INCA
CAPACITY
BUILDING FUND

REPORT

on the

ICBF SUMMER SCHOOL

of

2024

THEME:

**“LEADERSHIP AND STAKEHOLDER PARTICIPATION
IN PURSUIT OF MUNICIPAL SUSTAINABILITY”**

5-7 February 2024

The Balalaika Hotel, Sandton, Johannesburg, SA

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

AFD
AGENCE FRANÇAISE
DE DÉVELOPPEMENT

"Leaders are called to stand in that lonely place between the no longer and the not yet and intentionally make decisions that will bind, forge, move, and create history. We are not called to be popular; we are not called to be safe; we are not called to follow—we are the ones to take risks. We are the ones called to change attitudes, to risk displeasures. We are the ones called to gamble our lives for a better world."

~ Mary Lou Anderson

EXECUTIVE SUMMARY

INTRODUCTION:

The Local Government Summer School of 2024 took place from 5-7 February at the Balalaika Hotel, in Sandton, Johannesburg. The three-day Summer School that focused on the theme 'Leadership and Stakeholder Participation in Pursuit of Municipal Sustainability' was sponsored by the Inca Capacity Building Fund (ICBF), a partnership between the Swiss State Secretariat for Economic Affairs (SECO), the French Development Agency (AFD) and Inca Portfolio Managers (IPM). It was attended by a selected group of high-profile municipal practitioners. Senior officials from National Treasury also attended.

PRESENTATIONS AND PANEL DISCUSSIONS:

Four topics central to the theme were identified and reputable speakers were selected to explore different sides of these topics to provide delegates with a wide-angle perspective but also very specific and in-depth insights that can make a positive contribution to the immediate and future challenges faced by them.

Topic 1: Service Delivery Challenges – Room for Stakeholder Partnerships

The keynote address was presented by ***Neil Schloss*** *who, as Head of Asset Management at Growthpoint Properties and presenting on behalf of the broader property industry, sketched a picture of an industry declining since 2014 across industrial, retail and office on a national basis with a bleak 10-year outlook. He pointed out the high and increasing municipal costs that drive their expenses growth and significantly outpaces the CPI, arguing that such high costs without good services delivery combined with a flawed process of determining assessment rates and punitive rates for vacant land are going to kill the goose that lays the golden eggs eventually leading to a decline in municipal revenue. He reminded that property owners have much to offer, have access to capital, drive the economy and wish and need to operate in alignment with municipalities.*

Andrew Mortimer *of the City of Cape pointed out that there is a definite correlation between lack of development and crime. By global standards the crime rate of the COCT is very high and it being a tourist city necessitates a diverse set of pro-active and reactive type of activities. Andrew unpacked the key concepts required for a safe and secure environment, inter alia including passionate dedicated people, a supportive organizational culture and significant investment in technology. He provided details of various safety and security partnerships through several case studies. Lastly, he dealt with lessons learnt and challenges encountered emphasizing that human partnerships are invaluable to the integration of effort.*

Dr Michele Gratz*, Municipal Manager of George Local Municipality (GLM) sketched the challenging financial situation in which GLM has been plummeted due to unreliable electricity supply and how the municipality has risen to the occasion through short, medium, and long-term strategies focused on significantly reducing its dependence on Eskom. The figures she provided are staggering for a town of George's size and will not be attainable for most municipalities that are not financially as stable and well run. She highlighted that national and provincial government have a role to play in pinning Eskom down to become a more reliable player in this game their mismanagement has forced on municipalities to ensure that other sources from SSEGs to IPPs can be utilised.*

Moderator ***Amanda Jitsing,*** *a public finance specialist, led a question and answer session that probed further into the issues highlighted by the speakers. From the discussions it became clear that the municipal regulatory environment is a real obstacle in the way of public and private partnerships with the latter requiring procurement agility and simplification of environmental and other legal processes as well as exemptions of regulations that serve other organs of state such as Eskom but work against municipalities.*

*The MD of Raalebborg Environmental, **Leon Grobbelaar**, dealt with waste management challenges, landfills and waste resource facilities and waste partnering. It was quite disconcerting to hear about the lack of planning of adequate landfill space in SA while mismanagement was ruining landfills built at exorbitant costs financed by rate payers; the definite lack of focus on and investment in recycling and recovery infrastructure and the two cases of PPPs that nearly got off the ground for waste-to-energy and a landfill facility but failed due to public resistance and private withdrawal. The presentation left the impression that municipalities have a long road ahead to do proper waste management but also that solid waste management is probably one of the best municipal services' candidates for PPPs.*

*Through his presentation **Dr Sean Phillips**, Director General of the Department of Water and Sanitation (DWS) made it clear that the DWS is in business again after many years of poor governance and administration with seriously delayed projects of national importance now back on track, e.g., the Lesotho Highlands Water Phase 2 supplying Gauteng with water via the integrated Vaal system. He gave a run-down of the newly revived Blue Drop (water) and Green Drop (wastewater) results of 2023 pointing out the need for better water conservation and water demand management, especially a reduction of non-revenue water which is really a waste of paid for bulk water and is countrywide running at an average of 47%. With 73% of Water Services Authorities (WSA) scored 'critical' due to lack of investment and maintenance of all their water services work, Dr Phillips support for private sector involvement is understandable but this, he said, goes with the proviso of municipalities being able to bring bankable projects to the market and a less cumbersome PPP process.*

*The ensuing question and answer session moderated by **Amanda Jitsing** further unpacked the qualifications linked to the availability of capital for investment in municipal infrastructure but also pointed out financial markets' substantial demand for bankable projects. Since political stability is an important component of bankability, the rifeness of meddling politicians who only serve their own agendas and cause huge instability surfaced and with it the image of a national government failing to keep bad politics at bay so that local government practitioners can get on with good governance. Coming to the fore again was the importance of capable and resilient municipal leadership.*

Topic 2: Executive Leadership shaping the Future

***His Excellency, Mirko Manzoni,** Ambassador of Switzerland to South Africa, spoke about the leadership crisis he observes on a global scale and highlighted the importance of communication, transparency, and vision to be an inspiring leader who people can trust in a crisis. He related his experiences in Mozambique to negotiate an outcome that will be sustainable albeit not necessarily popular, testing his courage as a leader.*

*In a very insightful presentation **Richard Wainwright**, CEO of Investec, provided several pointers for effective leadership, i.e, not hesitating to make tough decisions and trusting your gut to do so, understanding the first loss is the best loss, being prepared to change your view, opinion, mind and acknowledging wrong decisions. In the process, considering all the stakeholders even if such is a real time commitment and bottom-line, being brave. He provided several examples of tough decisions.*

*Mr **Lesetja Kganyago**, Governor of the South African Reserve Bank spoke in his characteristic direct and frank manner about his mandate at the SARB and the toolkit the bank has to achieve its mandate, the role of politics, and the positive result of price stability if a central bank sticks to its mandate, remain independent of politics and accountable to society. He pointed out that for the SARB it is fundamental to control inflation thus it is concerning that municipal tariffs and rates influencing the CPI often rise more than headline inflation. In conclusion, Mr Kganyago specifically asked municipalities not to keep driving up inflation.*

***Attie van Zyl**, CEO of IPM moderated the question and answer session. Take away points were that important roles of leaders are to give hope and guidance, to be brave and take on and fulfil their mandate, to be resilient in the face of adversity, to earn, respect and build trust with employees and stakeholders.*

Topic 3: Financial Sustainability

*The second day of the Summer School started off with a very sobering presentation by **Leon Claassen** of Ratings Africa, an independent governance rating agency. He provided an overview of the 2022 results of the Municipal Financial Sustainability Index (MFSI) measuring internal and external factors to obtain a financial sustainability score for the 112 municipalities monitored. He showed the highest and lowest scoring municipalities per province and the common features of these municipalities. The average scores per province provided a dismal picture of the decay of LG in SA and the index left the overall impression that most municipalities are on the brink of becoming dysfunctional.*

***Danga Mughogho,** programme manager at the SA Cities Network (SACN), presented the State of City Finances as reflected in the SACN Report of 2022. The narrative is one of visible decline in large, medium, and small cities in SA, especially the last few years since 2019 and stagnant performance before that from 2015/16 to 2019/20 and when Covid hit, all gains were lost. The latter period shows a significant decline in electricity revenues and an average decline in water revenues. Combined with other losses, the income loss from trading services is drastic although revenues grew ahead of inflation, but growth was significantly slower, and employee related costs outpaced growth in revenue. Very disconcerting is how the value of infrastructure is declining in real terms relative to the population for each city.*

*In the opening statement of his presentation, **Charl Bouwer,** Executive Director of IPM, pointed out the fear, uncertainty and volatility present in discussion of LG finances. He discussed the importance of Long-term Financial Planning (LTFP) and strategies to ground and guide the process of achieving financial sustainability as it considers all internal and external factors and being the benchmark, makes all other plans viable and actionable. As such it can be the trusted and sophisticated navigation tool that municipalities need in uncertain times. A GPS that can also be used to bring more reality to the political / executive interface during budget discussions because of the immediate ability of the model to show the impact of different ways of thinking on financial sustainability.*

***Kgomotso Baloyi**, Director in Local Government Budget Analysis Chief Directorate at NT, explained the local government accountability cycle and pointed out that municipalities lack of proper planning shows up in the Auditor General (AG) reports. She explained the difference between a functioning and a sustainable municipality and made it clear that the root cause of failure in municipalities is leadership. She further discussed the game-changers that NT is pursuing to assist LG as well as other NT initiatives and interventions which inter alia include looking at the ring-fencing of the trading services, urban water reform measures and the professionalisation of LG.*

***Dr Letsepa Pakkies**, Director in Intergovernmental Policy and Planning Chief Directorate at NT, provided a perspective of the LG fiscal framework review and a refinement of the Local Government Equitable Share (LGES) formula. The review inter alia looks at improving fiscal leakages; alignment of provincial and municipal grants to improve the intergovernmental system's functionality and supportiveness and a sub-component for health and firefighting for funds to follow the function. Other improvements will include a framework for Development Charges (DC) and enabling measures for urban water reform.*

