, the number of buildings that will have to be rebuilt and the cost of reconstruction operations;

  - Develop and implement a government-wide national climate change programme, which includes monitoring climatic and oceanic parameters, ecosystem health (rivers, wetlands, estuaries, marine and terrestrial systems) and socio-economic variables.

- The Department of Cooperative Governance (DCoG) should adjust the objectives, terms and conditions, and procedures of the MIG (municipal infrastructure grant) to:

  - Permit municipalities to use grant funds for climate adaptation and mitigation investments that involve creating, rehabilitating or modifying municipal infrastructure and,

  - Ensure that these investments prioritise and directly address the vulnerabilities faced by poor households.

- The DCoG should restructure the Special Municipal Infrastructure Grant component of the MIG in order to:

  - Allow municipalities to acquire or rehabilitate ecological infrastructure (such as coastal dunes or mangroves that provide natural protection from excessive storm surge and other weather events), provided that the return on investment is greater than a comparable engineering solution;

  - Provide a funding window for rural municipalities to receive resources from the Green Fund and similar global resources (e.g. the World Bank Clean Technology Fund and the newly established Green Climate Fund) in accordance with their terms and conditions.

- The Department of Agriculture, Forestry and Fisheries (DAFF) should expand support services for small-scale farmers to encourage them to adopt climate-resilient farming strategies aimed at adapting and mitigating the projected local effects of climate change through:
  - Advice on diversification, mixed-cropping, drought-resistant crops and efficient irrigation systems;
  - Improved access to financial services and instruments (such as micro-credit and weather-based insurance) that can help lower their risk exposures.

With respect to alternative financing mechanisms for disaster management, it is recommended that:

- The Minister for Cooperative Governance and Traditional Affairs should streamline guidelines and gazette uniform standards governing and guiding the classification, declaration, assessment and response to disaster events in terms of the Disaster Management Act (DMA) and National Disaster Management Framework (NDMF). The absence of a standardised and coordinated approach to damage assessment and relief provision to people affected by disasters results in unnecessary duplication of effort and funding across government and delays in response and rehabilitation efforts.
- The DCoG should, through the DMA, require municipalities, starting with the most vulnerable, to incorporate in their Integrated Development Plans (IDPs) disaster-risk reduction evaluations, strategies and measures, including:
  - The development and enforcement of *land-use planning* and management measures so as to reduce infrastructure being built on seismic fault lines, in coastal regions subject to storm drainage and river shorelines subject to frequent floods;
  - The development and enforcement of *buildings standards* (or retrofitting requirements) to ensure adequate robustness against earthquakes or cyclones.
  - Engineering interventions to mitigate the degradation of environmental assets (such as soil erosion) through the creation of *dams* for flood control, *fire breaks*, and *sea walls* to break storm surges; and
  - Financing strategies for these measures.
- Government should develop a policy framework for municipal disaster risk financing that:
  - Differentiates between municipalities based on their vulnerabilities and fiscal capacities;
  - Leverages private resources to fund long-term disaster risk management by combining private risk financing, intergovernmental grant financing (including the Green Fund) and municipal own revenues;
  - Encourages and incentivises, where appropriate, the use of innovative market-based financing of disaster relief and recovery. Instruments that can be considered include sovereign insurance, risk pooling, reinsurance, index-based insurance, weather derivatives, micro-insurance, and catastrophe bonds.
- The National Treasury should require that environmental management and vulnerability objectives are explicitly incorporated into the design of existing key municipal grant programmes. These objectives should promote disaster risk-reduction methods (*ex ante* approach) and enhance municipal resilience to climate change through mitigation and adaptation methods. They should:
  - Include the Integrated Housing and Human Settlement Development Grant, the Urban Settlements Development Grant, the Municipal Infrastructure Grant, the National Electrification Grant, the Public Transport Infrastructure and Systems Grant and the Regional Bulk Infrastructure Grant;
  - Incorporate a statement of environmental and climate resilience objectives in each grant programme, together with measurable indicators;
  - Prioritise the most vulnerable municipalities when determining the horizontal division of available resources in each programme;

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    - Provide for beneficiary municipalities to conduct appropriate climate-resilience evaluations on existing infrastructure over the medium term, subject to disaster risk-reduction methods being incorporated in respective IDPs;

    - Be accompanied by capacity support to and engagement with the most vulnerable municipalities to ensure that they are able to identify and address disaster risks comprehensively.

