



National Economic
Development and
Labour Council

BRIEFING NOTE: NEDLAC 30 YEAR OF DEMOCRACY PROJECT

Nedlac social partners reflecting on 30 years of democracy and planning for the future

Theme: Economic development and employment

Sub-theme: Local government

Welcome to the discussion on local government which will cover

- The impact of reforms in respect of energy, water and transport on local government; and
- Impact of dysfunctional municipalities especially metros on socio-economic progress

This briefing note will assist you in your discussion by:

- Highlighting key issues¹
- Setting out questions for you to consider.

You are free to add additional issues and questions to your discussion.

A. Key issues

1. Variables and driving forces

The Indlulamithi project has identified the following variables and driving forces to consider when planning for future scenarios:

- Urbanisation will accelerate alongside urban poverty. By 2030, half of Africa will be urbanised.
- Wealthier areas are increasingly likely to privatise their lives, seeking private health, education, energy supply, security, transport and entertainment.
- Gqeberha and Kimberley are examples of metros that faced economic challenges, such as infrastructural inefficiencies, a decline in industrial activities, and subsequent job losses. As a result, these metros are no longer driving adequate growth, and their contribution to the GDP has declined.

The AfDG dialogues argued that:

- The municipal distribution infrastructure (and maintenance backlogs) are a critical vulnerability, and the resolution of national infrastructure and electricity supply will not result in energy security if the distribution and municipal networks are not attended to (AfDG:7)
- There is a general failure of the local government fiscal framework. Municipalities are meant to fund water and sanitation from their equitable share and revenue from the sale of water. This has not worked, as municipalities do not bring in enough revenue to cover the costs of providing these services and the equitable share is often used for other purposes (AfDG:30)

¹ These issues have been sourced from the DPME 30 year review, Indlulamithi driving forces scenarios, AfDG dialogues held in 2022/23 and work in Nedlac.



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2. Achievements and changes

- **Legislation** on local government has altered the legal landscape, giving municipalities autonomy and a focus on development planning and service delivery (Summary: 15).
- The **District Development Model** (DDM) was introduced to strengthen municipalities' capacity to deliver on their mandate through improved intergovernmental coordination on planning, budgeting, and service delivery (Summary: 15).
- **Public trust and confidence** in local government to deliver basic services decreased from 70% in 2004 to 35% in 2022 (Summary:14)
- Of 257 municipalities in 2021-2022, 38 received a clean **audit**, 104 have credible financial statements, 78 received a qualified audit, six received adverse findings, 15 have disclaimers, and 16 audit outcomes are outstanding due to late submission (NDP: 40)
- Municipalities with a **clean audit** status manage 29% of local government expenditure budgets, namely the City of Cape Town City of Ekurhuleni (Consolidated general report on local government audit outcomes: 2021-22).
- The **electricity maintenance backlog** in municipalities is between R100- R200 billion, while the total budget for repairs and maintenance across all asset classes in local government is R27 billion per annum. The National Electrification Programme grant for electrification of metros is underspent by approximately R1.5 billion each year.

B. Questions to be addressed

- a) What are the achievements and lessons concerning the **impact of local government governance and fiscal stability on socio-economic outcomes**? Consider:
 - the different contributions of metros and rural local government;
 - the role of conditional grants and oversight/interventions of central government to focus local government spending
 - incapacity of some municipalities to provide services, leaving businesses, especially SMMEs, unable to conduct their businesses?
 - The ability to coordinate policy, planning and implementation between levels and organisations within the state and between the state and private actors? (AfDG:13)
- b) What can be done to address the **local government fiscal model** in light of changes to the provision of services, especially energy, where imminent changes threaten the revenue model of municipalities? And what can the national government do to address poorly performing and unviable municipalities, especially metros? (Review:216)
- c) Should and how should **Nedlac and social partners** get involved in addressing the challenges that local government faces to achieving improved socio-economic outcomes?