*The question and answer session that followed was moderated by **Prof Tania Ajam**, an Associate Professor in Public Policy at the University of Stellenbosch. Some of the issues that were mentioned as game changers included accountable leadership, improved intergovernmental relations, stability* *at the political / administration interface and the possibility of LTFP being mandatory. Some LG practitioners are not convinced that the proposed NT interventions are aggressive enough and others are offended by the broad sweeping statements of LG incompetence by the other spheres of government. All agree that disruptive politicians are the elephant in the room.*

Topic 4: A new Approach to Urban Development

Helen Rourke, *Programme Director at the Development Action Group (DAG) provided an explanation of the concept and tools of Land Value Capture (LVC) and discussed several of the tools in the LVC toolbox including the sale of development rights; inclusionary zoning and housing; public land packaging for affordable housing; special assessment districts; land leasing and property tax and tax increment finance. She shared the lessons learned by DAG and highlighted that LVC can drive a just urban transition in SA.*

Chantel Hauptfleisch, *Strategic Spatial Planner at Stellenbosch Local Municipality (SLM) provided some background of the SLM Spatial Development Framework (SDF), its Inclusionary Zoning Policy (IZP) and other enabling policy instruments before providing a detailed explanation of the Adam Tas Corridor (ATC) as a catalytic spatial transformation project using an overlay zone and spatially targeted infrastructure to restructure and transform an area of 375 hectares, consisting of 10 precincts and various landowners in Stellenbosch. Her presentation clearly showed the massive macro-economic impact that will be derived from the development.*

Minenhle Mophumulo, *Assistant Director Metro Planning at the City of Johannesburg (CoJ), discussed how the CoJ is using the city wide policy of Inclusionary Housing (IH) as an LVC tool with great success. In terms of its policy, the CoJ has made it mandatory that IH be part of any development that includes 20 dwelling units or more and gives developers several options with associated incentives. It is visible that the IH policy has been met with acceptance and appetite thus CoJ will be moving forward to refine the policy.*

Gerhard Pienaar, *Deputy Head of SECO moderated the ensuing question and answer session. The discussion brought several important factors to the attention of potential LVC practitioners namely that there must be internal consensus and alignment of directorates and line departments who will be involved in the policy and its implementation; political will to pursue this policy direction is required; community buy-in and specifically the buy-in of involved landowners and developers is essential; a tracking system will be required to be able to measure if policy objectives are met.*

BREAKAWAY GROUPS:

Day 3 of the Summer School was dedicated to giving the three breakaway groups the opportunity to provide feedback on the questions posed to them and deliberated on during the breakaway sessions. These questions related to 1) what it looks like and what does it take to do ordinary things exceptionally well in a municipal context and 2) unpacking the context, service delivery challenges, innovation, and complexity of one or two proposed development projects including what offering will be required from a development partner. Each of the groups gave an excellent presentation, the full content of which is included in this report.

SOME OBSERVATIONS EMANATING FROM THE SUMMER SCHOOL:

The presentations, discussions, and breakaway groups' feedback highlighted the following—

1. ***Integration of Effort***
    - *Each sphere of government to practice its mandate within a holistic view of governance and funding to follow function with an end to unfunded mandates.*

- *Cooperative governance to be understood and practised without ignorance and arrogance.*
- *Intergovernmental relations to grow up, get beyond apathy and the blame game and role-players to work together to achieve some maturity that can benefit services delivery at national, provincial, and local government level.*
- *Government at all levels to eventually learn the lesson of 'one size does not fit all'.*

2. *Address the disruptors*

- *Legislation or policy instruments to make sure politicians are of a better quality and integrity.*
- *Linked thereto policy instruments to protect municipal managers, CFOs and other members of the administrative executive against politicians and their agendas and specifically against chaotic coalition politics and behaviour so that good governance is not held captive, and communities subjected to suffering because of disruptive politicians.*

3. *Fix the weak links*

- *Municipalities to fix their non-revenue water problems – bring the private sector onboard. The Strategic Water Partnership with access to funding mechanisms is ready to assist.*
- *Municipalities to launch revenue enhancement programmes (if not done already) that will address the entire revenue cycle and point out the weak links, then address those with zero tolerance and implement consequence management as part thereof.*

4. *Legal and policy reforms*

- *Local government is in urgent need of private sector involvement but must make it possible. The cumbersome legislation has been an obstacle and is in the process of been reviewed and amended. Local government to make sure that the result will fit the purpose by becoming involved in the process via existing fora. Do not rely on CoGTA or SALGA to do this for you.*
- *What is a bankable project? What does it mean to do de-risking to make projects possible? Guidelines will be helpful, LG to lobby for these to be done on a national basis.*
- *Long-term financial plans are excellent tools and should really be implemented by all municipalities. For now, guidance on how to do this and efforts to bring it to more municipalities should be a governance priority.*

5. *Fiscal Framework*

- *The current local government fiscal framework review does address several of the LG's challenges that have been identified repeatedly, eventually now getting attention. Municipalities to be really involved in this review via their own fora.*

6. *Make the tough decisions*

- *Local government practitioners have more power than they think they have. Take your constitutional mandate and enforce it, find ways to drive it, use it to lobby for investment and, as practitioners, stand together, learn together, carry each other, exercise power in unity.*

Anita Botha
Programme Director of the ICBF Summer School
April 2024

ACRONYMS & ABBREVIATIONS

ACSA	-	AIRPORTS COMPANY OF SOUTH AFRICA
AD	-	ANAEROBIC DIGESTION
AFD	-	GROUPE AGENCE FRANCAISE DE DEVELOPPEMENT
AO	-	ACCOUNTING OFFICER
ATC	-	ADAM TAS CORRIDOR
BASA	-	BANKING ASSOCIATION OF SOUTH AFRICA
BESS	-	BATTERY ENERGY STORAGE SYSTEM
CAPEX	-	CAPITAL EXPENDITURE
CBD	-	CENTRAL BUSINESS DISTRICT
CEF	-	CAPITAL EXPENDITURE FRAMEWORK
CEPAC	-	CERTIFICATE OF ADDITIONAL POTENTIAL CONSTRUCTION BONDS
CFO	-	CHIEF FINANCIAL OFFICER
CTICC	-	CAPE TOWN INTERNATIONAL CONVENTION CENTRE
COCT	-	CITY OF CAPE TOWN
COGTA	-	DEPARTMENT OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS
COJ	-	CITY OF JOHANNESBURG
CPI	-	CONSUMER PRICE INDEX
CSP	-	CITIES SUPPORT PROGRAMME
DAG	-	DEVELOPMENT ACTION GROUP
DBSA	-	DEVELOPMENT BANK OF SOUTHERN AFRICA
DC	-	DEVELOPMENT CONTRIBUTIONS
DFI	-	DIRECT FOREIGN INVESTMENT
DORA	-	DIVISION OF REVENUE ACT
DOT	-	DEPARTMENT OF TRANSPORT
DPR	-	DIRECT POTABLE REUSE
DWS	-	DEPARTMENT OF WATER AND SANITATION
GDC	-	GROSS DEVELOPMENT COST
GDP	-	GROSS DOMESTIC PRODUCT
GDV	-	GROSS DEVELOPMENT VALUE
GLM	-	GEORGE LOCAL MUNICIPALITY
ICBF	–	INCA CAPACITY BUILDING FUND
IDP	-	INTEGRATED DEVELOPMENT PLAN
IF	-	INFRASTRUCTURE FUND
IH	-	INCLUSIONARY HOUSING
IPM	-	INCA PORTFOLIO MANAGERS
IPP	-	INDEPENDENT POWER PRODUCER
ISR	-	INFORMATION, SURVEILLANCE AND RECONNAISSANCE
IZP	-	INCLUSIONARY ZONING POLICY
JET	-	JUST ENERGY TRANSITION
JSE	-	JOHANNESBURG STOCK EXCHANGE
KPI	-	KEY PERFORMANCE INDICATOR
kWp	-	KILOWATT PEAK (SOLAR ENERGY)
LEAP	-	LAW ENFORCEMENT ADVANCEMENT PROGRAMME (COCT)
LG	-	LOCAL GOVERNMENT
LGES	-	LOCAL GOVERNMENT EQUITABLE SHARE
LHWP2	-	LESOTHO HIGHLANDS WATER PHASE 2
LM	-	LOCAL MUNICIPALITY
LSDF	-	LOCAL SPATIAL DEVELOPMENT FRAMEWORK
LTFP	-	LONG TERM FINANCIAL PLAN
LTFS	-	LONG TERM FINANCIAL STRATEGY
LVC	-	LAND VALUE CAPTURE
MERF	-	MATERIAL RECOVERY FACILITY
MFMA	-	LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT
MFSI	-	MUNICIPAL FINANCIAL SUSTAINABILITY INDEX
MM	-	MUNICIPAL MANAGER
MSA	-	LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT
MSCOA	-	MUNICIPAL STANDARD CHART OF ACCOUNTS
MTEF	-	MEDIUM TERM EXPENDITURE FRAMEWORK
MTREF	-	MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK
MWp	-	MEGAWATT PEAK (SOLAR ENERGY)
NRW	-	NON-REVENUE WATER
NT	-	NATIONAL TREASURY
NWA	-	NATIONAL WATER ACT
OPEX	-	OPERATIONAL EXPENDITURE
PPE	-	PERSONAL PROTECTIVE EQUIPMENT
PPP	-	PUBLIC-PRIVATE PARTNERSHIPS
PSC	-	PUBLIC SERVICE COMMISSION
PT	-	PROVINCIAL TREASURY
PV	-	PHOTO VOLTAIC
REIT	-	REAL ESTATE INVESTMENT TRUST
RTIA	-	ROAD TRAFFIC INFRINGEMENT AGENCY
RTMC	-	ROAD TRAFFIC MANAGEMENT CORPORATION
SACN	-	SOUTH AFRICAN CITIES NETWORK