With respect to financing of waste management, the Commission recommends that:

- By the end of the 2015/2016 financial year, government should phase in full cost accounting (FCA) for solid waste management within municipalities. To achieve this goal:

    - Government should develop specific FCA guidelines for integrated municipal solid waste management that addresses the specific and inter-related environmental and service delivery needs of the sector, within the framework of activity-based costing that the National Treasury is introducing.

    - Government should develop a capacity-support programme to implement the guidelines that allows a phased introduction of FCA starting with high-capacity municipalities that face major solid waste management challenges.

- Government should take greater advantage of the opportunities for job creation in the solid waste sector, by incentivising municipalities to create 'green' jobs through labour-intensive service delivery. In particular:

    - The Department of Public Works should review the Expanded Public Works Programme (EPWP), which may negatively impact on the ability of municipalities to support job creation in the sector due to the comparatively higher capital costs associated with solid waste collection and recycling activities;

    - The Department of Cooperative Governance (DCoG) should review the funding conditions of the Municipal Infrastructure Grant (MIG) to ensure that local-level municipal waste management assets are eligible for financing.

    - A portion of resources from the recently established Green Fund should provide transitional financial support to municipalities that introduce innovative, labour-intensive waste collection, reduction and recycling mechanisms to areas where services are currently inadequate. These might include developing small waste collection and recycling contractors, or community cooperatives to manage waste buy-back centres and materials recovery facilities;

    - The DEA should develop municipal guidelines and regulations that support community involvement in waste management activities through community-based trusts and partnerships.

- The DEA should delay implementing the regionalisation of solid waste landfills policy until the fiscal risks and benefits for municipalities are better understood, and adequate decision-support measures for municipalities are in place. In particular:

    - The DEA should commission a full cost-benefit analysis of regionalisation options, to ensure appropriately scaled projects within a fiscally sustainable licencing and service delivery framework;

    - The DEA should develop adequate decision-support tools to guide municipal choices on appropriate investments and the associated governance frameworks, including the use of multi-jurisdictional Municipal Service Districts where appropriate.

    - The Commission notes its availability to assist the DEA, on request, to explore further the policy options and risk mitigation tools associated with regionalisation proposals.

- Government should emphasise the expansion of access to solid waste services to poor communities, while strengthening the policy framework for the provision of refuse removal free basic services (FBS). In particular:
    - The DCoG should review the MIG guidelines to ensure that (i) adequate funding for solid waste assets is available to municipalities with weaker fiscal capacity; and (ii) expenditures on specialised vehicles and equipment required for solid waste management services are eligible for financing;
    - The DEA should prioritise support to municipalities seeking to expand services to poor communities using labour-intensive service delivery, including investigating potential fiscal instruments that might be incorporated with the EPWP or Green Fund;
    - The DEA should commission a review of the refuse removal FBS policy, with a specific focus on its impacts on (i) expanding and sustaining services to poor households; (ii) the affordability and quality of service to poor households; (iii) environmental impacts, such as the extent of reduction in illegal dumping.

With respect to alternative aggregate revenue and expenditure assignments for provinces and municipalities, it is recommended that:

