



BRIEFING ON THE SUBMISSION FOR THE 2018/19 DIVISION OF REVENUE

1 August 2017

For an Equitable Sharing of National Revenue

BACKGROUND TO THE SUBMISSION

- Submission made in terms of:
 - Section 214(1) of the Constitution (1996)
 - Section 9 of the Intergovernmental Fiscal Relations Act (1998)
 - Section 4(4c) of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009)
- Theme of 2018/19 Submission is: *Intergovernmental Fiscal Relations System and Urban Development in South Africa*
 - Aim of submission: to make use of the potential of accelerated urbanisation using intergovernmental fiscal relations and tools to drive positive transformation of the economy toward attainment of rapid economic growth that reduces inequality and eliminates poverty

OUTLINE OF SUBMISSION CHAPTERS

PART 1. Macroeconomic parameters underpinning urban development

- Chapter 1: Introduction to Urban Development and Intergovernmental Fiscal Relations
- Chapter 2: Assessment of Integrated Urban Development Framework and Cities Support Programme
- Chapter 3: Cities Compaction: An Evaluation of Legislation and Policies

PART 2. City level productivity, competitiveness and wellbeing of residents

- Chapter 4: Transport and Mobility
- Chapter 5: Aligning Urban Housing Supply and the Unhoused Urban Population
- Chapter 6: Implications of Urbanisation Induced Learner Mobility on Education Planning and Funding
- Chapter 7: Industrial Diversity and Economic Performance in Urban Municipalities
- Chapter 8: Effects of Municipal Spending on Urban Employment
- Chapter 9: Funding and Policy to Support Urban Informal Employment

PART 3. Local Government Issues

- Chapter 10: Information Communication Technology and City Governance
- Chapter 11: Financing of Urban Municipalities and Own Revenue Diversification

FOCUS OF PREVIOUS FFC RECOMMENDATIONS

Submission for DoR 2016/17: IGFR Challenges Associated with Public Infrastructure

Responding to South Africa's Infrastructure Challenges

Economic Growth Effects of Municipal Capital Spending

Review of Direct and Indirect Conditional Grants

Accountability in Infrastructure Delivery: The Case of the LG Sphere

Fiscal Arrangements for Financing ECD Infrastructure

Public Sector Productivity: The Case of Secondary Education

Improving Government Operations through Use of ICTs

Submission for DoR 2017/18: IGFR and Rural Development

Role of Targeted Intergovernmental Transfers in Rural Poverty Reduction

National Land Reform Programme and Rural Development

Fiscal Transfers and Own Revenue in Funding Provincial Rural Development Mandates

Financing Rural Local Municipalities for Rural Development

Effectiveness of Transfers to Local and District Municipalities for Rural Development

Reviewing Effectiveness of Sanitation Fiscal Instruments and Governance in Enhancing Rural Development

CHAPTER 1. INTRODUCTION TO URBAN DEVELOPMENT AND IGFR

- In South Africa, urban areas are important
 - Urban areas account for about 20% of the land
 - Proportion of urban population:
 - 18.2% in 1911
 - 54.6% in 2001
 - 62% currently
 - 70% by 2030 (projected)
 - Proportion increasing, urban population is increasing at a rapid rate leading to gap between demand and supply of urban services
- Approximately 60% of Gross Domestic Product (GDP) is derived from urban economy
- Larger cities are enhancing participation in the global economy and smaller ones absorbing most of the rural-urban migration and strengthening linkages to the rural economy
 - **Urbanization has thus emerged as a key policy and governance challenge in recent years**

CHAPTER 1. INTRODUCTION TO URBAN DEVELOPMENT AND IGFR [CONT.]

- The Problem/s:
 1. Rapid urbanization. Urban population increasing at a rapid rate leading to gap between demand and supply of urban services
 2. Stagnant Economy: Barely sustaining positive growth → poses serious challenges, given limited fiscal space
 3. Incidence of urban poverty has generally declined though number of urban poor still high. Urban migration has been the great escape valve in preventing a larger increase in rural poverty. Poverty has been displaced toward the urban environment
 4. Urban inequality is exceptionally high and increasing
- These problems are exacerbated by ineffective governance:
 - City governments not optimally geared for meeting the challenges
 - Insufficient funding particularly for infrastructure investment
 - Outside the metros urban governments are impeded by a costly 2-tier system (Local and District Municipalities)
 - City government also use obsolete management systems

• **Question is ‘How can IGFR instruments assist spheres of government in addressing these challenges’**

CHAPTER 1. DEFINITIONS AND APPROACHES

- Definition of urban: Two approaches are used in the Submission:
 - StatsSA’s criteria on urban and rural classification based on settlement types
 - Settlement types (2): Urban (formal & informal) and rural (traditional & rural)
 - Cascade down to municipal area
 - Municipalities (53): Metros, B1s and B2s (formal & informal)
- **Chapter sets the scene by building and using LT macro-micro model, in order to develop prospective scenarios for socio-economic consequences of government interventions from 2018 to 2030**
 - Model provides consistent framework to explore possible medium term developments, based on main structural features of the economy
 - This type of modeling allows combining detailed databases with a sound micro-based theoretical framework capturing the interdependence and inter-linkages of markets.