SALGA	-	SOUTH AFRICAN LOCAL GOVERNMENT ASSOCIATION
SANParks	-	SOUTH AFRICAN NATIONAL PARKS
SAPS	-	SOUTH AFRICAN POLICE SERVICE
SARB	-	SOUTH AFRICAN RESERVE BANK
SCM	-	SUPPLY CHAIN MANAGEMENT
SDBIP	-	SERVICE DELIVERY BUDGET IMPLEMENTATION PLAN
SDP	-	SPATIAL DEVELOPMENT PLAN
SECO	-	SWISS STATE SECRETARIAT FOR ECONOMIC AFFAIRS
SLA	-	SERVICE LEVEL AGREEMENT
SLM	-	STELLENBOSCH LOCAL MUNICIPALITY
SMME	-	SMALL, MEDIUM, AND MICRO ENTERPRISES
SPLUMA	-	SPATIAL PLANING AND LAND USE MANAGEMENT ACT
SRA	-	SPECIAL RATING AREA
SSEG	-	SMALL SCALE EMBEDDED GENERATION
SWP	-	STRATEGIC WATER PARTNERSHIPS
TCTA	-	TRANS-CALEDON TUNNEL AUTHORITY
TIF	-	TAX-INCREMENT FINANCE
VFM	-	VALUE FOR MONEY
WCWDM	-	WATER CONSERVATION AND WATER DEMAND MANAGEMENT
WSA	-	WATER SERVICES AUTHORITY
WSA	-	WATER SERVICES ACT

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1 Introduction

The ICBF Local Government Summer School of 2024 was held from 5 – 7 February at the Balalaika Hotel in Sandton, Johannesburg. The Inca Capacity Building Fund (ICBF) is a partnership between the Swiss State Secretariat for Economic Affairs (SECO), the French Development Agency (AFD) and Inca Portfolio Managers (IPM). The three-day Summer School was attended by Municipal Managers and CFOs from metros and municipalities across SA as well as representatives of National Treasury (NT). Refer to **Annexure 1**.

2 Focus of the Summer School

Every day local government is in the news, often for the right reasons but mostly for the wrong reasons, the latter being a lack of services' delivery, financial unsustainability, and a plethora of technical and institutional challenges. The tumultuous environment in which practitioners must stay motivated and resiliently lead municipalities that are besieged with external factors over which they have no control, requires bold and courageous leadership. But municipalities simply cannot solve the local government conundrum on their own, they need mature and supportive intergovernmental relations. They also need to partner with development agencies and the private sector to strengthen their financial, technical, and operational ability to drive investment in and maintenance of the infrastructure that enables services' delivery and can unlock further economic opportunities. Therefore, the theme of the Summer School was "Leadership and Stakeholder Participation in Pursuit of Municipal Sustainability" with speakers and presentations focused on supporting leadership and opening new possibilities and opportunities.

As per its programme (refer to **Annexure 2**) the main topics of the Summer School were the following and for the reasons briefly explained above:

- Service Delivery Challenges – Room for Stakeholder Partnerships
- Executive Leadership shaping the Future
- Financial Sustainability
- A new Approach to Urban Development

Day 1: 5 February 2024

3 Welcome

Attie van Zyl, CEO of IPM on behalf of the ICBF

Attie welcomed all the delegates to the 16th Summer School and briefly provided background on the ICBF's funding structure and the contributions of IPM and its partners, SECO and AFD. Since its inception, the rationale of the Summer School has been to address the most burning issues that municipal executive practitioners are dealing with in the field, and this have been done through a combination of internal and external expert speakers to get the discussions going and tapping into the knowledge base of practitioners themselves because the ICBF firmly believes that the practitioners who attend the Summer School have all the answers. The value of the Summer School thus lies especially in the sharing of experience amongst practitioners and in doing so, finding the best answers and solutions to take forward.

The 2024 programme also reflects the ICBF's belief that, given the fast-changing environment, leadership in all sectors of our economy has an immense responsibility to fulfil their mandate and lead with courage thus the programme includes the participation of a few exemplary leaders who can share their perspectives of how to deal with the tough decisions.

Session 1: Service Delivery Challenges – Room for Stakeholder Partnerships

4 Keynote Address: What is the perspective from the property sector of municipalities today and what support is possible from a key stakeholder like Growthpoint if a true partnership can be developed and its contribution to sustainable municipalities – Neil Schloss

Neil Schloss, Head of Asset Management, Growthpoint Properties Limited

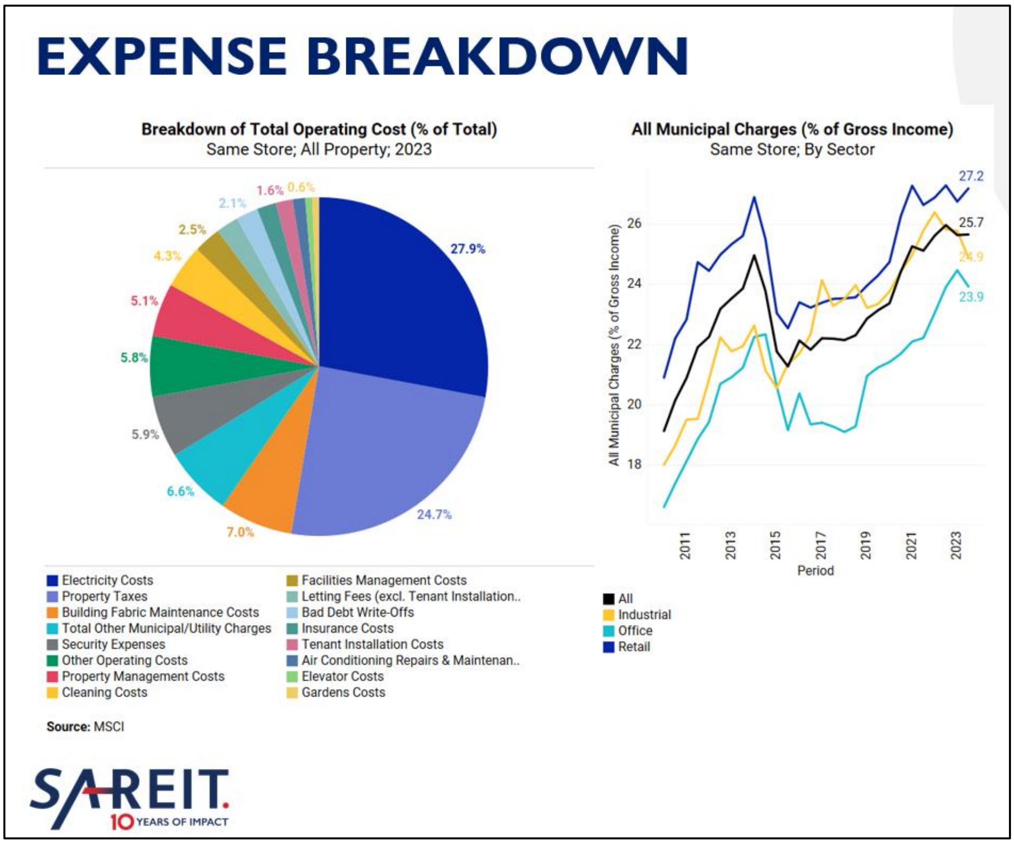
Neil delivered his presentation also on behalf of the broader property industry belonging to the SA Real Estate Investment Trust (REIT) Association currently consisting of 23 members with a market capitalisation of R200bn by December 2023. In SA, a REIT receives special tax considerations and offer investors exposure to the real estate market through shares listed on the Johannesburg Stock Exchange (JSE) but since its peak in 2017, the REITs share prices have gone down substantially with several REITs delisting. Especially COVID was very damaging and contributed to accumulative factors driving poor property performance as Neil explained.

Since 2014 the property industry saw a declining growth in the Net Property Income (i.e., result of gross income minus gross expenses) across industrial, office and retail on a national basis and so also did capital growth declined year on year which led to a decline in valuations, i.e., negative income, negative valuations - these are all linked. The rental income also significantly declined thus a 10-year outlook of the sector is bleak. The reality is such that rentals cannot be loaded because tenants cannot afford the rent and vacancies result in a competitive tenants' market thus property expenses are outpacing rental growth. Combined with muted demand, rising interest rates, and increased operating costs, asset values are on average likely to remain under pressure.

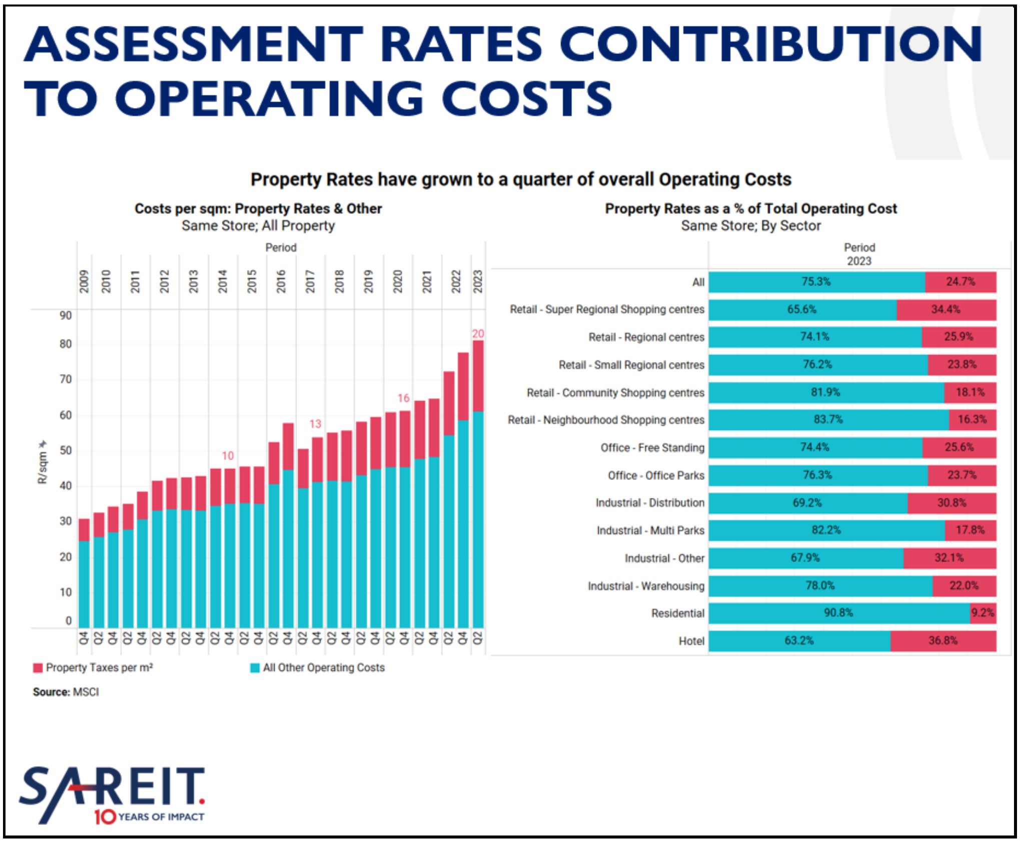
While the base rent has become smaller and the rent portion of gross income is declining, more of each rand is spend on municipal costs. Variable costs such as electricity, water and sewerage recovered from tenants is increasing at 18,6%, i.e., recoverable variable costs are hitting both the owners and tenants. Almost 60% of the property operating cost is going to municipal expenses (***Picture 1***) made up of electricity costs 27,9%; assessment rates 24,7% and 6,6% other municipal costs. Municipal costs as a percentage of gross income increased from 19% in 2011 to 25,7% in 2023.

