



SUBMISSION FOR THE 2020/21 DIVISION OF REVENUE

Standing and Select Committee on
Appropriations 2019

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 13 of 2018)
- Theme of 2020/21 Submission: ***Repositioning Local Government Public Finances***
 - It is more than 20 years since the White Paper on Local Government was published. Over the years, the local government sector has achieved a lot in terms of bringing government closer to people and improving access to basic services to poor households.
 - In spite of these significant achievements, many indicators suggest that the local government sector still faces many challenges. Currently many municipalities are not functioning at the optimal level and are barely viable or sustainable.

OUTLINE OF 2019/20 SUBMISSION CHAPTERS

Chapter 1

- Addressing Local Government Sustainability

Chapter 2

- Reviewing the Local Government Fiscal Framework

Chapter 3

- Municipal Government Capacity Building

Chapter 4

- Local Government Infrastructure Management and Efficiency

Chapter 5

- Local Government Structure: The City-region and its Potential to Address South Africa's Development Challenges

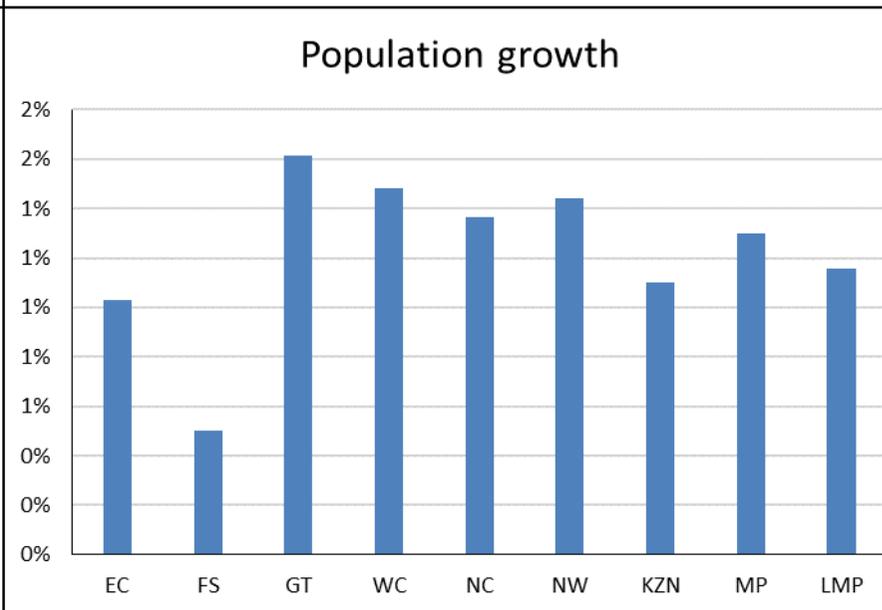
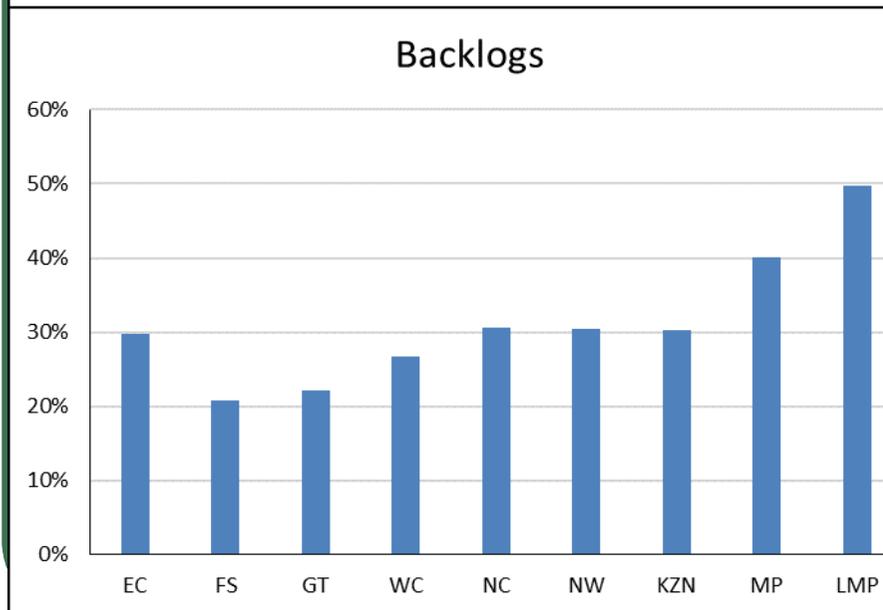
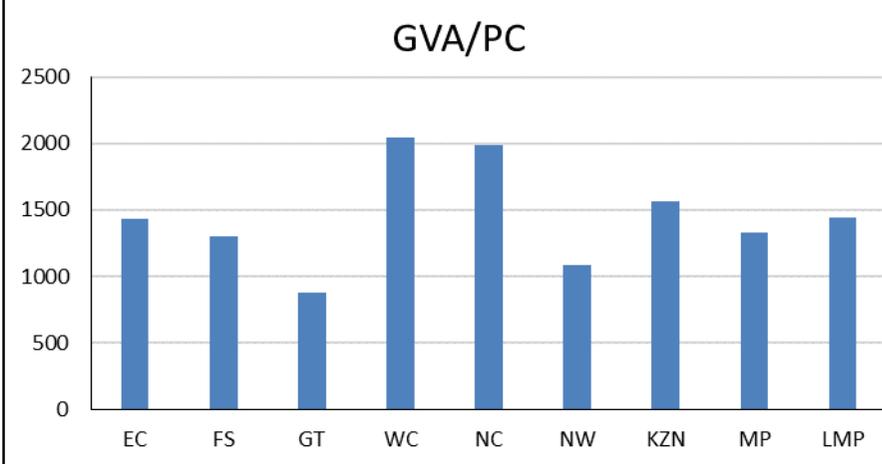
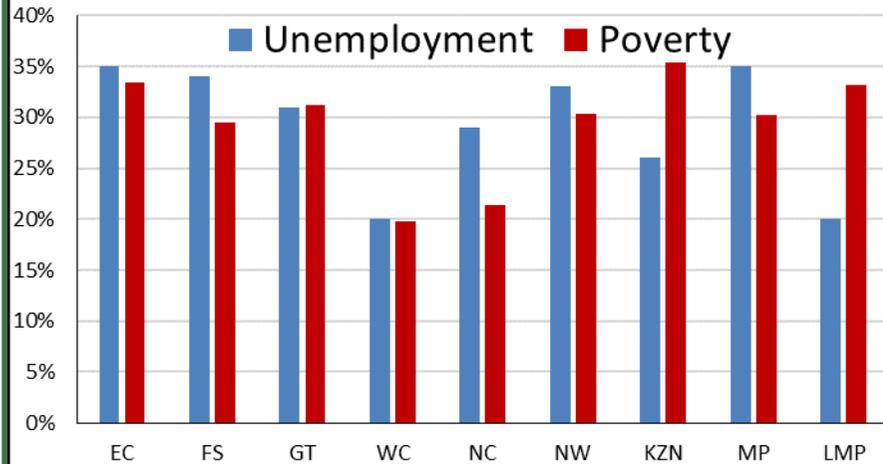
CHAPTER 1. ADDRESSING LOCAL GOVERNMENT SUSTAINABILITY

- Local government is the sphere closest to people and it is the face of government in communities. It is generally accepted that equitable growth and development in South Africa depends critically on a well-functioning local government sphere.
- To address the national challenges of low economic growth, high unemployment and socially unacceptable levels of poverty and inequality in the country, it is vital that municipalities are able to perform their mandate more efficiently and effectively.
- In reality many municipalities are dysfunctional and barely viable.