KEY RESULTS I

- Current economic situation, including its implications for sustainable development poses serious challenges. Within this context, the following key messages, distilled from a careful review of analyses and modelling, are of relevance for the implementation of the 2030 National Development Plan agenda:
 - Stability in the macroeconomic system underpins development
 - Spheres of government need adequate fiscal space for accelerating development
 - Development is multidimensional and context specific and driven by the structural transformation towards economic diversification, stable growth and improved living standards, balanced growth across the rural and industrial spaces
 - Development planning, coordination and State capacity are important for achieving results

KEY RESULTS II

- **Infrastructure provision**
 - Improved provision of infrastructure would be reflected in lower cost of service delivery in the medium term, and higher public spending (and related demand for investment goods) in the shorter run
 - The Gini coefficient would decline by 0.3 percentage point under the influence of three factors: higher direct taxes (mostly borne by richest households) to finance the investment; lower consumer prices for poor households who devote a larger share of their consumption to transport expenditures; and higher demand for informal labour
 - Dynamic effects would include (i) higher labor supply of unskilled labor, (ii) lower savings and private investments.
- The same applies to other public infrastructure (water in particular) and human capital

RECOMMENDATIONS

- Over the medium term, Government should continue with a gradual programme of fiscal consolidation that entails reducing the budget deficit moderately but consistently. Such efforts to preserve fiscal sustainability must be maintained in the future, even with the addition of longer-term programmes such as the National Health Insurance
- Government should actively and specifically continue pursuing the implementation of significant capital investment in public infrastructure that has a positive impact on total factor productivity and employment in the context of the National Development Plan
- National government develop and promote the development of urban-rural relations by:
 - Strengthening rural-urban linkages and policy coordination between rural and urban spaces;
 - Ensuring rural infrastructure investments are better targeted;
 - Promoting productive social safety nets; and
 - Providing incentives to encourage new industries and businesses in rural areas as a strategy to decongest urban areas

CHAPTER 2. ASSESSMENT OF INTEGRATED URBAN DEVELOPMENT FRAMEWORK AND CITIES SUPPORT PROGRAMME

- Contextual urban challenge:
 - Post-1994, Government introduced numerous policies driven by urgent need to address inequality and injustices of the past
 - In recent times, National Treasury has championed the Cities Support Programme while the Department of Cooperative Governance and Traditional Affairs coordinates the Integrated Urban Development Framework
 - Notwithstanding ongoing efforts, there is still rapid urbanisation, urban inequality and poverty
- Question: Are these urban policies, planning processes and practices a sound and adequate response to urbanisation challenges at the level of metropolitan cities?
- Methodology:
 - Chapter uses a combination of ex-post and ex-ante assessment methods {**ex-ante** ("before the event"), the opposite of **ex-ante** is **ex-post** (after the event)}

Ex-post assessment applied predominantly to programmes that have been in existence for a long time while ex-ante assessment used in cases where implementation is in progress

CHAPTER 2. FINDINGS OF THE RESEARCH

- The Urban Development Framework had intentions to deal with rapid urbanisation, urban poverty and inequality
 - Suffered from inconsistency in its championing, coordination and lacked a specific funding instrument and implementation plan
- The Cities Support Programme has a strong coordination element, as the programme works with national government to shift policy in a way that makes it easier for cities to work more efficiently, while working with cities to ensure economic growth and a reduction in poverty
- Taking lessons from the Urban Development Framework, the Integrated Urban Development Framework process of preparation was more inclusive and consultative
 - To ensure implementation, Integrated Urban Development Framework has identified coordination structures and also acknowledges Department of Cooperative Governance and Traditional Affairs as department responsible for integrated urban development and thus for collaborating with other stakeholders



Integrated Urban Development Framework is an over-arching and multi-sectoral framework but lacks a specific own funding instrument, hence its successful implementation is dependent on various actors

CHAPTER 2. RECOMMENDATIONS

- **The Department of Cooperative Governance and Traditional Affairs and Department of Planning, Monitoring and Evaluation continue strengthening coordination and monitoring mechanisms (by ensuring that departmental sector plans and strategic investments are aligned to local spatial plans and priorities) and coherent with national objectives espoused in the Integrated Urban Development Framework**
- **The Department of Cooperative Governance and Traditional Affairs and National Treasury consolidate the urban development related grants (for example incorporate the Integrated City Development Grant into the Urban Settlement Development Grant) so as to achieve the Integrated Urban Development Framework objectives and address urban development holistically**

CHAPTER 3. CITIES COMPACTION: AN EVALUATION OF LEGISLATION AND POLICIES

- Contextual Urban Challenge
 - In 2011 the Commission recommended that South Africa needed to pursue development of a compact city form as this urban form is more beneficial
 - Benefits included lower costs and expenditures by households, a reduction in public infrastructure investment requirements, smaller public transport subsidies, and less carbon emissions
 - The National Development Plan’s Vision 2030 also supports the “breaking down of apartheid geography” through among other things, developing more compact cities
 - The idea of creating compact cities is not new. Since democracy, an abundance of policies and frameworks have been developed promoting the role and potential of more compact and spatially-efficient cities
 - The Reconstruction and Development Programme of 1994, the Development Facilitation Act of 1995, the Urban Development Framework, of 1997, the Spatial Development Framework, the Integrated Zoning Schemes and several White Papers and other government policy statements support the need for compact cities
- Despite many strategies and policies espousing virtues of compact cities, urbanisation still characterised by sprawling. Against this backdrop, the chapter investigate whether city policies, spatial plans and regulations are responding to the call for compact cities and city regions

CHAPTER 3. CITIES COMPACTION: AN EVALUATION OF LEGISLATION AND POLICIES [CONT.]

- Research assessed current policies and institutional arrangements supporting the creation of compact cities to determine whether policies are consistent, mutually supportive and aligned to the spatial development agenda of the city and evaluated the incentives, grants and other fiscal instruments designed to support compaction
- Methodology
 - A three-pronged approach employed:
 - (i) Compaction policy reviews – using content analysis
 - (ii) Case studies
 - (iii) Focus-group and face-to-face interviews
 - The scope was limited to metropolitan municipalities in order to draw specific and direct conclusions about compaction in South Africa's cities. Metros interviewed for the research were Nelson Mandela Bay Municipality, the City of Johannesburg, the City of Tshwane and the City of Ekurhuleni