Assessment rates (***Picture 2)*** can be as high as 34,4% in respect of super regional shopping centres while at the same time there is a decline in service delivery, in some places quite severely so. Thus, while municipal costs and assessment rates have been driving expenses growth, significantly outpacing the Consumer Price Index (CPI), property owners have had to invest heavily in generators, Photovoltaic (PV), and other infrastructure.

Picture 1: Expense breakdown



Picture 2: Assessment rates contribution to operating costs



Based on this scenario, Neil argued that if rental growth stagnates and further declines due to high and increasing municipal costs, the goose that lays golden eggs will be killed eventually leading to a decline in municipal revenue. He also argued that the municipal valuation process on which assessment rates is based, is flawed due to inaccuracies, long objection processes, the rate in the rand not been adequately reset thus leading to double compounding and manipulation and inconsistencies across provinces and similar type assets.

The punitive rates for vacant land are also not assisting developers thus, given that development processes take long, punitive measures certainly influence development decisions. So also, the performance of municipalities which is featuring more and more in investment decisions including buy, sell, developments, redevelopments, extensions, and refurbishments because of the billions that developers have had to spent due to poor services' delivery of which Neil provided a long list.

In concluding, Neil pointed out that property owners can offer innovation, skills, agility, and job creation to name but a few and reminded the attendees that commercial and industrial properties house and drive the economy, support SMMEs, have access to capital, practice good governance, are very invested in the cities and towns where they operate and need and want alignment with municipalities.

5 The positive impact of ensuring a safe and crime free urban environment. What partnerships are possible between key stakeholders to 'take back' our towns and cities? The City of Cape Town's approach – Andrew Mortimer

Andrew Mortimer, Manager: Emergency, Policing Incident Command, City of Cape Town

Andrew started off by providing statistics of the population growth in Cape Town and pointed out that, as areas become less safe, rentals drop as there is a definite correlation between lack of development and crime. Specific to Cape Town, the crime rate remains higher relative to SA and very high by global standards with 55,6% of people not feeling safe to walk in the area they live during the dark. For a City priding itself on its community focus and as the prime tourist city in SA, this is disconcerting as getting home or to an end destination mostly involve some walking.

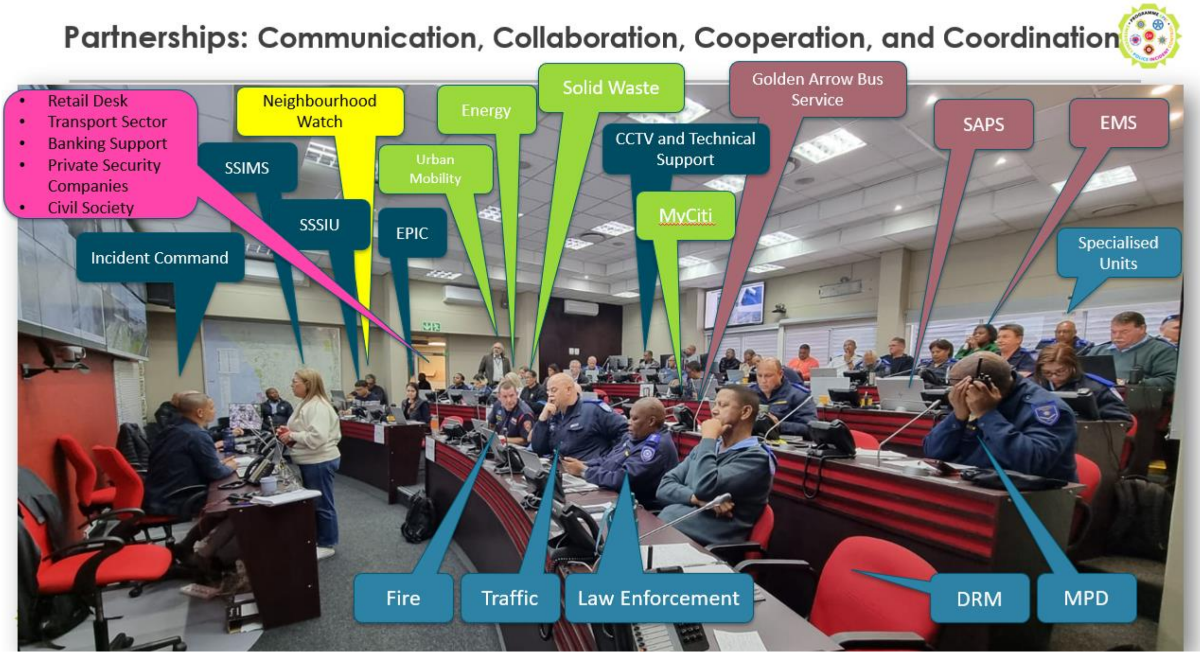
Andrew pointed out the diverse set of pro-active and reactive type of activities that the Safety and Security (S&S) Directorate of the City deals with before moving on to discuss the key concepts that should be applied to create an environment conducive to improving safety and security, i.e., people, processes, technology, data, and partnerships. These, he said, also need an enabling environment driven by political will and focus, strategic priorities, planning, infrastructure and facilities, partnerships, capacity and capability and community and corporate trust. The phases then of an institution's lifecycle of moving into their power to manage safety and security include preparation (staff, technology), deterrence of crime incidents, responding effectively to incidents, resolving incidents professionally and fair, supporting the victims and rectifying the behaviour of perpetrators through remedial actions.

Following Andrew as he unpacked the key concepts required for a safe and secure environment led to an understanding of:

- how important is passionate, dedicated people in every incident and thus the necessity to attract, train and retain these employees within a supportive organisational culture
- why and how process is required to build structure and procedure into a dynamic and fluid environment that is mission critical, open to significant public scrutiny and beyond reproach
- how critical is investment in technology to ensure correct information is provided to the correct decision-makers, at the correct time to make the most correct decisions at that

moment in time thus taking data to information to knowledge enabling actionable insight
- what it looks like to have a fusion of these critical elements gathered in one room focused on collaboration and partnering to ensure a safe and secure City (***Picture 3***).

Picture 3: Partnerships: Communication, collaboration, cooperation and coordination



Turning his focus pertinently to partnerships, Andrew presented several case studies to illustrate the partnerships that the City must work effectively and tirelessly to improve the safety and security of its communities.

Case study 1, a Law Enforcement Advancement Program (LEAP) that is a 'boots on the ground' partnership of three parties through the deployment of 1200 officers via an initiative jointly funded by the City and the Provincial Government of the Western Cape (PGWC), the focus being to support the South African Police Service (SAPS) in the highest murder rate precincts. The LEAP partnership makes a real difference because, while the national murder rate increase by 21% from 2019 to 2022, the LEAP 1 areas, except one, showed a significant decrease while the less intensely focused LEAP 2 areas showed an increase but smaller than the national increase.

Case study 2 concerned a peak tourist season partnership between the City, SAPS, SA National Parks (SANParks) and various civil organisations to ensure Tourism Safety on Table Mountain, the beaches and other hot spots as these places are hugely important to the City but also the province and various sectors given the direct tourist spent of R17,9bn in Cape Town in 2022. Data presented pointed out the Western Cape (WC) aviation sector injection in the City of R41bn in 2022 supporting 9500+ jobs, with 145 international flights currently landing every week, the City's success to position itself as a perfect place for ocean-bound tourism and 427 events hosted in the 2022/2023 financial year at the Cape Town International Convention Centre (CTICC), to name but a few.

Case study 3 is the Shotspotter partnership between the City, SAPS, and a technology vendor. It is a technology driven approach to utilise microphone sensor arrays to detect, analyse and locate the occurrence of gunshots that inter alia assist with command and control and situational awareness.

Case study 4 is about Digital Evidence Technology seeing the City partnering with various technology vendors to utilise:

- CCTV with 24-hour coverage by 1115 cameras monitored by 144 surveillance operators at operations centres, producing evidence used for traffic control and accepted by the courts
- Drones doing overwatch, traffic management and surveillance
- Information, Surveillance and Reconnaissance (ISR) technology with manned aircraft 'eye-in-the-sky' technology to assist with high-level monitoring of various threats such as land invasion, infrastructure attacks, poaching and metal theft
- Body Worn Camera and In-vehicle Camera technology to enhance officer safety, real time situational awareness, evidence collection and increased convictions through evidence

Case study 5 is a traffic enforcement programme focused on rectifying behaviour and making the public more accountable for road safety in which the City partners with the SAPS, WC Provincial Traffic, Department of Transport (DOT), the Road Traffic Infringement Agency (RTIA), Road Traffic Management Corporation (RTMC) and technology vendors. This case study should be of specific interest to other municipalities given that while all municipalities are really having a battle to collect traffic fines the City of Cape Town managed to generate R163,4m in revenue from fines between January and September 2023.

Case study 6 dealt with the fusion centre in the City-SAPS Safer Cities linked Partnership with Andrew pointing out the key reasons for such a S&S headquarters and its future which will be based on investing in the five key concept to create an environment geared for ever improving safety and security in the City.