- Key principles of national strategies such as the New Growth Path (NGP) document and National Planning Commission's (NPC) Vision for 2030 need to permeate provincial and local strategies. This can be achieved by translating these principles into complete sub-national strategies with full details on sustained implementation, followed by provincial and local governments' commitment to achieve the goals identified in the strategies.
    - Key components for sub-national government to consider are capital and labour inputs, and multifactor productivity. Provincial and municipal governments should continue to invest in physical and human capital, focusing specifically on issues such as lack of adequate skills and physical infrastructure needs (maintenance, better location, etc.). In addition, effective management and accountability mechanisms should be aimed at increasing multifactor productivity.
- The results reported in this chapter imply that economic development powers are well-placed at the provincial level, while economic growth powers could be better placed at the municipal level.
- Municipalities, and particularly non-metropolitan municipalities, should be encouraged to play a more direct role in economic growth. This can be achieved by:
    - National government assigning greater revenue and tax handles to the municipalities than is presently the case;
    - Reassessing all elements to support the growth-enhancing roles of municipalities, when reviewing the fiscal framework. These elements would include the local equitable share (LES), local own-revenue sources (e.g. local business taxes) and conditional grants.
        - Such re-assessment should also ensure a better balance between equity and growth objectives in the local government fiscal framework.
- Municipalities are not necessarily doing a good job of collecting revenue from the public. Hence, municipalities need to improve their revenue-collection efforts, as these can contribute positively towards economic growth.[2]
    - It is well known that in South Africa some municipalities (for example, metropolitan municipalities) are raising substantial revenues, while other municipalities are still very dependent on transfers from national government.
    - Issues that need to be addressed include weak capacity within local administrations, small tax bases, delivery of free basic services requiring high municipal expenditures (that can only be financed through national transfers), and a lack of 'payment culture' for services.

2 In its 2012/13 Annual Submission, the Commission had made some recommendations aimed at improving revenue performance of municipalities in South Africa which are still relevant. These include (among others) regular updating and maintaining of data and information on indigents, outsourcing of functions, establishing municipal service districts and expanding the powers of municipalities to exercise more punitive recovery measures.

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With respect to alternative service delivery arrangements (with a focus on municipal agencies), the Commission recommends that:

- Government's approach to regulating agency formulation should balance maximising the potential benefits of utilising an alternative service delivery (ASD) arrangement with minimising the attendant risks. In the quest to improve performance and efficiency, ASD arrangements may (in appropriate circumstances) provide a creative way for municipalities to deliver services, particularly against the backdrop of limited financial and human capital resources. Therefore, the regulatory framework for municipal entities should ensure that:

    - The use of an ASD arrangement is contingent on a demonstrably sound business case for its establishment and sustainable operation;

    - Unnecessary, costly and time-consuming regulations are avoided. To this end, government should review existing legislation, specifically Section 77 and Section 78 of the Municipal Systems Act and Section 33 of the MFMA, which places onerous demands on municipalities wanting to use an ASD arrangement.

- Establishment of municipal agencies, or any ASD arrangement, should be linked to the parent municipality having an adequate level of performance and effective oversight ability. Determining whether performance is adequate or not should be linked to the audit outcomes of the parent municipality. Government should discourage the creation of agencies where the parent municipality is manifestly weak; for example, if the municipality is found to have a severely qualified, adverse or disclaimed audit result.

- Legislation that requires municipal entities to make public details of their performance and plans (as required in terms of Section 127(5) (a) (i) of the MFMA) should be strictly enforced, and non-compliance reported to the Auditor-General. This is necessary not only for compliance but also for greater transparency of agency performance, thereby enabling better monitoring and oversight by parent municipalities and treasuries.

- Government should establish a central portal of financial and performance-related information on municipal agencies. Such a facility could also serve as a peer-learning mechanism through which success stories are shared. Municipalities and agencies could also use the information to benchmark their performance, while greater public availability of this information will improve oversight and transparency. National government should take a more proactive approach, perhaps through the National Treasury's PPP Unit, to advising municipalities, especially lesser resourced ones, on the applicability of using an ASD arrangements in different instances.

- Government (particularly the National Treasury's PPP Unit) should put together a list of criteria to assist municipalities in deciding whether a sound business case for the creation of entities exists. The criteria should:

    - Establish whether benefits exceed potential costs;

    - Ensure potential risks are mitigated;

    - Focus on aspects such as measurability and asset specificity of the service in question.

With respect to the dynamics of capacity challenges at local government level, the Commission recommends that:

- Capacity-building efforts should be comprehensive and sustainable, instead of quick-fix, short-term solutions. To this end, it is necessary to:

    - Establish a single capacity-support agreement per municipality. This agreement should stipulate all actions to be undertaken by national and provincial government and other relevant role-players. Measurable objectives for capacity-development programmes should be clearly defined (relative to credible baselines) and independent exit evaluations should be compulsory.