CHAPTER 3. FINDINGS OF THE RESEARCH

- Metros' strategies, frameworks and guidelines demonstrate a clear understanding of compaction. There were clear objectives outlining what a particular policy instrument aims to achieve regarding compaction, however, implementation guidelines were inadequate and in some instances completely absent
 - There are neither incentives nor specific funding instruments for compaction. Furthermore, while a number of fiscal instruments that fund the built environment and spatial restructuring make reference to Spatial Development Framework's at municipal level, they are often not aligned to municipal Spatial Development Framework's
 - For spatial restructuring, there are generally weak linkages between the Municipal Systems Act and the Municipal Financial Management Act
 - Personnel from city planning departments constantly develop strategies and policies that rarely make it into institutionalized implementation plans.
 - There is a lack of consistency in institutionalization of existing spatial plans and policies because compaction policies cut across different sector departments
 - Metros feel compaction efficiently funded through an incentive grant similar to Built Environment Performance Plans
 - Built Environment Performance Plans are a requirement of the Division of Revenue Act in respect of infrastructure grants related to the built environment of metros, and is one of the eligibility requirements for the Integrated City Development Grant
- But grants obtained for Built Environment Performance Plans are on their own insufficient to address compaction. Even though these grants are for spatial restructuring, compaction is treated as one of the many spatial restructuring plans and does not receive adequate attention and the required corresponding resources

CHAPTER 3. RECOMMENDATIONS

- National Treasury **introduces an incentive grant specifically targeted for city compaction, an urban form that has the potential to remedy ‘apartheid geography’ and bring the masses closer to opportunities of work and facilities.** The spatial development grants currently accessed through the Built Environment Performance Plans treat compaction as only but a small and negligible component of spatial transformation

CHAPTER 4. TRANSPORT AND MOBILITY

- Contextual Urban Challenge
 - Despite policy, implementation and performance of the full set of transport functions by urban municipalities has been relatively slow
 - Only 4 cities have an operational bus service covering part of the city out of 13 cities that have been receiving national grant funding for Integrated Public Transport Network implementation
 - Slow pace of cities acquiring assigned transport functions likely to perpetuate status quo in urban transportation (e.g. government spending more on public transport, costs of public transport falling disproportionately more on poor households, etc.)
 - Urban municipalities face various challenges preventing them from assuming transport functions contained in the National Land Transport Act such as: inadequate and unsustainable funding, lack of capacity to implement policy, inadequate institutional structures and lack of policy monitoring
 - This chapter investigates two main questions:
 - Extent to which financial constraints are part of the reason for the slow uptake and performance of the full set of public transport functions
 - Whether an urban municipality's own sources of revenue can play a role in supplementing existing funding streams, and in doing so, support the uptake of public transport functions in urban municipalities

CHAPTER 4. TRANSPORT AND MOBILITY

- Methodology
 - Adopted a combination of approaches – policy and budget analysis, stakeholder engagement and case studies
 - Findings of the research
 - A funding gap exists between what is required for urban municipalities to implement and manage public transport networks, versus the funding that is available – this is due to significant capital requirements, and significant operating shortfalls resulting from high costs and limited system revenues
 - If implemented efficiently, additional sources of income in large urban municipalities could provide additional sources of income for public transport functions
 - Most promising potential sources of income to close the funding gap in urban municipalities include the fuel levy, parking levies, parking tariffs and congestion charges
 - Implications of the findings
 - Additional alternative incomes sources do not solve funding challenge by themselves (with the exception of full retention of the fuel levy). Hence, national transfers to support public transport in large urban municipalities will still be required
-  – The current model of implementing the Public Transport Strategy is unaffordable. Instead, public transport costs should also be reduced and implementation approached incrementally to close the remainder of the funding gap.

CHAPTER 4. RECOMMENDATIONS

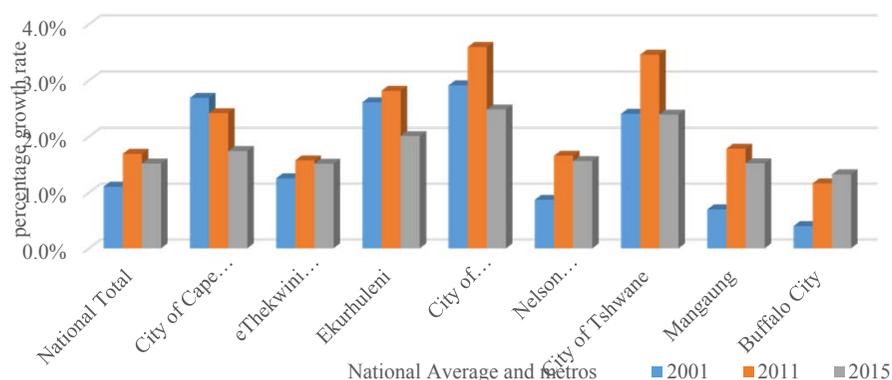
- The National Department of Transport should review the public transport network grant; investigate options to shift sources of funding towards retaining locally earned fiscal revenue, and ring fencing the local income sources for public transport use. Examples include possible retention of a larger portion of the fuel levy generated in the municipality
 - Develop case studies or support pilot projects in selected municipalities to develop key potential sources of funding; including funding related to parking, developer charges and ring fencing a portion of the fuel levy.
- National Department of Transport should approve and pilot the consolidation of public transport functions as defined in the National Land Transport Act within a well-capacitated city, with supporting funding (in line with previous Commission study). In this regard, the National Department of Transport should
 - Identify the most appropriate options for arrangements outside of large urban municipalities where financial resources and capacity to take on the integrated function are more limited and
 - Identify the legal and institutional structures needed to properly integrate planning and management across modes (including rail) into the broader management of municipal transport networks, which are also adequately funded by a conditional grant
- National Department of Transport should support the development of approaches to Integrated Public Transport Networks that support financial sustainability. These approaches should focus on leveraging the strengths of existing services, promoting incremental improvement of public transport based on affordability and impact, recognising the significant role that new technologies will play in providing demand responsive services, and considering alternative models of industry transformation. This could take the form of piloting and sharing learning from revised approaches to Integrated Public Transport Networks in one or more urban municipalities and should be funded through the Integrated Public Transport Network Grant or similar funding instrument