CHALLENGES OF THE LOCAL GOVERNMENT

- The sustainability of municipalities continues to be at risk, because of, among other factors, the following:
 - Poor financial management: Financial mismanagement is rampant in the local government sector. In 2017 just over half of the municipalities (56 per cent - 145 of 257), passed funded budgets; and for the rest (44 per cent), municipal councils voted to adopt budgets that they knew were not funded.
 - Profiting from procurement processes is endemic. Corruption hampers the provision of basic services and constrains the growth and development of municipalities.
 - Municipal own revenues are declining or stagnant.
 - Transfers which sustain many municipal activities are growing slowly .
 - There is an unhealthy balance between core and non-core municipal services.
 - Asset management is poor. Municipal infrastructure is not optimally maintained.
 - Accountability and oversight institutions in municipalities are weak and poorly capacitated.

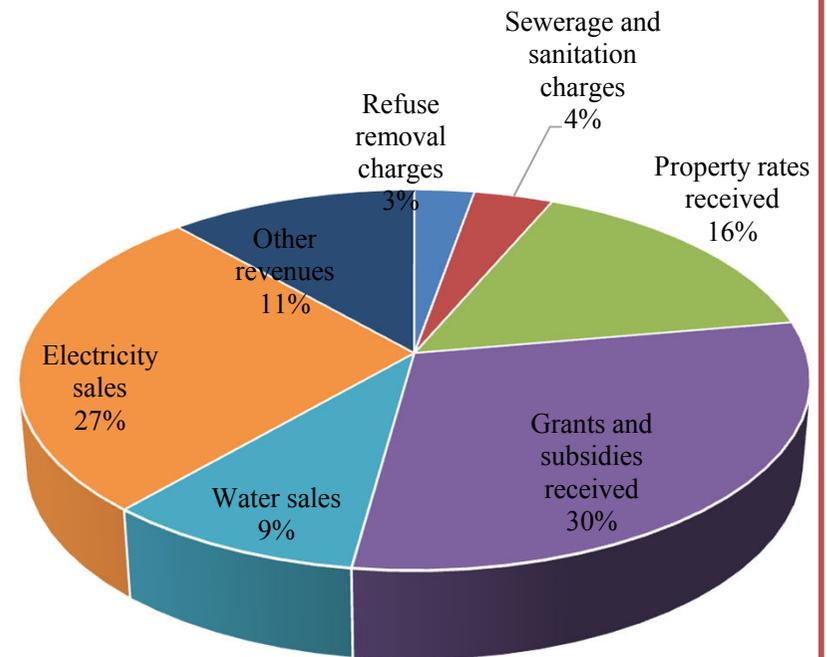
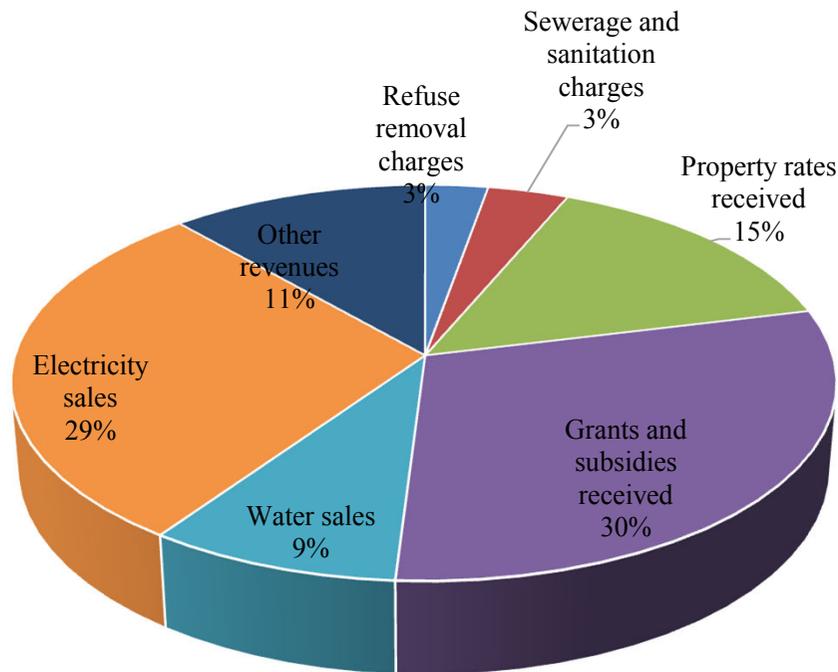
SOCIO-ECONOMIC PROFILE