- Environmental constraints, specifically with respect to the allocation of powers and functions and the formulation of conditional grants, may need to be simultaneously adjusted.

- With respect to capacity-related conditional grants:

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- The grants' conditionality must commit municipalities to specific, independently verifiable capacity and performance improvements.

- Grants should be redesigned to consider the quality of capacity-building interventions, instead of having a narrow quantitative focus.

- An external, objective evaluation dimension should also be included in capacity grant requirements

- Capacity-building interventions should holistically coordinate individual, organisational and institutional-level dimensions of capacity building in a particular municipality over the medium term. Instead of focusing disproportionately on training, support programmes should include technical support for new systems, business process redesign and change management, based on an assessment of the relevant municipality:

  - Individual: officials must have the necessary technical skills, knowledge, experience and competencies to fulfil their particular functions. This means appointing the correct person to the correct post (adherence to recruitment, selection and any minimum competency requirements) and ensuring that officials then receive training (both accredited and non-accredited) relevant to their areas of responsibilities, to ensure continued workplace effectiveness..

  - Organisational: municipalities should be supported in compiling realistic IDPs, implementing functional and effective performance management systems and knowledge management policies, to enhance organisational memory and data management, and to ensure accurate and relevant reporting. Critical vacancies must also be filled and workable staff-retention strategies implemented. Skilled individuals must be appointed to vacant positions for which affirmative action candidates cannot be found, and audits should be conducted of municipal positions that fall outside the approved organisational structures.

  - Institutional: greater differentiation and flexibility is required in the design of the local government fiscal framework. A differentiated approach is needed for the assignment of functions to municipalities, based on their capacity to effectively manage them. Once a municipality has proved its ability to provide a specific basket of services, decisions can be made regarding expanding the range of services provided by such a municipality. Where service delivery failures persist, such services should be removed from municipalities. Furthermore, the establishment of a coordinated capacity-building function across all local government departments is recommended. These actions must be complemented by simplified, streamlined and coordinated reporting requirements for local government and clearly defined roles and responsibilities for national and provincial departments. To assist rural municipalities, the value and practicality of an assistance programme should be explored, aimed at attracting and retaining scarce skills in these areas (similar to the scarce skills payments made to doctors in rural areas).

- To improve municipal capacity, the medium and senior management of municipalities need urgently to be stabilised, through greater insulation from political interference in the retention of skills and in the recruitment process. The link between actual performance of managers and the renewal (or not) of performance contracts should be strengthened. The human-resource function within municipalities needs to be proactive in identifying possible incentives for retaining scarce skills and ensuring that roles and responsibilities are clearly defined within municipal job descriptions. This challenge will also only be solved through increasing the pool of available people to fill vacant positions.

- Minimum competencies as entrenched in the MFMA should be enforced so as to ensure that appropriate technical skills are in place. Based on field work conducted by the Commission, the following functions require particular attention: revenue management, supply chain management, sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers.

With respect to assessing gender-responsive budgeting in the local government, the Commission recommends that:

- National and provincial governments should:
    - Run gender budgeting pilots in a few municipalities first and evaluate results before wider application. These pilots could be linked to ensuring gender disaggregated data for key conditional grants as part of the grant framework in the Division of Revenue Act.
    - Ensure municipal IDPs institutionalise gender planning by sector (e.g. water and sanitation, LED etc.) and include gender disaggregated performance indicators and targets.
    - Provide gender budgeting good practice guides and toolkits.
    - Provide guidelines for collecting sex-disaggregated data for budgeting processes and ensure that municipalities have the capacity to analyse budgets from a gender perspective.
- Local government should:
    - Institutionalise gender-responsive budgeting process linked to IDPs.
    - Build capacity for gender mainstreaming and GRB at local level.
    - Ensure gender-responsive appropriations and budget allocations.
    - Ensure gender-sensitive public participation and consultations at local level.

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