CHAPTER 5. ALIGNING URBAN HOUSING SUPPLY AND THE UNHOUSED URBAN POPULATION

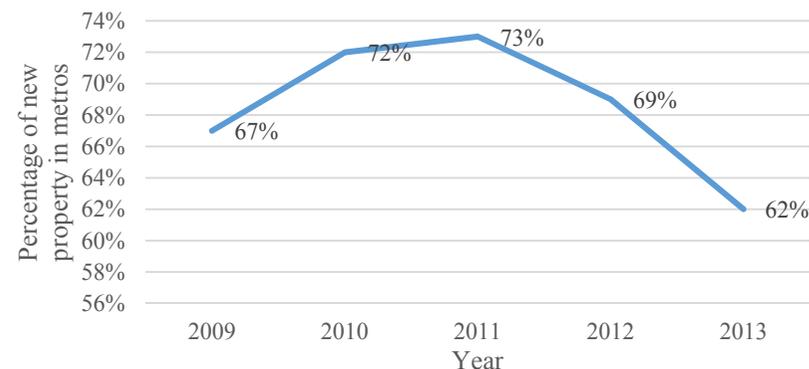
• Contextual Urban Challenge

- Population growth in urban population has not been matched by the number of new residential properties constructed and there has been a lack of understanding with respect to unhoused urban population and funding/policy and institutional constraints

Percentage of population growth in metros from 2001 to 2015



Percentage of new property in metropolitan municipalities

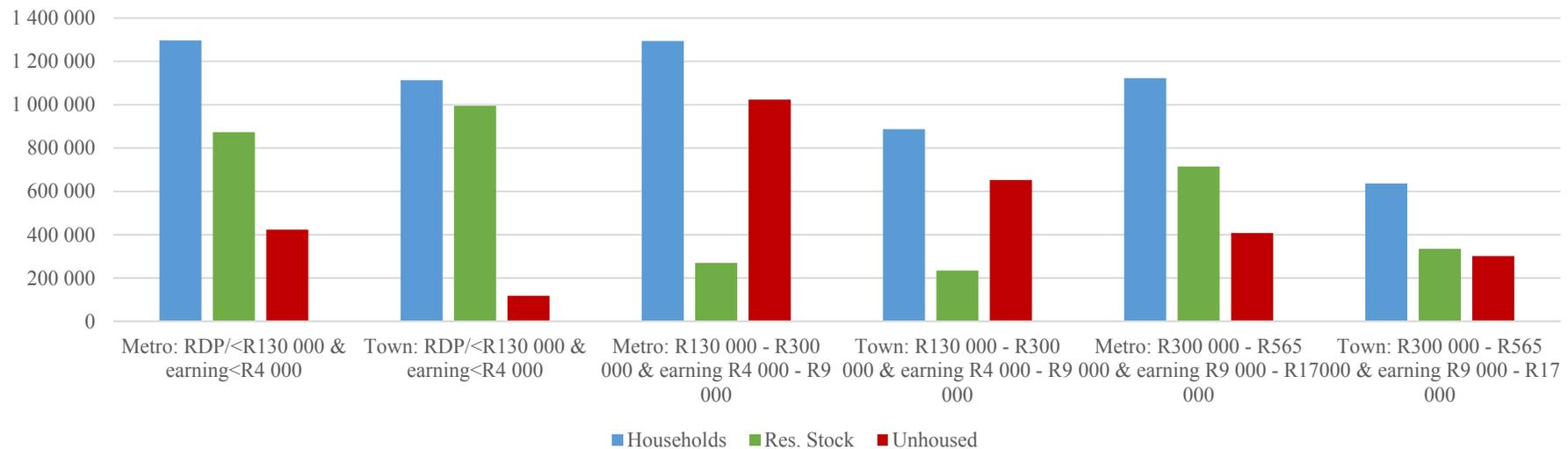


• Methodology

- Quantitative and qualitative methods have been utilised to disaggregate unhoused urban population and to understand policy and institutional constraints (for households earning between R0 –R17 000 per month)
 - Quantitatively: standard statistical computations using data from the Deeds Office, registration and valuation models were utilised and to account for informal settlements and unregistered properties, GEOTERRAIMAGE (providing human settlements mapping solution) was utilised
 - Qualitatively: Engagements were undertaken with officials from the City of Johannesburg and Tshwane

CHAPTER 5. FINDINGS OF THE RESEARCH

- In metros and secondary cities, unhoused population exists across all income groups
- Highest number of unhoused population is found within households earning between R4 000 and R9 000 per month (housing value worth between R130 000 and R300 000)
 - Households targeted by the government through Finance Linked Individual Subsidy Program.



CHAPTER 5. FINDINGS OF THE RESEARCH

[CONT.]

- Finance Linked Individual Subsidy Program has performed poorly with respect to its targets set over the Medium Term Strategic Framework and is currently implemented differently by provinces and not according to the policy prescripts
 - For example, according to the policy, Finance Linked Individual Subsidy Program should be implemented through the National Housing Finance Corporation (Human Settlements Development Bank) yet this is not the case (e.g. KZN uses Ithala, Limpopo uses Limpopo Economic Development Agency)
- Challenges encountered with Finance Linked Individual Subsidy Program include:
 - Inconsistency with respect to funding by provinces with each province independently determining how much to allocate for the programme and
 - Allocations not guided by targets set
 - There has been a positive recent development – in 2017/18 the proportion of funding from the Human Settlements Development Grant per province has been ring-fenced for the implementation of Finance Linked Individual Subsidy Program.
- Policy gaps with respect to Finance Linked Individual Subsidy Program:
 - Qualifying individuals who are single and cannot prove that they have financial dependants are excluded from the subsidy
- There is misalignment of human settlements related infrastructure programmes and plans by the provincial departments of human settlements and other key departments including the provincial department of basic education and transport