MUNICIPAL PROFILES: MUNICIPAL REVENUE STREAMS AS %AGE OF TOTAL REVENUE

As at 30/06/2017

As at 30/06/2018

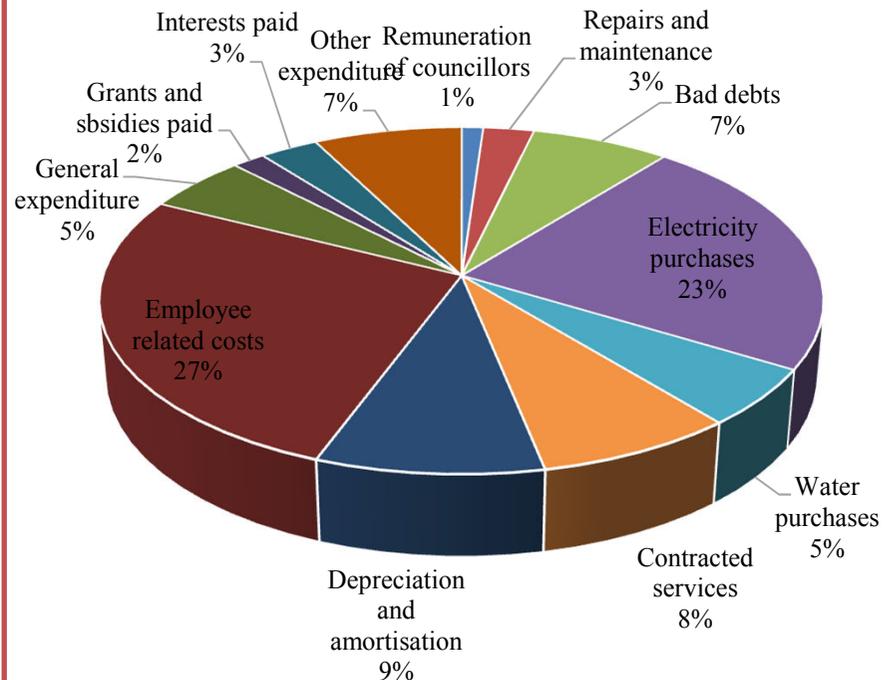
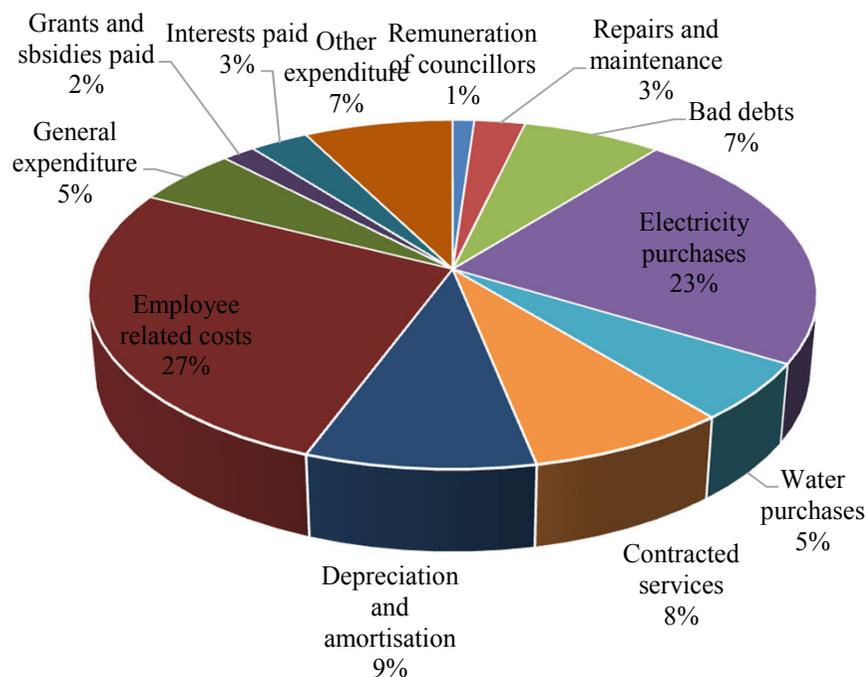


- Electricity revenues are declining: due to high tariffs and diminishing affordability
- Revenue from water sales are stagnant while property rates growing marginally

MUNICIPAL PROFILES: MUNICIPAL PROFILES: MUNICIPAL OPERATING EXPENDITURE PATTERNS

As at 30/06/2017

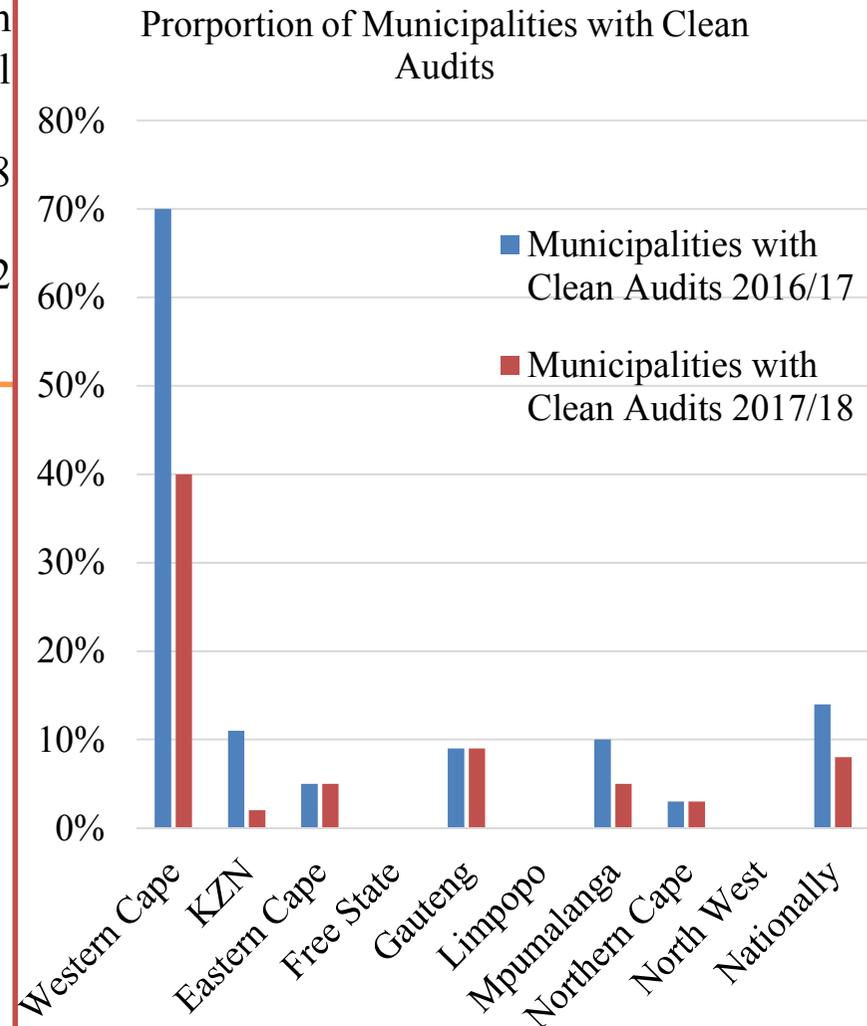
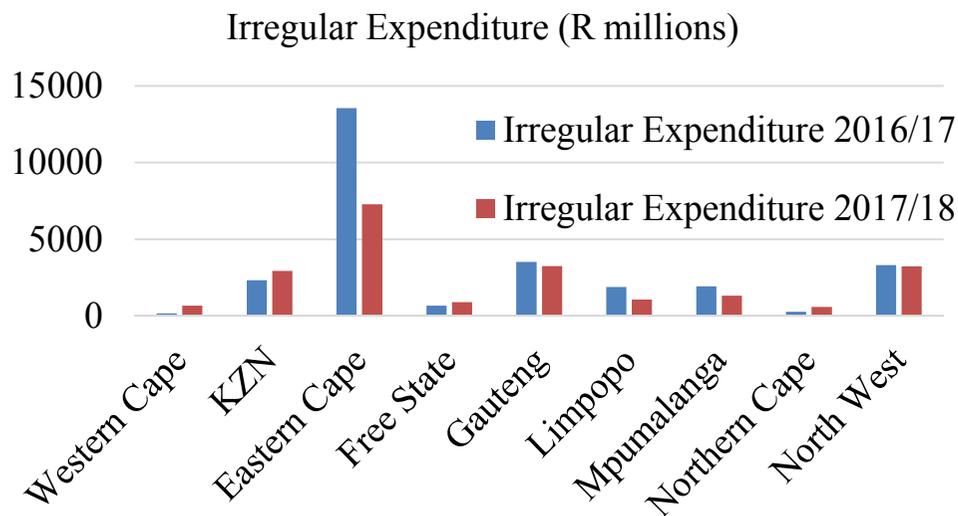
As at 30/06/2018