Lastly, Andrew discussed the lessons learnt and the challenges encountered. These included:

- An enabling environment is critical to success of efforts to 'take back an area'
- Technology cannot arrest perpetrators
- Process and People are critical for the success before technology is introduced
- Human Partnerships are invaluable to the integration of effort
- Functioning Capacity and Capability is required to manage information, intelligence and to act upon the results
- Bricks and Mortar (e.g. the planned HQ) are critical to the integration of effort
- Co-location and willingness to work together results in improved cooperation, coordination and collaboration
- Situational Awareness and command and control is required to improve the utilisation of the scarce resources
- Data sharing through partnerships is required to be effective.

In conclusion, he provided the following pointers to the municipalities and metros present:

- Identify the ever-changing threats to your municipality and understand how to fill the S&S vacuum that may be appearing at national and provincial government levels.
- invest in the 5 key concepts of people, process, technology, data and partnerships to create a unique framework that supports your municipality to deliver services
- Support, partner with, and protect the critical industries in your region, and enable SMME's to create jobs; given that economic growth is critical to create employment and reduce crime
- Utilise the lifecycle of safety (prepare -> prevent -> respond -> resolve -> support -> rectify) to begin to create societal accountability – New York City's broken window strategy
- Every one of us lives and works in this spectacular country, and every citizen and visitor deserves to be safe every day.

6 Changes in the electricity sector were brought about by the inability of Eskom to provide the necessary supply. How do municipalities respond to the challenges resulting from loadshedding and how to deal with the consumers moving totally or partly of the grid. The approach by George Local Municipality – Dr Michele Gratz
Dr Michele Gratz, Municipal Manager, George Local Municipality (GLM)

Dr Gratz sketched the challenging financial situation facing George, a town of 300,000 people, which lost about R100m in electricity income, spent on average R90m for diesel for generators, lost money due to damages caused by power surges and vandalism plus overtime expenses, i.e., a total loss of R260m plus in the 2022/2023 financial year due to Eskom's inability to supply in its electricity demands and the constant load shedding. This amount does not even account for the knock-on effect of closed businesses and a loss of rates income to the municipality.

For George, ultimately short, medium, and long, term measures should add up to get own generation for the town to as big a percentage possible including all customers and thus its energy security target is own generation of 45%, Independent Power Producer (IPP) contributions of 30% and lessening its supply from Eskom to 25%.

Currently George uses 85MW/day. For the short term the focus is on reduction of own consumption (given that 10% of the Eskom bill is for municipal uses), enabling Small Scale Electricity Generators (SSEG), small scale wheeling and restructuring of tariffs, which have mostly been achieved. Over the medium term it will be large scale self-generation (municipal and private) and medium scale wheeling, and the long-term planning includes mostly renewable energy and to achieve resilient and reliable supply.

The GLM already reduced its own consumption with 4MW by replacing facilities and streetlights with energy saving ones and powering traffic lights by solar and ripple control geysers. The civic centre has a 300 kWp (kilowatt peak) solar PV plan at a cost of R7,6m and PV plants are installed at various buildings and sites including the water and wastewater works at a capital cost of ±R20m. The battery back-up tenders are awarded and will cost in the order of R35m.

In respect of self-generation and to circumvent a lengthy Environmental Impact Assessment (EIA) process of 18 months, a 1MWp solar plant is under construction to be completed by April 2024 at a capital cost of R25m. For a 9MWp (megawatt peak) solar plant, 3 sites were identified, EIA applications submitted, participation processes done and EIAs obtained but due to the Civil Aviation Authority (CAA) more studies must be done for these. Each plant will cost R200m without back-up batteries. Ito the GLM strategies, these measures will mitigate up to 2 stages of loadshedding.

In respect of long-term priorities, GLM is planning a 30MWp solar plant for end of 2025 at a capital cost of R800m with 100MWh battery storage for mid-2026 at a capital cost of R700m. Implementation of these measures will mitigate up to 4 stages of loadshedding but despite many applications to financial institutions including the SA Development Bank (SADB) the funding has not yet been obtained. Since the GLM does not have this kind of money, it might have to get concession funding or somehow will need to pass it onto the consumer. Dr Gratz quite correctly pointed out that the reason why municipalities are getting so expensive as Neil said, relates to them having to stand in for a failed state.

As for wheeling, the GLM has an offer of wheeling 45MWp directly to them for own use or the alternative could be to serve the GLM's big consumers via off-take agreements but in case of the latter such consumers are unlikely to benefit while GLM might lose income as a result. However, the challenges are that such an offer from a private company (IPP) ticks the boxes of an unsolicited bid and wheeling through the Eskom network will trigger a R200m increase of the GLM deposit, i.e. 3 x the municipal bill. Furthermore, batteries are needed during loadshedding, and these projects are technically and administratively complex, also because, long-term Power Purchase Agreements (PPA) must comply with Section 33 of the MFMA. Clearly, it will assist if the legal and SCM processes are simplified and Eskom is prepared to, in writing, honour its erstwhile policy of not asking extra deposits from 'good payers', which GLM is.

Pertaining to SSEG, GLM has a total installed capacity to date of 11MWp with Council and NERSA approved tariffs and a SSEG policy. The feed-in tariff (net producer) is 90% of the Eskom tariff and all the processes related to SSEG are quite streamlined. A huge challenge is the fact that a municipality may not buy more power from a household than what that household is buying from the municipality, so the SSEG incentive is severely limited by this legality. GLM applied to National Treasury (NT) for the exemption of consumers, in other words, allowing customers to feed unlimited energy into the grid but the application was turned down. Also, limiting consumers is the cost of R11,000 for a bi-directional meter.

Lastly, Dr Gratz pointed out that Eskom is not the most reliable player because it appears to be moving its goalposts thus GLM is uncertain if all its strategies will work out as planned unless the provincial or national government assists to pin Eskom down to specific policy terms.

7 Panel Discussion - Moderated by Amanda Jitsing

Amanda Jitsing, Public Finance Specialist

Amanda briefly summarised the main challenges highlighted by the first session's presentations before engaging the speakers with insightful questions and thereafter opening the session up for questions from the floor.

The following were some of the points made and discussed:

- *The property sector is a leading indicator of the economy and is in distress. Partnerships between property developers such as GP and municipalities firstly require a willingness to cooperate from both parties and currently GP feels like there is a wall between developers and municipalities.*
- *S&S in the City of Cape Town is approached in a way that looks like the 'complexity science model'[1]. Since the political party running the province and the City is the same, it assists with cooperation. A possible problematic relationship is between the City and the SAPS, however, the SAPS commanders and the provincial commissioners are onboard and, where measures do meet resistance, working together under the flag of the Safer Cities banner assists to create flow.*
- *In S&S' experience, businesses and the private sector are very willing to assist them, however, the government's lack of procurement agility creates legislative resistance which are not particularly helpful in rolling out measures.*
- *George Municipality spends approximately 11 cents in the Rand on all the measures addressing mitigation for loadshedding and because it uses the capital reserve fund for electricity, it needs to borrow for other projects. The MFMA and Eskom stumbling blocks contribute significantly to the complexity of the municipal environment. NT needs to realise this and take appropriate steps.*
- *On a wish list for top regulatory reforms would be 1) simplification of EIA processes; 2) exemption from the net producer, net consumer regulations; 3) relaxation the MFMA section 33 contract capping of three years and the unsolicited bid conditions.*

[1] Also called complex systems science. Complex systems consist of many components interacting with each other and their environment in multiple ways.

- *Property developers do take other costs driving the electricity cost into account, e.g., NERSA, and GP has tried to contract out of the 12-14% escalations in electricity tariffs by securing PVs and property developers are cognisant of the costs heaped on municipalities. However, property developers' concern about how well municipalities manage their costs that inflate assessment rates, e.g., non-revenue water consisting of water leaks, water usage not recovered, etc. is very valid and it can be understood that they wish to see municipalities running their side of services as efficiently as possible.*
- *GP is aware of rebates, but development is caught up and influenced by several factors, i.e., some areas are totally oversupplied like Sandton where GP has huge tracts of land, but new development will not be sustainable and the massive amounts that need to be paid for vacant land does not even make development of such land feasible anymore.*
- *There are many disparities across municipalities in respect of assessment rates. The way it appears is that all costs are determined and then assessment rates are used as the filler for budget gaps.*
- *The City of Cape Town has a much more structured but also tolerant approach to informal trading, i.e., a license system is enforced and a breaking of the rules lead to a revoke of such license.*
- *The GLM has not investigated gas as an alternative to electricity but is looking at a hydro plant alternative. Unfortunately, while municipalities must step up to the plate in view of national and provincial governments failing, they have very little budget control, only about 6%, due to unfunded mandates and salaries regulated at national level.*

8 The challenge of waste management / landfill site development and ensuring a clean liveable environment. Different modalities of public private partnerships to enhance effectiveness in the sector – Leon Grobbelaar

Leon Grobbelaar, Managing Director of Raalebborg Environmental Solutions

Leon divided his presentation into three main discussion points, i.e., waste management challenges, landfills and waste resource facilities and waste partnering. He explained the waste management process and highlighted the array of problems and challenges in municipal waste management due to a combination of a lack of finances and planning, complex and lengthy regulatory processes, institutional incapacities, a lack of technical and operational expertise and management. Many municipalities are also facing a real waste management crisis with illegal dumping rife all over the country inter alia due to inadequate collections and landfills been too far and, for instance, in Gauteng the last landfill licensing took place in 1996 with the City of Johannesburg having only 18 months of landfill space left while it takes 5 years to license a landfill through the complex planning and EIA processes.

Countrywide recycling and material recovery facilities are lacking, SA's are literally drowning in waste and waste is ending up in our water resources - probably the biggest crisis SA's are facing. Imagine 3000 illegal dumps without protection layers thus seepage ending up in the underground water resources, then onto rivers and oceans. Once water is contaminated, it cannot be reversed.

The minimum requirements for landfill designs which many municipalities found difficult to comply with have made way for even stricter norms and standards, i.e., the Waste classification and management regulations of 2016. It means that landfill sites are now complex, engineered operations with some of the best legislation in the world regulating its development and operation but the latter is not and most probably cannot be enforced due to a lack of expertise and capacity.