CHAPTER 5. RECOMMENDATIONS

- The Department of Human Settlements should undertake a review of the Finance Linked Individual Subsidy Programme to find ways of ensuring that qualifying individuals who are single and without dependants are included as beneficiaries from the programme and that Finance Linked Individual Subsidy Programme is implemented in a standardised manner across provinces
- Provincial departments of human settlements and other key departments including the provincial departments of basic education and transport should align their delivery plans particularly for new human settlements development. This can be done by
 - Establishing functional inter-sectoral coordination committees where relevant departments will meet to discuss new infrastructure development projects relating to habitable human settlements
 - Ensuring that the portion of the Education Infrastructure Grant and funding from the Provincial Equitable Share are aligned to the portion of the Human Settlements Development Grant for new housing developments

CHAPTER 6. IMPLICATIONS OF URBANISATION INDUCED LEARNER MOBILITY ON EDUCATION PLANNING AND FUNDING

- Contextual urban challenge
 - Scholar migration patterns are following urban development patterns
 - Learners are concentrating in urban centres where education is perceived to be better
 - Rapidly urbanising scholar population may result in adverse fiscal implications for the education system as a whole
 - The chapter evaluates responsiveness of education fiscal transfers (Provincial Equitable Share and conditional grants) to changing spatial distribution of learners
- Methodology
 - Quantitative measurement of learner movement between provinces and within districts – learner distribution and density

CHAPTER 6. FINDINGS OF THE RESEARCH

- Leaner mobility is largely prevalent between provinces and more dynamic within provincial districts
 - Eastern Cape and Limpopo are main sending provinces while Gauteng is the largest receiving province
 - Over 3400 schools in these provinces are at risk of becoming unviable due to mobility
- Mobility increases with grade progression
 - Has implications for school infrastructure in receiving provinces and districts

Average annual net migration	Leaner enrolment	School Age population	Net in/out migration %	Net in/out migration
Eastern Cape	-0.35%	-1.11%	-1.46%	-28 432
Free State	-0.36%	-0.90%	-1.26%	-8 564
Gauteng	1.95%	1.40%	3.35%	75 351
KwaZulu-Natal	0.32%	-0.41%	-0.09%	-2 601
Limpopo	-0.24%	-1.37%	-1.61%	-28 159
Mpumalanga	0.89%	0.53%	1.42%	15 283
Northern Cape	2.01%	1.66%	3.67%	10 624
North West	-0.57%	-1.33%	-1.90%	-15 439
Western Cape	0.88%	0.44%	1.32%	14 439

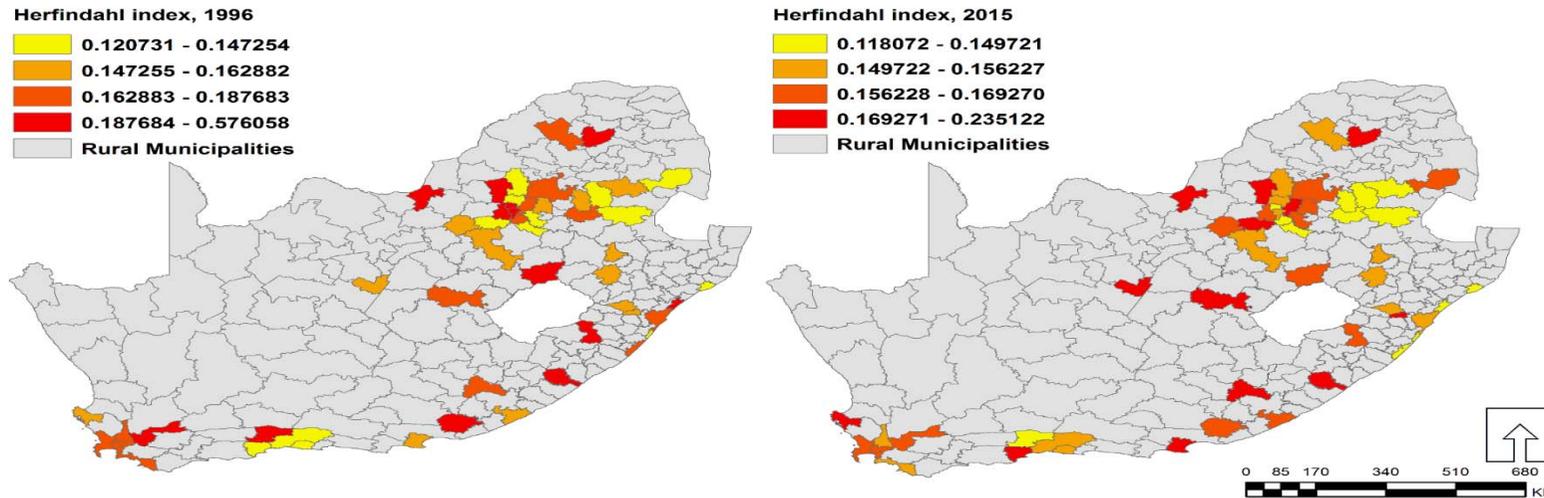
CHAPTER 6. FINDINGS OF THE RESEARCH [CONT.]

- The Provincial Equitable Share is fairly responsive to changing learner distribution patterns
 - Education component per capita allocations are slightly similar – after adjusting for migration
 - Raise concerns of equity given that Eastern Cape and Limpopo are poor
- Infrastructure grants disproportionately benefit receiving provinces (Gauteng and Western Cape)
- Budgetary effects of learner mobility are more evident at school level
 - Leads to unviable schools that have to be closed or merged
 - Has implications for learner transport
- Mobility is not always well managed because provincial infrastructure plans do not account for spatial demographic shifts

CHAPTER 6. RECOMMENDATIONS

- The National Treasury should incorporate weighted learner socio-economic profiles into the education component of the Provincial Equitable Share formula as an additional indicator of education needs
- Both the National Treasury and Department of Basic Education must ensure that the framework for Education Infrastructure Grant incorporate the need for Provincial Infrastructure plans to take into account spatial demographic patterns and forecast particularly when decisions to build, expand or maintain schools are made
- The Department of Basic Education must allocate learners with unique identification numbers when they first enter the school system to (1) ensure that learners are allocated the requisite funding that is consistent with their socio-economic profile when they move between schools and (2) enable seamless tracking and measurement of movements across provinces and within