- Municipalities spend low on repairs and maintenance and it is declining. Consequences are infrastructure failures and poor service delivery
- Almost a third of municipal budgets are spent on employee related costs and this is on the increase

MUNICIPAL PROFILES: AUDIT OUTCOMES

- The Auditor General has also painted a very grim and precarious situation of the state of local government today.
- Clean audits were registered by only 18 municipalities, down from 33 in 2016/17
- Total irregular expenditure in 2017/18 was R21,2 billion, down from R27,6 billion.

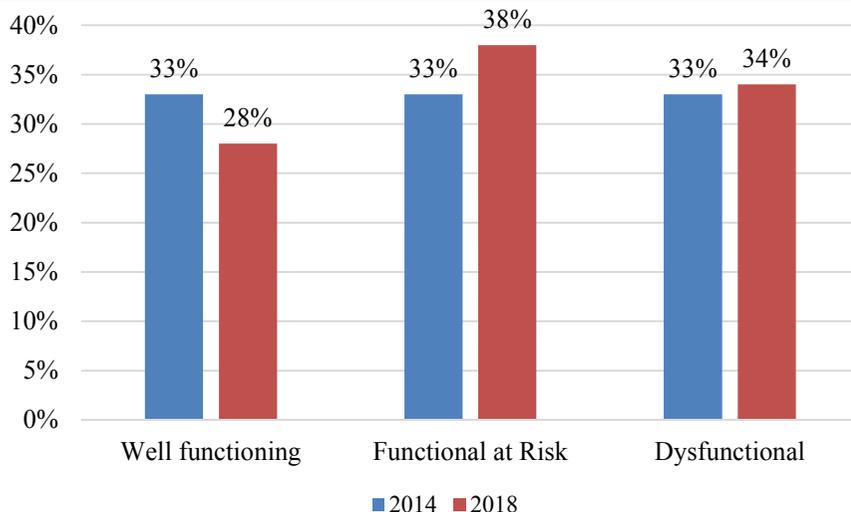


FINANCIAL AND FUNCTIONAL STATUS OF MUNICIPALITIES

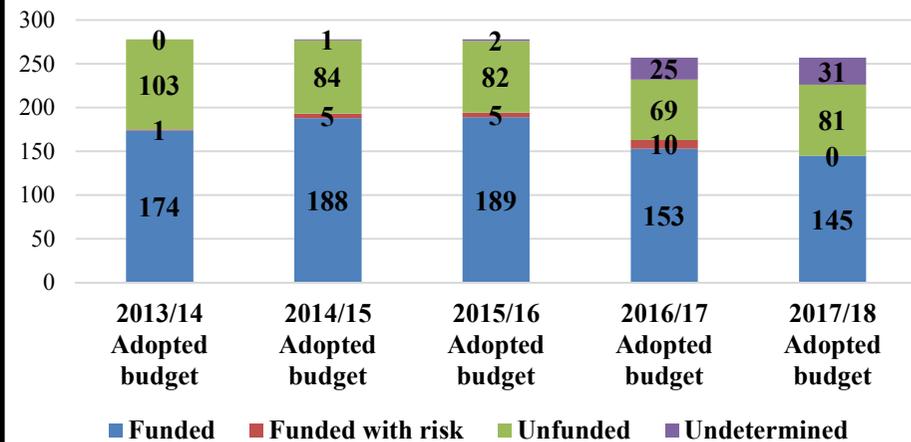
Funded Budgets

- The number of municipalities adopting unfunded budgets is quite high.
- Adopting unfunded budgets means such much municipalities will not achieve what they target service delivery- they are set to fail.

Functionality Status of Municipalities



Municipalities adopting unfunded budgets



- It would appear there has been a downward trend: many municipalities have become dysfunctional.
- Of the 55 municipalities regarded as dysfunctional, half of them (27) are district municipalities

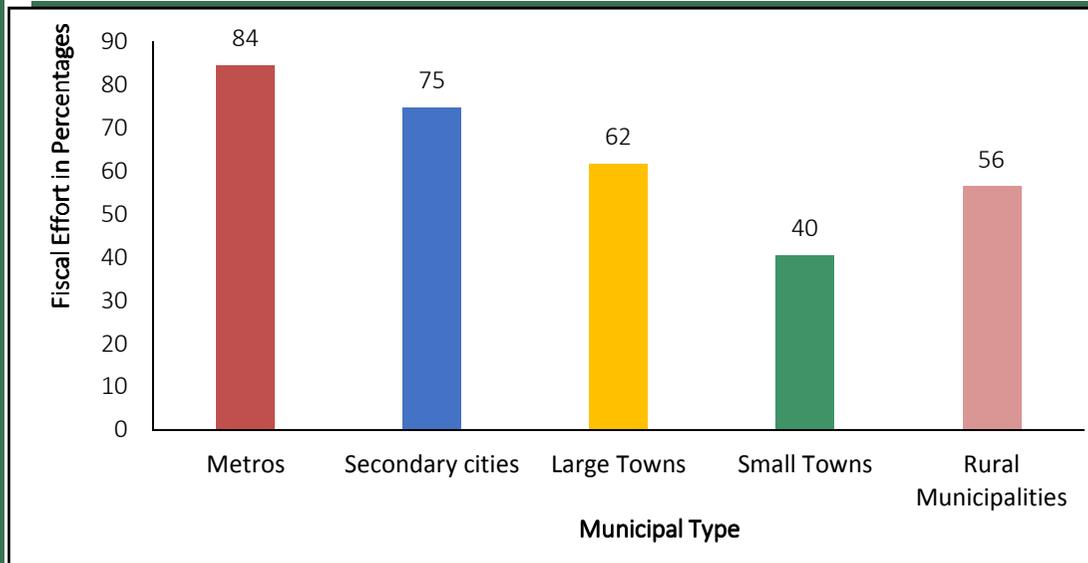
CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK

- Since the White Paper on local government was adopted in 1998, the roles and responsibilities assigned to the local government sector have expanded against a backdrop of diminishing own revenues. Traditional own revenue streams (property rates and user fees) are experiencing diminished buoyancy.
- Municipalities cannot count on transfers, these are also subdued and growing at decreasing rate, due to diminished economic growth, revenue under collection, and more funds being tied up in interest payments; and due to fiscal consolidation measures that are being stepped up.
- The revenue problem confronting LG is compounded by, among other things, poor budgeting, unfunded budgets, poor internal controls, cash flow management inefficiencies, tariff structures that are not always cost reflective, poor billing and debt management processes, leakages in the system (funds not used for municipal business), corruption and inefficient procurement processes.
- The revenue problem facing municipalities is further compounded by the debt crisis, which municipalities face.
- Taken together the afore-mentioned challenges, raise questions regarding the sustainability of the Local Government Fiscal Framework.

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: RESEARCH OBJECTIVES

- The objectives of this Chapter are three-fold:
 - To evaluate the performance of traditional revenue sources; constraints to their optimisation, and identify possible ways through which traditional revenue sources can be optimised. The focus is on property rates in particular and whether municipalities put maximum effort into collecting property rates.
 - To investigate the implications and the drivers of municipal debt.
 - Identify alternative financing instruments and arrangements for local government and propose a coherent financing model for local government that takes into account contextual factors of each local government tier and changes in their mandates.
- Methodology
 - Budget analysis
 - Data envelopment analysis
 - Econometric assessment
 - Survey involving 26 municipalities representing all the major categories of municipalities

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: FISCAL EFFORT



- Metropolitan municipalities are the most efficient followed by secondary cities and large towns, while small towns are found to be the least efficient, followed by rural municipalities.

Key drivers of municipal tax effort include:

- Income level, intergovernmental transfers and unemployment in metros.
- Unemployment, institutional capacity, intergovernmental transfers, traditional housing and access to basic services in secondary cities.
- Unemployment, institutional capacity and income in large towns .
- Unemployment, institutional capacity, intergovernmental transfers and income in small towns.
- Traditional leadership and intergovernmental transfers in rural municipalities.

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: FISCAL EFFORT

- **Internal constraints:**

- Poor billing systems due to unreliable data, an inconsistent property register and incorrect valuations.
- Increasing number of indigents, leading to an increase in the number of not paying residents
- Inappropriate credit control policies
- Lack of human capacity: some municipalities do not have qualified administrators and property valuers to assist with the determination of property levies

- **External constraints:**

- Non-payment of property rates due to unaffordability of the levied rates as well as unwillingness of consumers to pay
- Low economic activity, mostly affecting rural municipality, as the ability to pay also depends on income levels, and the condition of the properties in the area
- Backlogs in the issuing of title deeds, as municipalities need the identification of the owners for billing
- Municipalities are unable to implement credit control policies in areas where Eskom supplies electricity, as Eskom is in some instances not willing to assist with disconnections

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: MUNICIPAL DEBT)

- Local municipalities face a significant challenge when it comes to meeting their debt obligations
 - Total outstanding debt owed to the three largest municipal creditors (Eskom, water boards and trade creditors) has been on the rise for the period 2011/12 to 2017/18
- Municipal consumer debt has been increasing for the period 2011/12 to 2017/18, particularly for rural municipalities
 - Households account for the bulk of the amount owed to municipalities, followed by businesses. Whilst organs of state are not responsible for the largest share of municipal consumer debt, it should be noted that non-payment by this consumer group has been growing steadily over the period
- National and provincial departments as well as public entities are not complying with the 30 day payment rule :
 - For the period 2013/14 – 2017/18, debt owed by organs of state has grown by 13.4%
 - Real growth of debt owed by provincial departments has slowed over the period reviewed, whilst public institutions and national government debt has shown have experienced significant increases

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: SUPPLEMENTARY REVENUES

- On supplementary revenue sources, the submission isolated development charges, weigh-in bridges in mining areas, advertisement levies, fire levies, amusement taxes and hotel taxes as potential revenue sources for local government.
- These revenue sources rank highly in terms of the five important criteria for a “good” tax handle, i.e. efficiency, accountability, transparency, fairness, and ease of administration.
- In addition, the Chapter underscored the importance of municipalities leveraging their most abundant asset being land, by adopting land value capture mechanisms to close the municipal revenue gap. Options include: Acquisition and Sale of excess land: Betterment levies (usually one time levies/taxes to capture the increment value of land), Developer exactions (property developers install on-site public infrastructure at their own cost), Development impact fees, (Once off levy charged on approval /or obtaining a permit to build); and sale or Leasing of municipal land

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: RECOMMENDATIONS

1. With respect to optimising traditional own revenue sources, the Commission recommends that:

- a) The Minister of CoGTA, in consultation with the President of SALGA should ensure that the credit control systems of Eskom and municipalities are aligned by means of an Memorandum of Understanding (MOU), and that Eskom assists municipalities with credit control via electricity disconnections within the municipality's area supplied by Eskom
- b) Provincial governments facilitate the process of municipalities in the same district municipality pooling their resources to attract qualified property valuers, where there is a need do so in order to ensure that properties are accurately valuated, and to share the costs associated with the valuation process;
- c) The Minister of CoGTA, in consultation with the Minister of Finance and provincial governments should assist local municipalities to build capacity for property rates collection

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: RECOMMENDATIONS (CONT.)

2. With respect to revenue management the Commission recommends that:

- a) The Minister of COGTA , in consultation with the Minister of Finance, and provincial governments should assist local municipalities, especially those with limited resources, to develop effective credit control systems;
- b) Municipalities should apply the usual credit control measures (including interruption of electricity and water services) to national and provincial government departments who do not honour their contractual obligations. In this regard it should be noted that a dispute about non-payment constitutes an intergovernmental dispute which may invoke the Intergovernmental Relations Framework Act provisions

CHAPTER 2. REVIEWING THE LOCAL GOVERNMENT FISCAL FRAMEWORK: RECOMMENDATIONS (CONT.)

3. With respect to supplementary revenue sources for local government, the Commission recommends that:

(a) The Minister of Finance should take steps (including piloting) to add the following supplementary revenue sources to the list of allowable taxes for different types of municipalities in a differentiated manner that could include, the development charges, tourism levies, land value capture mechanisms, tourism levies and fire services levies. Fire service levies in particular should be considered for the municipalities that are to be authorised for this function. The greater potential for expansion of own revenue sources in urban areas should be compensated for by changes to the division of revenue to increase transfers to rural areas.

b. The Minister of Finance should proactively inform municipalities on various land value capture mechanisms, that municipalities can take advantage of in order to supplement their current own revenue sources.