Currently the waste disposal facilities in SA are managed in a way that one can classify these as 60% dumps, 20% sanitary landfills and 20% engineered landfills. The next step in the evolution of disposal facilities is to make sure we have better managed facilities, more engineered landfills and that the latter are also sustainable landfills, i.e., properly operated so that these do not get damaged and vandalised. E.g., engineered landfills cannot have fires as it will cause millions of rands damage and these landfills cannot have a lining system laying open for years, they must get a waste buffer and a pioneering layer before heavy machinery can be used on them.

The following pictures tell a story of what a good beginning looks like ***(Picture 4)*** and how bad it can end if a municipality does not know what it is doing or does not care about what it is supposed to be doing well. The landfill in the second picture ***(Picture 5)*** was destroyed by mismanagement and had to be rehabilitated at a cost of R100m.

Picture 4: Engineered landfill facilities

Picture 5: Destructed landfill

Engineered landfill sites require expert operators with expensive and specialised machinery, skills and equipment that are found in very few municipalities. The type of investment that a private company contracted in to assist with landfill operations and maintenance, say via a management contract, needs to do to put the correct machinery on site, is extensive thus a three-year tender that does not need to comply with Section 33 of the MFMA is not feasible because no contractor can depreciate expensive machinery over three years. Given the expertise required, Leon is of the opinion that it is not sensible to use the 80/20 SCM option to procure landfill operators.

The operating cost of engineered landfills is high, but such is necessary for long-term sustainability as it includes a fixed component, variable costs of R/ton and the rehabilitation costs in accordance with the closure provisions in a waste license. Landfills are still the cheapest option and far from dead even though the strive is towards a circular economy model with alternative waste management solutions that means less raw material, less waste and fewer emissions. Reason being that the good intentions of recycling or making energy via a process of for example refuse derived fuel, etc. often do not persist due to the derived product not being of the right quality for usage or the cost of alternative waste solutions being too high. For instance, Material Recovery Facilities (MERFs) are expensive and except for the five of the City of Cape Town they are widely cited as part of municipal waste solutions but not physically prominent in municipal waste solutions, e.g. the City of Johannesburg has none.

Leon discussed ways that can assist to turn waste into a resource including composting (brilliantly done in the Western Cape), diversion of building rubble, reuse, recycling, etc.

He provided information on the two PPPs where he has been involved but which did not reach implementation despite the processes being quite far progressed, i.e., the one consisting of an Anaerobic Digestion (AD) plant and a Direct Combustion (DC) plant received an Environmental Authorisation (EA) after ten years but was by then so clouded due to public resistance that the municipality pulled out of it and the private company lost R12m. In the other case, it was a landfill facility. The project development took 60 months, financed by the DBSA at a cost of R200m but the private party walked away after spending millions and left the municipality embarrassed. Even so, with waste reduction and recycling, waste to energy via a PPP certainly remains part of the long- term solutions but the municipality must have enough feedstock, i.e., 20 000 tons of waste for a DC and the private sector the funds and the expertise.

9 Ensuring adequate quality potable water. What picture does the latest green and blue drop report provide? What is required to prevent 'water shedding' and ensure sustainability? – Dr Sean Phillips

Dr Sean Phillips, Director General of the Department of Water and Sanitation (DWS)

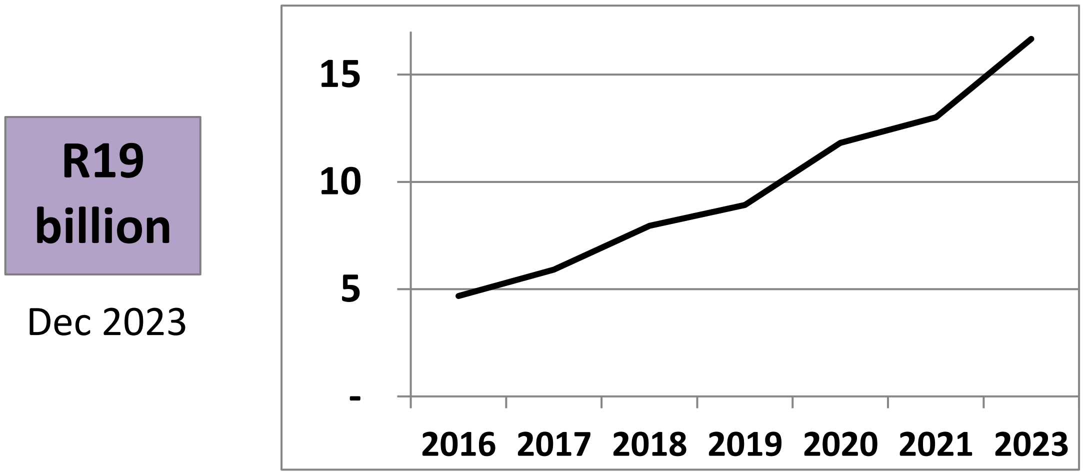
Dr Phillips presented a picture of raw water supply and demands roughly in balance on a national scale but with localised deficits, but SA's water security scenario is concerning due to little room for building new dams to capture the last 25% of surface water in SA. The latter is also very expensive, and it is a much better strategy to curb water losses. Of particular concern are the metros with recent water deficits in Nelson Mandela Bay and Cape Town and current deficits in eThekwini and Gauteng, the latter to the point that if Rand Water is over extracting from the integrated Vaal system, there is a very real risk of a day zero situation in Gauteng due to the Lesotho Highlands Water Phase 2 (LHWP2) been nine years behind planning. Until the LHWP2 is completed, the metros in Gauteng will have ongoing problems with demand. In eThekwini, demand is occasionally exceeding supply caused by a delay in the Umkhomazi Water Project and a rapid increase in Non-revenue Water (NRW).

Dr Phillips is the 11th Director General of DWS in the last 10 years but seemingly under the current minister the DWS ship is sailing again with delayed projects on track including projects to develop more surface water. However, the need for diversification of water sources is urgent with coastal cities having to look at desalination of sea water, all cities to explore direct potable reuse (DPR) projects and all municipalities to improve their Water

Conservation and Water Demand Management (WCWDM) practices. Bottomline is that SA, as a water scarce country, has a higher than the international average water usage.

The DWS resumed its Blue Drop (drinking water) and Green Drop (wastewater) assessments in 2022/3. Sixty-seven out of 144 Water Services Authorities (WSAs) scored ‘critical’ on average across their water supply systems and/or wastewater systems in the 2023 Blue Drop and 2022 Green Drop assessments. A further 38 scored ‘poor’ on average. Therefore 73% of WSAs scored critical or poor on these assessments. The poor scoring is due to an accumulation of reasons including a lack of skilled staff, very poorly maintained infrastructure, and a national average of NRW of 47% in 2023. Thus, a large portion of the spending on building dams and to treat water is just wasted via leaks in the municipal distribution systems and these municipalities also do not have the revenue to pay water boards leading to the latter not being able to maintain their infrastructure either. It is a vicious circle with municipal debt to water boards now sitting at R19bn. (***Picture 6***).

Picture 6: Municipal debt to water boards



This scenario called for drastic measures therefore DWS and the Water Boards recently standardized their operating processes for debt collection, including collaborating with National Treasury to ensure that equitable share allocations are withheld for municipalities not paying their current invoices; consistent enforcement of water restrictions on non-paying municipalities and legal processes which will result in judgements against municipalities as a last resort.

The main causes for the poor performance of municipalities on the Blue and Green Drop assessments include poor infrastructure due to a lack of maintenance and non-adherence to the standard operating procedures (SOP) for drinking water and wastewater treatment. Underlying these factors are a lack of skills and capacity, weak billing and revenue collection, vandalism and theft. Clearly, municipalities do not have adequate process controller skills onboard and are not earning revenue on water or spending that which they earn in a ring-fenced manner on water services infrastructure. Since local government is an independent sphere of government and both the Water Services Authorities (WSA) and the Water Services Providers (WSP), neither national nor provincial government has the authority to make decisions on behalf of municipalities or to enforce hiring of capable staff or adequate operational and maintenance planning and budgeting for water services.

DWS is adamant that the Water Services Act (WSA) must be implemented properly which means the WSA and WSP roles in municipalities must be separated and oversight exercised, and it is further hopeful that the current changes to the National Water Act (NWA) and particularly the changes to the Water Services Act (WSA), will assist in keeping municipalities accountable once these are promulgated. It also appears that DWS, COGTA, NT and SALGA will implement a coordinated process of supporting municipalities to undertake Section 78 processes in terms of the Municipal Systems Act focusing on reviewing current water services provision mechanisms and the possible exploration of involving the private sector in municipal operations and maintenance of water and wastewater treatment works and water reticulation systems.

In concluding, Dr Phillips voiced his support for the involvement of private sector finance and management skills in municipal water services provided government can bring bankable projects to the market and the PPP regulatory process becomes less cumbersome and faster to implement because there is absolutely enough money and appetite in SA for big infrastructure projects as for example at a national level more than 60% of the water projects are financed by the private sector including the LHWP2 which is completely financed by money (R40bn) raised from the market by the Trans-Caledon Tunnel Authority (TCTA).