CHAPTER 7. INDUSTRIAL DIVERSITY AND ECONOMIC PERFORMANCE IN URBAN MUNICIPALITIES



- Contextual urban challenge
 - Urban municipalities now account for an increasingly large share of Gross Value Added
 - Metros alone account for over 40% of Gross Value Added
 - Enhancing economic activity within urban municipalities now becoming a central focus of sub-national economic initiatives
 - Focus coincides with (a) rising de-industrialisation of urban economic activities, (b) socio-economic challenges despite growth of urban areas/municipalities, and (c) prior minimal attention on leveraging economic potential of city regions/urban municipalities

CHAPTER 7. INDUSTRIAL DIVERSITY AND ECONOMIC PERFORMANCE IN URBAN MUNICIPALITIES [CONT.]

- Policy Dimension of Intergovernmental Relations support for cities
 - Cities support programme (CSP) and Industrial Policy Action Plan (IPAP) that incorporates aspects of enhancing economic diversity
- Literature review shows that
 - (a) Specialization more likely in smaller regions; (b) specialized structure may be a function of single firms/plants; (c) economic performance may be influenced by past specialization
- Potential links between industrial structure (diversity/specialization) and regional economic performance likely to vary across regions
 - From an Intergovernmental Fiscal Relations perspective, do more industrially diversified regions perform better than more specialized ones?
 - Is there a link between industrial/economic activity structure with (a) vulnerability to external shocks, and (b) employment within urban areas

CHAPTER 7. INDUSTRIAL DIVERSITY AND ECONOMIC PERFORMANCE IN URBAN MUNICIPALITIES [CONT.]

- Methodology

- Estimate an econometric equation that relates regional economic performance to a set of economic (regional/urban municipality growth), demographic control variables (population density, local levels of human capital, extent of dependent population) and multiple measures of industrial type (specialization/diversity), i.e.,
- $MPIC_{it} = (DIV_{it}, Y_t, PDEN_{it}, NWT_{it}, YOUTH_{it}, AGED_{it}, POP_{it}, EDUC_{it}, GROWTH_{it})$

- Findings of the research

- Industrial diversification matters for economic performance based on growth in regional output (Gross Value Added) per capita. On the other hand, **greater specialization** can raise growth in average disposable incomes
- Existence of social support programmes benefiting the youth and the elderly helps ensure that urban municipalities with higher dependent populations do not experience slower growth in incomes
- Human capital accumulation beyond matric level matters for urban economic performance
- Potential gains to economic performance can only be realized if urban municipalities transition to metropolitan status (population and economic activities are part of the metro requirements).

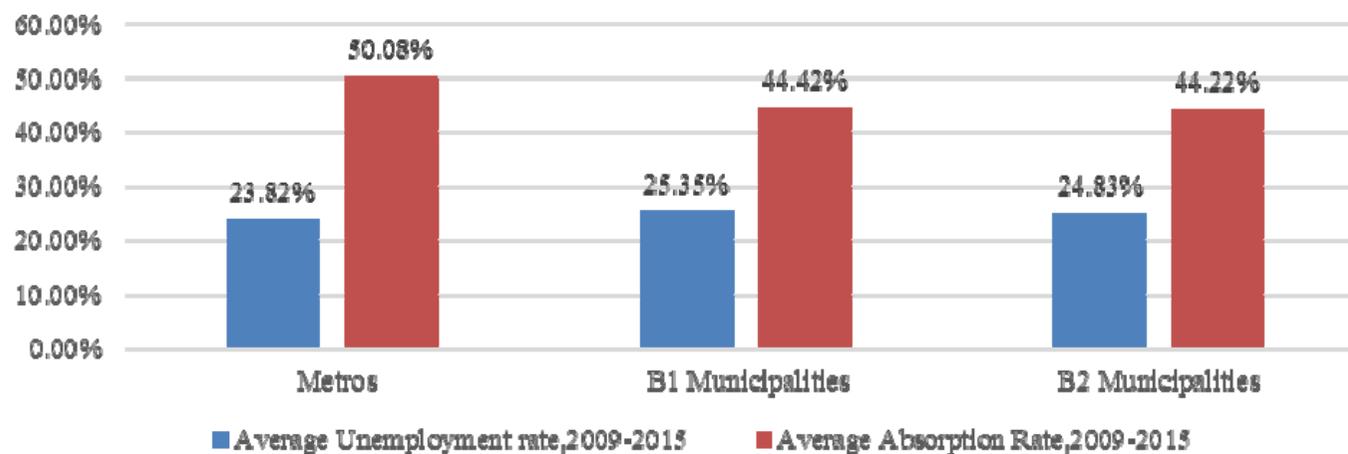
CHAPTER 7. RECOMMENDATIONS

- Through National Treasury, Government establish an economic diversification as part of its objective to support cities in promoting spatial transformation and economic growth. This fund can either be ring-fenced within existing grants linked to growth and spatial transformation of cities (such as integrated cities development grant), or specified as a minimum spending requirement to ensure that recipient municipalities spend allocated funds towards programmes that broaden and deepen spatial transformation and economic growth through diversification of economic activities within their jurisdictions

CHAPTER 8. EFFECTS OF MUNICIPAL SPENDING ON URBAN EMPLOYMENT

- Contextual Urban Challenge
 - South Africa has one of the highest unemployment rates in the world which has remained above 20% since 1994
 - Despite the widespread perception that unemployment levels are generally lower in urban centres compared with the rest of the country, reality is that urban municipalities also face high unemployment levels that are almost as high as the national average
 - The absorption rates in these urban municipalities are high, which lends credence to the continued migration of rural inhabitants to urban centres despite the high levels of urban unemployment

Average Unemployment and Absorption Rates in Metros, Secondary Cities (B1) and Large Towns (B2), 2009-2015



CHAPTER 8. EFFECTS OF MUNICIPAL SPENDING ON URBAN EMPLOYMENT [CONT.]