CHAPTER 3. MUNICIPAL GOVERNMENT CAPACITY BUILDING

- The chapter focusses on the issue of deteriorating functionality of municipalities and the interventions that government has implemented to improve their performance
- After discussing the concept of functionality and dysfunctionality relating to South Africa's municipal space, the chapter hones in on (a) the Back to Basics (B2B) programme (example of institutional level response) and (b) the Minimum Competency Regulations (example of an individual level intervention aimed at improving human capital capacity)
 - The rationale is that an assessment of these two types of interventions may bring to light aspects that future interventions could incorporate to improve chances of success
- Three objectives guide the analysis, namely:
 1. To interrogate the concept of functionality and dysfunctionality in South Africa especially as it relates to local government and to propose a framework that can be used in assessing and improving the operations of municipalities
 2. To assess the impact of the B2B programme insofar as the programme was able to bring about an improvement in the performance of municipalities in enhancing institutional efficiency
 3. To assess the success of a key human capital related capacity building intervention, namely, the Minimum Competency Regulations

CHAPTER 3. MUNICIPAL GOVERNMENT CAPACITY BUILDING: METHODOLOGY

In order to interrogate the concept of dysfunctionality in SA as it relates to local government and to propose a framework that can be used (Objective 1): Case-study approach.

Eastern Cape Province	<ul style="list-style-type: none"> • Alfred Nzo district municipality, Matatiele local municipality, Mbizana local municipality
Limpopo Province	<ul style="list-style-type: none"> • Vhembe district municipality, Makhado local municipality, Collins Chabane local municipality
KwaZulu Natal Province	<ul style="list-style-type: none"> • Umzinyathi district municipality, Endumeni local municipality

In order to assess the success of the B2B programme in enhancing institutional efficiency of municipalities (Objective 2)

Difference in differences (DID) approach	<ul style="list-style-type: none"> • The treatment group consists of the 87 priority municipalities identified as distressed or dysfunctional requiring urgent intervention and the control (non-treatment) group are the remaining municipalities • Three financial years prior to (2012-2014), and after (2015-2017) the implementation of the B2B programme in 2015 • Data Sources: Non-Financial Censuses conducted annually by STATSSA and audited municipal finance data from National Treasury
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In order to assess the success of the Minimum Competency Regulations (Objective 3)

Content analysis	<ul style="list-style-type: none"> • Review of key policy documents, governmental reports, guidelines and regulations (e.g. Minimum Competency Regulations, National Development Plan) as well as other literature
Data analysis	<ul style="list-style-type: none"> • Based on raw data from National Treasury on compliance with Minimum Competency Regulations as at October 2018. The data was analysed to ascertain the overall rate of compliance per municipality, the rate of compliance per occupation and compliance by municipal category
Stakeholder consultations	<ul style="list-style-type: none"> • Interviews: national stakeholders were engaged specifically, officials from National Treasury, DCoG, provincial DPLG, LGSETA • Structured questionnaire sent to 257 municipalities, 26 municipalities responded

CHAPTER 3. MUNICIPAL GOVERNMENT CAPACITY BUILDING: KEY FINDINGS

1: There is a need for a common definition within government researching what a dysfunctional municipality entails. The FFC's proposed framework for determining functionality status of municipalities is based on: governance, financial management, service delivery, leadership, political management and human resources

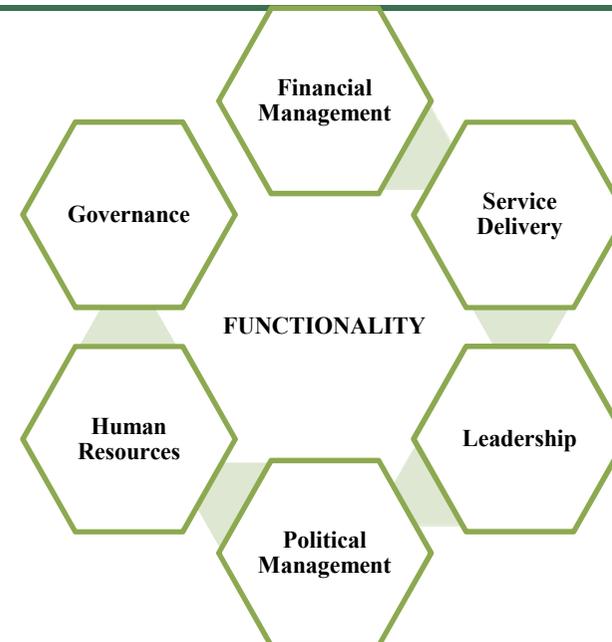
2: Empirical results from the Difference in differences analysis

shows mixed results with negative outcomes overall for the B2B programme, due to a wide range of priority areas with subjective indicators as target measures. For some indicators, there is no available data to deduce impact of the B2B support programme

3: Given the low level of compliance with the Minimum Competency Regulations over the last 12 years since the regulations were gazetted, there is a need for a thorough and

comprehensive assessment of the impact of this intervention.

4: Regulatory and training interventions are being set at a variety of points in the system and they are not well coordinated



Different sets	
125 (128) Distress municipalities – SoLGF 2019	47 Municipalities in severe financial crisis – 139 Triggers for 2 nd Quarter ending December 2019
98 Municipalities identified by provinces in relation to 139 triggers – MFMA unit	48 Municipalities require special attention – AG report 2017/18
55 MISA 2018	40 Municipalities with current interventions – CoGTA
87 CoGTA Minister 2018	

CHAPTER 3. MUNICIPAL GOVERNMENT CAPACITY BUILDING: RECOMMENDATIONS

- 1. With respect to municipal functionality, the commission recommends that* the Minister of CoGTA, the Minister of Finance and the President of SALGA jointly lead the development of a government-wide accepted definition of ‘municipal functionality’. The definition should be based on the six factors put forward by the Commission: maintenance and performance of systems, processes and practices in governance, service delivery, financial management, leadership, political management, and human resources. Further, they should ensure that the accepted indices for measuring dysfunctionality should be explicit. Indicators of dysfunctionality should be chosen carefully and should exclude factors that are outside the current control of a municipality.
- 2. With respect to the B2B Support Programme, the Commission recommends that* the Minister of CoGTA narrows the current scope of focus, to performance aspects that are measurable and easily monitored.

CHAPTER 3. MUNICIPAL GOVERNMENT CAPACITY BUILDING: RECOMMENDATIONS (CONT.)