10 Panel Discussion – Moderated by Amanda Jitsing

Amanda Jitsing, Public Finance Specialist

The following were some of the points made and discussed:

- *An important component missing from the discussion about the availability of capital in the market for investment in municipal infrastructure is the fact that the credibility of municipalities must be such that the financial institutions wish to put their funding into such projects. Furthermore, the municipalities cannot get infrastructure loans exceeding 15 to 20 years while the lifespan of some water infrastructure is up to 45 years thus a municipality must have some 20 years of notional cash to not start taxing generations beyond each other.*
- *The financial markets do have substantial demand for bankable projects as there is concern that their portfolios' investment in public infrastructure is too low therefore the Infrastructure Fund (IF) has some very innovative solutions where there is blended finance and a sharing of risk between government, the private sector and direct foreign investment (DFI) sources to meet the bankability criteria. Both the IF and the Strategic Water Partnerships (SWP) office can assist municipalities to structure their projects.*
- *For the coastal cities, the downside in having to diversify their water sources to include desalination and the like, is a fear that the quotas in the main storage dams earmarked for those cities will go somewhere else and the residents of these cities will land up having to pay very high costs for expensive alternative sources via tariffs and thus such residents may start arguing that it should not be municipal money that is used to pay for these alternative sources but the national fiscus because of who will ultimately benefit. According to the DG the re-allocation of water quotas from storage dams leaving innovative cities with reduced volumes will not happen as domestic demand will always be the priority.*
- *Municipalities are under a dark cloud and in the limelight albeit part of a broken economy is the one argument, however, some municipalities do well and others not and thus the second part of the argument is that the right leadership, willingness, and commitment make a huge difference in performance.*
- *The draconian requirements of public private partnerships (PPP) must be simplified to get some of the much-needed infrastructure projects off the ground as there are examples of PPPs that took years to get into the final phase of implementation just to be derailed by public resistance or internal municipal politics.*
- *Municipalities are failing largely because the legislation has allowed politics to dictate in local government. They get to dictate who gets employed because, even though they are not allowed to interfere past Section 56 levels, they nevertheless do, and those less competent employees have brought in a level of mediocrity that has caused much of the decline of*

municipalities. National government has, despite continued pleas for support, not put in place measures to protect accounting officers (AO) and chief financial officers (CFO) against their political bosses.

Session 2: Executive Leadership shaping the Future

11 Leading during challenging times – His Excellency Mirko Manzoni

HE Mirko Manzoni, Ambassador of Switzerland to South Africa

His Excellency spoke about his experiences of leadership and taking decisions, about leadership in crisis situations and the global leadership crisis that is visible through the instability in the world because leaders are quite lost and unable to take decisions, in fact, leaders are trying to escape from decision-making.

He pointed out that leadership has less to do with skills than with personality qualities and is quite rare. He highlighted the importance of communication and transparency and the essence of having vision because in a crisis people trust their leaders and must be inspired by them and such leaders cannot delegate decision-making as the destiny of their people depends on it. As an example, His Excellency referred to the international community of the Red Cross where decisions are made in war situations, these cannot be dodged or delegated, and the ability to make such crisis decisions shows the difference between a poor and a strong leader.

He related his experiences in post-war Mozambique when there was only a Plan A and by a bit of luck, he succeeded in taking his party with him in the decisions he made even though his decisions went against what people could understand, i.e., pensions for Renamo combatants, highlighting the importance of courage, as without it, there can be no leadership.

12 Making the tough calls – my experience as CEO of the bank – Richard Wainwright

Richard Wainwright, CEO of Investec Bank

Richard took over as the Chairperson of the Banking Association of South Africa (BASA) during Covid and remembers it as an amazing experience to navigate the banks through this crisis. He is quite clear about the two very definite rules applicable to making tough decisions, i.e., make them and as quickly as possible. The principles underlying these quick and tough decisions are to trust your gut, to do what is in the long-term best interest of clients, understanding that the first loss is the best loss thus cut it sooner rather than later, be prepared to change your view, opinion, mind and if you are wrong have the guts to acknowledge a mistake, rectify it and move on. Living this principle mitigates against having a blame culture in an organisation. The last principle to embrace is to be prepared to experiment, initially not on a large scale but small bets that will not topple the apple cart.

The process of making tough decisions firstly involves considering all the stakeholders and these include shareholders, staff, clients, and the communities in which an organisation operates. Normally shareholders are an important priority but for instance during Covid, the staff was the number one priority for Investec and this approach built huge trust in Investec Bank. Secondly, it is about communication which is not an email but a conversation and only then is the decision made.

Richard shared a few of his experiences related to tough decision-making, i.e., the returning of staff to the office at the end of Covid which included thousands of conversations due to not all staff being willing to do so. Other examples involved Investec's decision to exit the mining industry after 20 years and its decision to exit Australia after 17 years of trying to be profitable in that market. A change of strategy when the bank decided to move away from private equity assets and when the bank decided to no longer finance coal for export only coal produced for Eskom, were both hard decisions to make and implement. Another example Richard shared was the shutdown of an IT system that did not work for the bank after having invested quite extensively in the system.

Tough decisions are also required to deal with people who are mediocre performers, but the real difficult decisions concern those people who are top performers but who are not good for a team.

The last example Richard shared concerned Investec's United Kingdom bank turnaround from 2009 / 2010, a process that took 5 years but through the turmoil of having to change strategy a number of times, the bank has recently celebrated 30 years in the UK.

In conclusion, Richard acknowledged the unique circumstances that decision-makers in municipalities face and the extent of braveness that is sometimes required to make the tough decisions.

13 The task of the executive manager is to execute the mandate given to him/her – Lesetja Kganyago

Letsetja Kganyago, Governor of the South African Reserve Bank (SARB)

The Governor explained that the SARB is a specialised organisations with the mission to serve democracy thus the Governor's mandate is clear and what is expected from him is known. He said that such a mandate insulates decision-making against short-term political pressures, which can get in the way of good outcomes and further explained that in SA there is broad consensus on the model of central banking, i.e., it is independent but not to do as it pleases, rather to be used to achieve specific mandates which concern price and financial stability and are in the interests of society. The latter is done via a toolkit including interest rate setting, regulations, supervision of financial institutions and interventions in the financial market to counter dysfunction and instability.

Central banks captured by politics is popular with ruling parties, but it comes at a huge cost to the economy paid with inflation tax levied disproportionately on the poor and vulnerable people in society. Central banks not open to ruling party antics can be unpopular by insisting on protecting price and financial stability but the latter is what ordinary people want and what they are entitled to in a democracy. It gives ordinary people the space to practice 'rational ignorance' because someone knowledgeable is taking care of essential stuff on their behalf.

There is accountability in a mandated, independent central banking system but there are also ways to dodge criticism of bad performance through finding excuses based on externally uncontrollable issues. However, eventually two types of countries crystallise out, i.e., those that make excuses and those that have price stability because the people who stick to their mandates eventually get results.

According to the Governor, a country needs to practice error-tolerance that is open and accepting of honest confessions of mistakes including recovering plans and excuse-scepticism that does not tolerate shying away from faults.

The Governor pointed out that the world of a central banker overlaps with the world of a municipal manager when it comes to inflation. For the SARB it is fundamental to its mandate and mission to protect the buying power of the rand, primarily from increases in the cost of living as measured by the consumer price index (CPI) from Stats SA. Significant components of the CPI involve municipal services, water tariffs, rates, etc. These prices are set by municipalities and often rise more than headline inflation. For example, the SARB has a midpoint target of 4,5% which gets undermined by water inflation at 9,6% and municipal rates at 8,4% that keep inflation high and eats away the incomes of South Africans and make it difficult for the SARB to lower interest rates.

In conclusion Mr Kganyago summarised the main points of his address and unequivocally stated that the SARB needs municipalities to work on not driving up inflation because it is not okay for some prices to always be rising by more than inflation. Also, of pertinent importance to have good governance in all institutions of authority and mandated to serve are the key ingredients of specific powers, expert knowledge, clear mandates devoid of political considerations and no excuses but plans to rectify if something went wrong and a commitment to honour the trust of citizens.

14 Panel Discussion – Moderated by Attie van Zyl

Attie van Zyl, CEO of IPM

Attie briefly recapped important points made by the speakers and engaged them in expanding on a few of these before opening the session up for questions from the floor.

The following were some of the points discussed:

- The global tendency of leaders to shy away from decisions or to move decision-making elsewhere, i.e., committees, etc. has the impact that people has lost interest in politics, no longer trusting politicians to achieve what they promised and in Europe the extreme right has moved into the governance space left open by leaders who do not have vision and/or the courage to lead.
- One of the most important roles of leaders is to give people hope and guidance. Many people in the world have lost faith in government and so they look to community leaders and corporate leaders to give them that hope and guidance. The message to municipal managers (MM) and chief financial officers (CFO) is to be brave and to take on and fulfil this role.
- The perception gained by global rating agencies is that in corporate SA, companies have grown to be very resilient on the global stage. Their balance sheets are resilient and more importantly the leaders, across the spectrum, are more resilient with more experience of dealing with volatility than other leaders around the world.
- There is no protection of MMs that stick to their mandate in the local government space. Being transparent and keeping to the facts is one way of doing so but on the other hand the tragedy of the debate in SA is that the facts are not considered, i.e., politicians have an attitude of 'please do not confuse us with your facts'. The SARB is protected by policies and the constitution, but these do not isolate it from attacks. Another danger is mandate creep. Piling more responsibilities onto municipalities has totally watered down the focus on basic services' delivery. Even in the light of unstable politics, the bureaucracy can be good if leaders understand their role and are not hindered to fulfil it.
- In comparison with the USA where a particular layer is appointed politically but subject to oversight, the latter does not apply in SA because the Public Service Commission (PSC) does not do its job.
- The Governor has a fundamental problem with how municipalities deal with finance, i.e. the tendency to increase rates when not collecting enough revenue and, if the latter no longer works well enough, switching gear to inflate the value of properties to collect more.

- The Governor highlighted that the deficit in SA cannot be more than 30% of the Gross Domestic Product (GDP) because SA cannot afford more than that. Essentially, SA must take a step back to define priorities within the parameters of resources available, a philosophical mind shift and on municipal level administrator power to be given to MMs so that they can get rid of political constraints. The prediction is that interest rates are going to be high for longer or higher for longer – very important distinction.
- The theme at the World Economic Forum in Davos in 2024 was building trust and Richard felt that there was a very positive energy between the USA and China but Trump as President elect in November 2024, may dampen USA-China relations.

Day 2: 6 February 2024

Session 3: Financial Sustainability

15 The current financial state of municipalities – Leon Claassen

Leon Claassen, Senior Analyst at Ratings Afrika

Leon provided an overview of the 2022 results of the Municipal Financial Sustainability Index (MFSI) done by Ratings Afrika which is one of only three governance rating agencies in the world. The MFSI sees financial sustainability as being influenced by six internal factors, i.e., revenue – composition and resilience, operating performance, level of borrowings, liquidity and cash reserves, financial flexibility and management, strategy, policies, decisions, and reputation and four external factors including economic growth – local and national, location, demography, wealth and resilience and services sought by the communities. These factors are all scored to obtain a financial sustainability score out of 100 for the 112 municipalities that they monitor.