- Urban municipalities with their relatively higher labour absorption rates may offer an avenue through which the unemployment challenge could be alleviated
 - Whilst labour market and job creation policies are national competencies, municipalities have various fiscal levers at their disposal that can serve to either facilitate or hamper employment creation in their jurisdictions
- The objective of this chapter is to examine the indirect effects of municipal spending programmes on job creation
 - Not premised on the belief that municipalities need to undertake the role of employer in order to alleviate the unemployment challenge, but rather from the point of view that their activities indirectly impact upon job creation
 - The fiscal levers examined were spending on the Expanded Public Works Programme (EPWP), spending on the Community Works Programme (CWP) and infrastructure spending
- Methodology
 - The study employs descriptive statistics and a fixed effect model. The econometric equation estimated is as follows:

$$\begin{aligned} \ln(\text{Employment})_{it} &= \beta_0 + \beta_1 \ln(\text{GVA})_{it} + \beta_2 (\text{Urbanisation})_{it} + \beta_3 (\text{Absorption})_{it} \\ &+ \beta_4 \ln(\text{Fiscal levers})_{it} + \beta_5 (\text{Quality of infrastructure})_{it} \\ &+ \beta_6 (\text{Human Capital})_{it} + \beta_7 (\text{Dependency ratio})_{it} + \varepsilon_{it} \end{aligned}$$

CHAPTER 8. FINDINGS OF THE RESEARCH

- Spending on the Expanded Public Works Programme and Community Works Programme have a significant positive effects on total level of employment for metros but not for other urban municipalities, namely secondary cities and large towns
 - This finding corroborates previous FFC research which found that Expanded Public Works Programme employment opportunities were concentrated in metros. By design, the Expanded Public Works Programme is intended to create short-term job opportunities as opposed to long-term employment. The results however, imply that the programme has the potential to create economic value through spill-over effects
- Infrastructure spending showed no statistical significance for the urban municipalities

CHAPTER 8. RECOMMENDATIONS

- The employment creation role of the Expanded Public Works Programme should be expanded to specifically target secondary cities and large towns.
- The Departments of Public Works and Department of Cooperative Governance and Traditional Affairs should carry out an assessment of the Expanded Public Works Programme integrated grant for municipalities to ascertain how the grant can be redesigned to encourage more secondary cities and large towns to apply for a bigger portion of this grant.

CHAPTER 9. FUNDING AND POLICY TO SUPPORT URBAN INFORMAL EMPLOYMENT

- Contextual urban challenge
 - Informality is poised to become an important driver of urbanisation because of low formal sector labour absorption rate
 - Informal employment provides easy entry into the urban economy
 - South Africa's urban transformation is characterised by high unemployment and hostility towards informal employment
 - Chapter assesses the role of cities and available intergovernmental policies and transfers for supporting informal employment
- Methodology
 - Employs a policy and budget review approach in terms of which the responsiveness of support programs is assessed

CHAPTER 9. FINDINGS OF THE RESEARCH

- Informal sector provides employment to 16% of employment in the country and metropolitan areas
- Rapid urbanisation has not been accompanied by decline in unemployment
 - High unemployment (25% average across the eight cities) coexist with high levels urbanisation (up to 100% in some metros)
- Informal employment not growing at a rate consistent with high unemployment due to a number of growth constraints
 - Strict regulations, lack of access to services and finance
- Support for informal sector takes different variations
 - Policy making, regulation, stimulation and control

CHAPTER 9. FINDINGS OF THE RESEARCH [CONT.]

- The policy package for supporting informal employment comprises national, provincial and local government interventions
 - Nature of support grant funding, market access, easing municipal regulations, providing trading spaces and infrastructure
- Local government approaches for dealing with informal employment or enterprises are predominantly regulatory
- National and provincial policies are not backed by requisite funding allocations
 - Informal sector only accounts for 2% of total available budget for supporting small businesses
- Existing funding programs appear to operate independently with emphasis on central administration

CHAPTER 9. RECOMMENDATIONS

- The Departments of Small Business Development, Department of Cooperative Governance and Traditional Affairs and Provincial Departments of Economic Development consolidate, regularise into long-term budget line items and decentralise the different funding programmes (such as Jobs Fund, Informal and Micro-enterprise development programme, Shared Economic Infrastructure Facility program) for informal enterprise development (within national and provincial departments and DFIs) to metropolitan municipalities and secondary cities
- The Department of Small Business Development in collaboration with the provincial departments of economic development must invest in grant beneficiary information management system to minimise double dipping and to monitor the impact of various funding support programmes including the Jobs Fund, Informal and Micro-enterprise development program, Shared Economic Infrastructure Facility programme
- The Department of Small Business Development as the custodian of informal enterprise development policy and coordination with the cities should ensure that existing financial and non-financial support programmes holistically address informal enterprise growth constraints within the city space rather than focusing on formalising informal enterprises

CHAPTER 10. ICT AND CITY GOVERNANCE

- Contextual urban challenge
 - Core mandate of municipalities is the delivery of basic services
 - To fulfil this mandate, municipalities need to run a basic administration
 - Municipalities need to ensure that rapid urbanisation and the resultant increased demand for service delivery do not stifle ability to deliver services effectively and efficiently
 - One avenue for ensuring a municipality and its human and financial resources are effectively and efficiently managed is to harness the capabilities of Information and Communication Technology
 - Initial cost of investing in new technology is high and can be an inhibiting factor - many municipalities operate on archaic Information and Communication Technology which do not provide solid foundation for sound and effective financial and revenue management
 - This chapter aims to (i) investigate extent to which urban municipalities prioritise spending on Information and Communication Technology to improve internal operations and city governance and (ii) understand benefits and challenges of an Information and Communication Technology-led approach to city governance
- Methodology
 - Data Envelopment Analysis and Tobit regression analysis to determine economic value of Information and Communication Technology in public sector
 - Interviews were conducted with municipalities to understand how they perceive the value of an Information and Communication Technology-led administration and also to get a sense of the challenges experienced in implementing this approach