3. *With respect to capacity building, the Commission recommends that:*

- a) the Minister of CoGTA
 - i. defines the roles, responsibilities and governance arrangements underpinning the building of a quality Local Government civil service, and
 - ii. through MoUs improves and strengthens coordination among government departments that are building capacity of municipalities in order to avoid duplication and gaps between different role-players, while paying specific attention to the requirements of any particular municipality receiving an intervention.
- b) Based on an assessment of the specific needs of a municipality, the Minister of Finance and Minister of CoGTA jointly, and in consultation with provincial governments, should prioritise technical support for new systems, innovative business process redesign and change management.
- c) The Minister of Finance should conduct regular assessments of the minimum competency regulations to determine their impact and whether there are tangible improvements as a result of complying, and further interrogate whether a more differentiated approach to the implementation of the regulations would be effective.

CHAPTER 4. LOCAL GOVERNMENT INFRASTRUCTURE DELIVERY MANAGEMENT AND EFFICIENCY

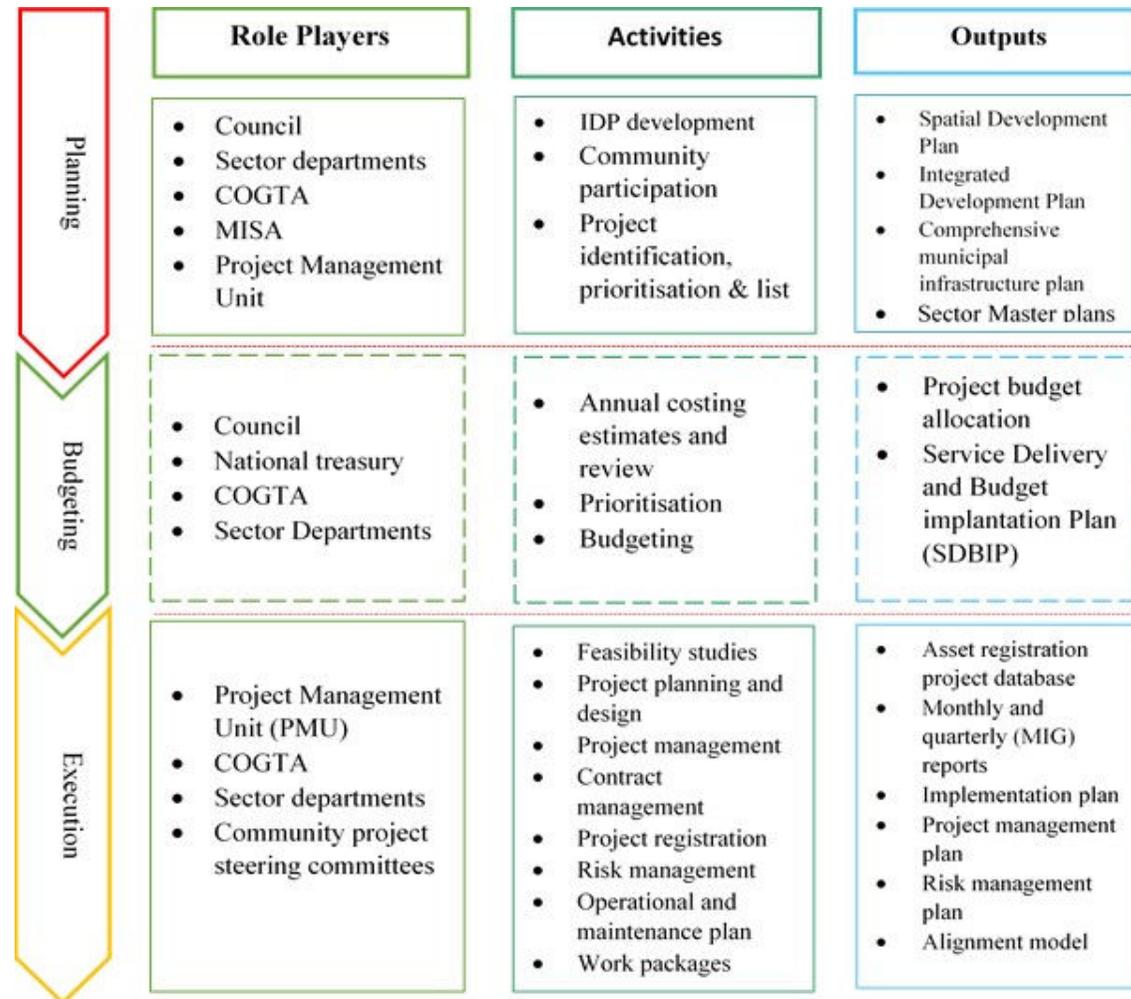
- Infrastructure lies at the heart of government's current fiscal stimulus package and long term development agenda
- Local government infrastructure delivery performance is lagging despite the widely accepted view that capital investments are crucial for economic growth and development
- Municipalities continue to demonstrate an alarming inability to spend capital budgets, maintain and operate existing infrastructure, manage infrastructure projects, and build quality infrastructure
- without efficient management of the infrastructure delivery process and utilisation of available resources, it is impossible to maximise the social welfare of the citizens
- The objective is to assess the local government infrastructure delivery processes and spending efficiency

METHODOLOGY

- Policy review
 - Infrastructure delivery regulatory framework
- Case study
 - 7 municipalities
- Stakeholder interviews
 - National Treasury, COGTA and Municipal infrastructure Support Agency (MISA)
- Econometric assessment
 - Malmquist Productivity Assessment (to measure spending efficiency)

KEY FINDINGS

- The regulatory, institutional and management framework for the delivery of local government infrastructure is well established but potentially burdensome



KEY FINDINGS

- Infrastructure delivery management deficiencies are rife and costly

Examples project delays and cost overruns		
Municipality	Project type	Financial implications
Mangaung	Airport development node	The municipality spent R141 million in planning and establishment costs since 2013/15 and no approval for township planning has been obtained to date.
City of Johannesburg	Housing	A R221 million housing project due to be completed in March 2016 was only 55% complete by year end and abandoned by the contractor. The contractor was paid R22 million in excess of original contract value for additional work scope for which there is no evidence and approval.
Alfred Duma and Umngeni	Roads	Payment made to contractor for incomplete roads
Govan Mbeki	Sewer reticulation network	A R25 million project was abandoned for two year with the municipality failing to terminate the contract and appoint another contractor to rectify the defects. This defects resulted in sewage flowing to the street and houses.
Ngaka Modiri Molema	Water treatment plant	A project which started in 2011/12 with a May 2014 completion timeline remained incomplete as at June 2017 with the budget having escalated from R68 million to R104 million.
Rustenburg	Rapid transport system	Phase 1 of the R3 billion project that commenced in 2012 with an expected completion date of 2016 was only 40% complete in 2017 – with no records to indicate the total costs incurred.

KEY FINDINGS

- The manner in which the infrastructure grant framework is structured creates challenges for coordinating project implementation at the local level, and accountability across levels of government
- The efficiency effects of local infrastructure spending shows mixed results
 - Measures to increase efficiency will thus differ by municipality, depending on the challenges faced within that municipality, but a thorough analysis of best-practice or well-performing municipalities will also be required
- Municipalities are seemingly overwhelmed by the scale of infrastructure needs, ambiguities in execution roles and responsibilities as well as administrative and regulatory processes associated with the delivery of infrastructure

RECOMMENDATIONS

1. With respect to local government infrastructure management and efficiency, the Commission makes the following recommendations:

(a) The Minister of COGTA and the Minister of Finance jointly should, as part of the ongoing local government infrastructure grant reforms, strengthen the linkage between technical project planning processes and budgeting and foster smooth intergovernmental infrastructure coordination, including the following:

(i) Time-bound plans for consolidating all municipal infrastructure grants into the respective existing sector-specific grants and thereby provide the key sector department with the authority to carry out their infrastructure support mandate;

(ii) Clarification of roles and responsibilities especially in the delivery of water and electricity services between local municipalities and district municipalities on the one hand, and public entities, including the water authorities and Eskom respectively. With respect to specific local geographic areas, these roles and responsibilities must receive further expression in an MoU. This will enable more direct targeting of funding for services in the Division of Revenue Act.

RECOMMENDATIONS

(b) The Minister of COGTA should establish an infrastructure inspectorate through the MISA to assess management performance processes and capacity within municipalities to implement grant-funded and non-grant-funded infrastructure projects on a continuous basis.

(i) The MISA inspectorate should undertake infrastructure delivery management capability assessments, quality inspections of new and existing built infrastructure, project management and delivery audits and advise on alternative approaches, materials or technologies for infrastructure delivery through the development of infrastructure blueprints for various types of municipal facilities.

(ii) The Minister of COGTA should align inspectorate assessments to the Division of Revenue Bill conditions for allocation, reporting and the disbursement of grants. This must be in line with the recently established Budget Facility for Infrastructure Programme criteria for appraising and budgeting for infrastructure projects.

RECOMMENDATIONS

(c) The Minister of Finance, jointly with the Minister of COGTA, MECs for Finance and other provincial government departments, should within a DM area pull together the various project management resources present from GTAC, MISA, MIG administration and the respective municipal PMUs, to create a shared project management facility to improve the oversight capacity in respect of projects and to protect the financial interest of local government against contractor misconduct.

(d) The MECs of provincial CoGTAs should strengthen the existing infrastructure delivery intergovernmental forums to facilitate peer learning of best infrastructure management practices across municipalities and to foster coordinated infrastructure planning.

CHAPTER 5: LOCAL GOVERNMENT STRUCTURE: THE CITY-REGION AND ITS POTENTIAL TO ADDRESS SOUTH AFRICA'S DEVELOPMENT CHALLENGES

- Globally, there is a growing recognition of the need to plan and promote development across sub-national and national boundaries to support the growth of city regions.
- The city region concept is yet to garner widespread interest in South Africa. It is vital to examine urban challenges and solutions in South Africa through a regional lens rather than from a narrow local viewpoint.

Research objectives

- To analyse the institutional architecture, constraints and opportunities, and consider critical challenges for city regional development in South Africa.
- To examine prospects for city regional development in South Africa and how it can be incentivised.

METHODOLOGY

- Case study approach
- Four international case studies:
 - Bangkok Metropolitan Region in Thailand
 - São Paulo Metropolitan Region in Brazil
 - Metropolitan Region of Barcelona in Spain
 - Mexico City Metropolitan Area in Mexico
- Lessons learnt applied to the Gauteng City Region (GCR) case study in South Africa.
- Interviews to supplement GCR case study

KEY FINDINGS (1)

Successes from international case studies:

- Horizontal collaboration and successful delivery of projects
- Legislation and supporting institutions and successes in integrated projects
- Incentives for regional coordination and collaboration
- Reforms in metropolitan legislation

Challenges identified from international case studies:

- Gaps between functionally integrated economic areas and administrative boundaries
- Lack of effective mechanisms for coordination across a region
- Lack of prioritisation of developmental plans and proper linkage to available resources
- Lack of suitability of legal planning, coordination and political structures to metropolitan-scale organization
- No financial incentives to encourage cooperation and collaboration

KEY FINDINGS (2)

Successes in the GCR

- Intergovernmental collaboration and successful delivery of various regional projects e.g. regional wastewater facilities and Gautrain rapid rail link project
- Utilising currently existing policies and institutions to strengthen intergovernmental collaboration and coordination
- Creating innovative institutions to strengthen intergovernmental collaboration and coordination

Challenges in the GCR

- Different timing of the establishment of GCR institutions
- Mono-focused collaboration and coordination of planning and the silo-approach
- Unspecified nature and scope of collaboration and cooperation
- GCR is pursuing various goals and thus making it difficult to align policy and implementation vertically among different spheres of government
- Lack of strong legal and constitutional guidance on cooperative government and intergovernmental collaboration

THE CITY-REGION AND ITS POTENTIAL TO ADDRESS LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

- City-regions have the potential to promote more effective service delivery and sustainable development.
- For successfully implementing the city-region development model, it is vital that it is driven by municipal cooperation, with policy and economic incentives playing a critical role.
- It is imperative that ‘higher level’ government supports city-region level cooperation rather than envisioning it as competition.
- There are good prospects for functional city regions in South Africa, to the extent that the appropriate institutional and policy framework as well as financial incentives are put in place.
- The development of city-regions should begin with the key sectors, such as transport and water, where the potential for positive outcomes is vast.

RECOMMENDATIONS

1. With respect to city region development, the Commission recommends that:

- The Minister of Cogta should assess the requirements in respect of key success factors for city regions to address inclusive development and local government service delivery failures, including:
 - Legal provisions;
 - Institutional setup scenarios - involving provincial government and/or metros and/or district municipalities and/or local municipalities, depending on the context;
 - Financial incentives; and
 - Rural and peri-urban developmental impact scenarios.

CONCLUDING REMARKS

- Accounting for 40% of the country's GDP, local government is “too important to fail.”
- It has achieved a lot in the past two decades, in terms of bringing government closer to people and improving access to basic services to poor households.
- However, the Local Government sphere remains wanting in terms of fulfilling its constitutionally assigned mandate. The Commission continues to be concerned about the dysfunctionalities and performance lapses that characterise many municipalities
- This submission is an effort by the Commission to contribute solutions for the many challenges facing local government
- Admittedly, the challenges facing the sector are many, complex and deep-seated, and thus one submission could not do justice to all the issues bedevilling the sector
- The Commission will continue to keep its focus on local government issues



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THANK YOU.

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