CHAPTER 10. FINDINGS OF THE RESEARCH

- Category A metropolitan municipalities spend larger share of operating expenditure on Information and Communication Technology relative to secondary cities and large town. Metros generally have well resourced Information and Communication Technology departments
 - Really at a stage where Information and Communication Technology is being used to revolutionalise service delivery
- Many municipalities experience lack of recognition and support of senior management in terms of the value that Information and Communication Technology can unlock and this affects priority attached to Information and Communication Technology
- Major issue that arose in interactions with municipalities regarding Information and Communication Technology is implementation of Municipal Standard Chart of Accounts regulations which need to be implemented by 01 July 2017. Objective of Municipal Standard Chart of Accounts is to “...provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction levels by prescribing a standard chart of accounts for municipalities and municipal entities”

CHAPTER 10. FINDINGS OF THE RESEARCH [CONT.]

– With respect to Municipal Standard Chart of Accounts

- Financial and other systems used across many municipalities were, and many still are, not compliant with the requirements of Municipal Standard Chart of Accounts and as such municipalities have had to channel significant resources to ensuring they will be able to comply - one of the key shifts requires municipalities to move away from numerous standalone, legacy systems to systems that allow for greater integration
- No specific funding instruments are available to municipalities to fund the implementation of Municipal Standard Chart of Accounts. Financial Management Grant does allow support for Municipal Standard Chart of Accounts implementation, however, the majority of municipalities interacted with, indicated that this grant was largely focussed on the placement of finance-related interns
- Funding alone will not ensure benefits are derived from roll out of Municipal Standard Chart of Accounts. Other factors such as lack of capacity/capability all play a roll – change management is critical

CHAPTER 10. RECOMMENDATIONS

- National Treasury should ensure that allocations for assisting municipalities with municipal standard chart of accounts implementation through the Financial Management Grant be ring-fenced and deliberately biased towards lesser resourced urban municipalities who struggle under the financial burden of attaining compliance with municipal standard chart of accounts financial reform
- In the absence of a differentiated approach to the roll out of the nationally driven municipal standard chart of accounts regulations, National Treasury should ensure that technical assistance is provided to lesser resourced municipalities to assist with change management
 - To this end National Treasury should deploy technical advisors to the most under capacitated and under resourced municipalities for a short period of time to assist with the shift to municipal standard chart of accounts compliance. This will assist in strengthening the successful implementation of this local government financial management reform

CHAPTER 11. FINANCING OF URBAN MUNICIPALITIES AND OWN REVENUE DIVERSIFICATION

- Contextual urban challenge
 - The twin challenges of rapid urbanisation and slow economic growth plus a stagnant property tax base placing tremendous fiscal pressures on the nation's urban municipalities and also challenging ability of local governments to continue their current levels of public services
 - Secondary cities and metros in particular require more resources to invest in infrastructure in order to attract new investment and build dynamic economies, increase employment, create vibrant communities and improve livelihoods. As urban challenges increase, so does the need for financial resources
 - Although the 29 largest cities (21 secondary cities and 8 metros), have demonstrated significant fiscal effort (relative to other categories of municipalities), own revenue sources are insufficient to meet their obligations and requirements
 - This Chapter identifies alternative financing mechanisms for large cities as well as measures that could be adopted to improve access to alternative financing mechanisms by large cities

CHAPTER 11. FINANCING OF URBAN MUNICIPALITIES AND OWN REVENUE DIVERSIFICATION [CONT.]

- Methodology
 - The study adopted the following methodologies:
 - Hirschman- *Herfindahl* Index (HHI) to assess how diversified revenues of large cities are
 - Regression analysis to assess the key drivers of borrowing by large cities
 - Evaluated each alternative revenue instrument through the lens of the well-known criteria/principles in public finance that define a good revenue option (*inter alia*, efficiency, fairness, revenue adequacy, transparency, simplicity, predictability)

CHAPTER 11. FINDINGS OF THE RESEARCH

- Large towns need to diversify revenue sources: There is no municipalities credit rating mechanism
- Pooling Finance Mechanisms (i.e. municipalities that share, *inter alia*, a similar vision and credit characteristics coming together to access public sector funding, issue bonds or jointly access bank finance) satisfy most of the principles that define a good revenue option for large cities
- Land Value Capture: (i.e. seizing the positive impact of municipal investments on land values and to use such funds as a source for financing municipal projects), are a potential source of revenue for large cities and successful implementation of this mechanism depends largely on the proper design of levy, a clear legal framework, effective land use management systems, well trained and capacitated persons charged with its implementation, and an efficient, accurate and timely land valuation
- Public private partnerships constitute another viable alternative mechanisms for funding infrastructure in large cities, and require that the approval process is streamlined and specialised capacity to originate, implement and manage PPPs within municipalities is built

CHAPTER 11. RECOMMENDATIONS

- National Treasury improves access to credit markets for large cities by:
 - Allowing them to use their infrastructure grant funding allocations to leverage private capital.
 - Establishing a credit rating mechanism for municipalities with the Development Bank of Southern Africa as the most suitable public entity to lead the establishment of this
 - Requesting the Development Bank of Southern Africa to facilitate the creation of a special purpose vehicle to facilitate the pooling of financial resources by large cities for the purpose of joint bond issuance and lending to large cities
- National Treasury improves the public-private partnership deal flows within municipalities by:
 - Streamlining the PPP approval process by subjecting only high value (above R100 million) and complex projects to rigorous feasibility studies
 - Using the Financial Management Grant to build capacity within large cities in specialised skills in public-private partnership development, procurement, negotiating and monitoring.
 - Incentivising public-private partnerships through adopting a national facility for financing feasibility studies in municipalities
- National Treasury creates awareness of land value capture fiscal instruments among large cities and extends the scope of the Financial Management Grant to cater for capacity building in the design and implementation of land value capture mechanisms

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