As Leon explained, six components are measured namely, operating performance, liquidity management, debt governance, budget position, affordability, and infrastructure development. For the municipalities that obtained the highest scores ranging between 70 and 72 (Midvaal, Swartland, Mossel Bay, George and Saldanha Bay), the attributes are: sound long-term financial strategies, well-entrenched financial policies, good budgetary practices, i.e., self-funded opex and capex budgets, strict financial control, and good revenue collection, close to 95%.

The highest scoring municipalities per province are indicated in the table below ***(Picture 7).***

Picture 7: Highest scoring municipalities per province

Province	Municipality	Score out of 100
Eastern Cape	Senqu (Lady Grey)	56
Free State	Metsimaholo (Sasolburg)	39
Gauteng	Midvaal (Meyerton)	72
KwaZulu-Natal	KwaDukuza (Stanger/Ballito)	63
Limpopo	Lepelle Nkumpi	64
Mpumalanga	Steve Tshwete (Middelburg)	40
Northern Cape	Ga-Segonyana (Kuruman)	52
North West	JB Marks (Potchefstroom)	35
Western Cape	Saldanha Bay	72

The lowest scoring municipalities per province are indicated in the table below. ***(Picture 8)***.

Picture 8: Lowest scoring municipalities per province

Province	Municipality	Score out of 100
Eastern Cape	Enoch Mgijima (Queenstown)	12
Free State	Matjhabeng (Welkom)	11
Gauteng	Rand West City	19
KwaZulu-Natal	Newcastle	15
Limpopo	Mogalakwena (Potgietersrus)	19
Mpumalanga	Lekwa (Standerton)	11
Northern Cape	Emthanjeni (De Aar)	17
North West	Naledi (Vryburg)	7
Western Cape	Beaufort West	21

The common features of these municipalities are large operating deficits, large liquidity shortfalls, unfunded operating and capital budgets, inadequate spending on repairs and maintenance and a low level of new infrastructure development.

The MFSI basically shows that most of the country's municipalities are financially unsustainable with the deterioration so visible and the decline in the metros especially shocking given that failing metros will have and already has an enormous impact on the country. Especially Mangaung (24/100) is bad with severe adverse economic impact inevitable if the situation carries on. Tshwane (24/100) falls in the same category than Mangaung, but Cape Town is good with a 68/100 score and the average score for the metros is 41/100 in 2022.

The average financial sustainability scores per province present a dismal picture of the decay of local government in SA. ***(Picture 9)***

Picture 9: Average financial sustainability scores per province

Province	2015	2016	2017	2018	2019	2020	2021	2022
Eastern Cape	42	39	36	26	26	26	30	29
Free State	25	23	19	20	19	19	19	21
Gauteng	32	33	30	31	31	33	33	34
KwaZulu-Natal	62	56	54	44	40	39	43	38
Limpopo	44	41	42	29	32	37	41	37
Mpumalanga	30	28	28	31	29	28	27	23
Northern Cape	53	47	40	34	32	33	31	33
North West	26	29	23	25	22	21	23	21
Western Cape	58	59	62	54	54	52	52	52
Average local municipalities	**44**	**43**	**41**	**37**	**36**	**36**	**37**	**36**
Average metro municipalities	**55**	**57**	**53**	**49**	**47**	**43**	**42**	**41**

In conclusion, Leon summarised key observations based on the MFSI, 2022—

- Only the Western Cape municipalities demonstrate adequate levels of financial sustainability.
- The destruction of the municipalities in the rest of the country continues unabated.
- Extremely weak governance by elected councillors.
- Very bad financial policies and management.
- Inadequate spending on repairs and maintenance is rapidly causing infrastructure to crumble.
- Majority of municipalities on the brink of becoming dysfunctional.
- Greater number of South Africans suffer from poor service delivery.
- Other provinces could take guidance from the Western Cape municipalities (and Midvaal) on how to run financially sustainable municipalities.

16 Reflecting on findings and trends highlighted in the "State of the City Finance Report", October 2022 – Danga Mughogho

Danga Mughogho, Programme Manager, South African Cities Network (SACN)

The State of the City Finances as reflected in the SACN Report of 2022 and presented by Danga expresses ten years' trends in city finances in figures and graphs clearly presenting the narrative of a visible decline in large, medium, and small cities in SA. High level the story is about improved performance from 2011 to 2016, largely stagnant performance from 2016 to 2019 albeit revenues continued to grow ahead of inflation for the most of this period but then all gains lost in 2020 due to Covid when the revenue growth slowed down significantly, and expenditures grew more rapidly.

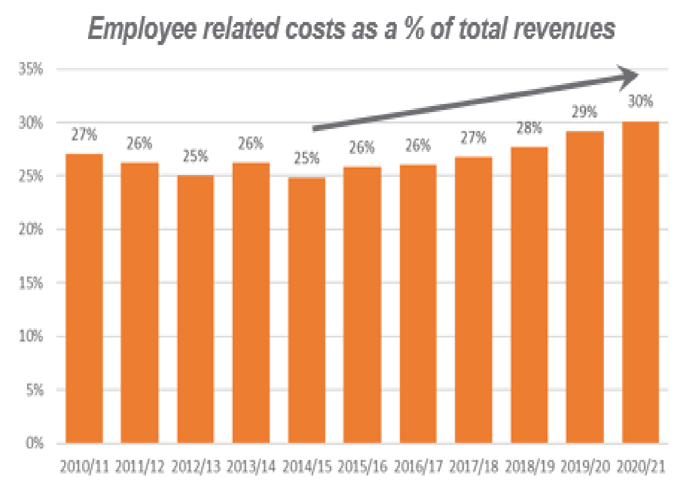
Dividing and measuring the state of finances in two five-year periods of 2010/11 to 2015/16 and 2015/16 to 2020/21 and comparing these periods shows a significant average decline in electricity revenues of -4,8% but as high as -10% in Buffalo City and the lowest in Tshwane with -2,8% as well as an average decline in water revenues of -2,6% and other lesser declines. Slower growth in electricity sales was partly due to Small-Scale Embedded Generation (SSEG) but also high percentages of non-revenue electricity with the City of Johannesburg the highest at 28,9%. Combined with the high NRW in the country it shows the drastic decline in own income from trading services faced by the metros but on the other hand property rates growth was very strong with an average of 10,2% growth for the first period and 9,1% for the second period. It implied that on average residents were paying nearly 20% more property taxes in 2021 than in 2011.

On the funding side, the Division of Revenue Act (DoRA) transfers grew marginally more rapidly in the second term compared to the first with an average of 10,5% vis-à-vis an average of 10,4%. In summary, revenues continued to grow ahead of inflation within an overall picture of slower growth.

However, while most expenditures had a slower growth in the second period, employee related costs and debt impairment grew more rapidly. Expenditure on contracted services that are always pertinently pointed out in the Auditor General reports, had a negative growth of -10,1% and so also bulk purchases with a -5,9% growth, i.e., slower growth. The latter is largely due to a slower growth in the Eskom bulk electricity price to municipalities, e.g. 0,3% in 2017/18 versus 27% in 2011/12.

Employee related costs have outpaced growth in revenue as indicated in the graphs below even though the upper limits for MMs and Section 56 managers been frozen since 2018/19. The picture has become quite skewed due to the bargaining council process which municipalities have no control over, to the extent that middle managers are now paid more than senior managers in some cities. Contributing factors have been revised salary structures, increasing staff complements, failure to control overtime and allowances. *(**Picture 10**).*

Picture 10: Employee related costs as a % of total revenues



	2011 to 2016	2016 to 2021
Growth in employee related costs	9.4%	9.9%
Growth in revenue	10.4%	6.6%
Growth in GVA	7.6%	3.9%

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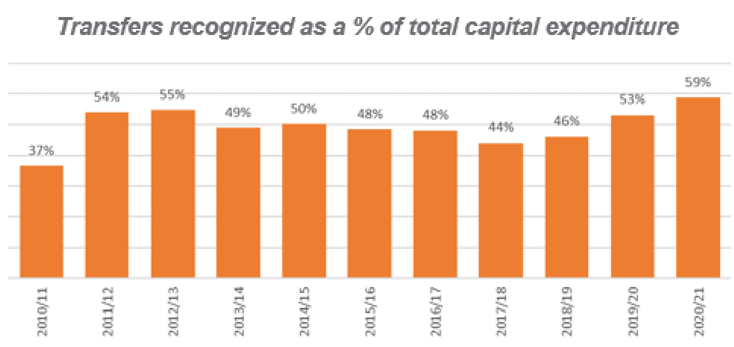
There has been a significant decline in the ratio of value of Personal Protective Equipment (PPE) to employee related costs over the last 5 years which suggest that cities have become less productive in running the infrastructure that provides municipal services to citizens.

Debt impairment exploded in 2020 due to Covid and many cities suspended credit control during Covid. The extent to which these cities are able to reintroduce credit control will be critical for their financial viability as well as addressing the employee costs that grow at an unsustainable rate.

Danga went on to show how capital expenditure grew until 2016 but stagnated and declined in 2020 and 2021 to below the NT norm set for cities, the decline in growth in transfers and how constrained operating surpluses have been putting own funded capex under strain. Covid also caused some cities to become more reliant on grant funding for capex. ***(Picture 11)****.*

Picture 11: Transfers as a % of total capital expenditure



	% of capex funded through transfers recognised		
	2011	2016	2021
JHB	53%	31%	47%
CCT	41%	38%	17%
ETH	26%	68%	59%
EKU	30%	52%	52%
TSH	22%	62%	59%
NMB	30%	61%	72%
BCM	56%	57%	61%
MAN	48%	61%	74%
MSU	100%	61%	*

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In conclusion, Danga highlighted how the value of infrastructure is declining in real terms relative to the population for each city with cities not investing enough in infrastructure to provide a platform for future growth or in the management and maintenance of existing infrastructure.

17 Lessons learnt from utilizing LTFS/LTFM: INCA Portfolio Managers ex-post experience – Charl Bouwer

Charl Bouwer, Executive Director, Inca Portfolio Managers (IPM)

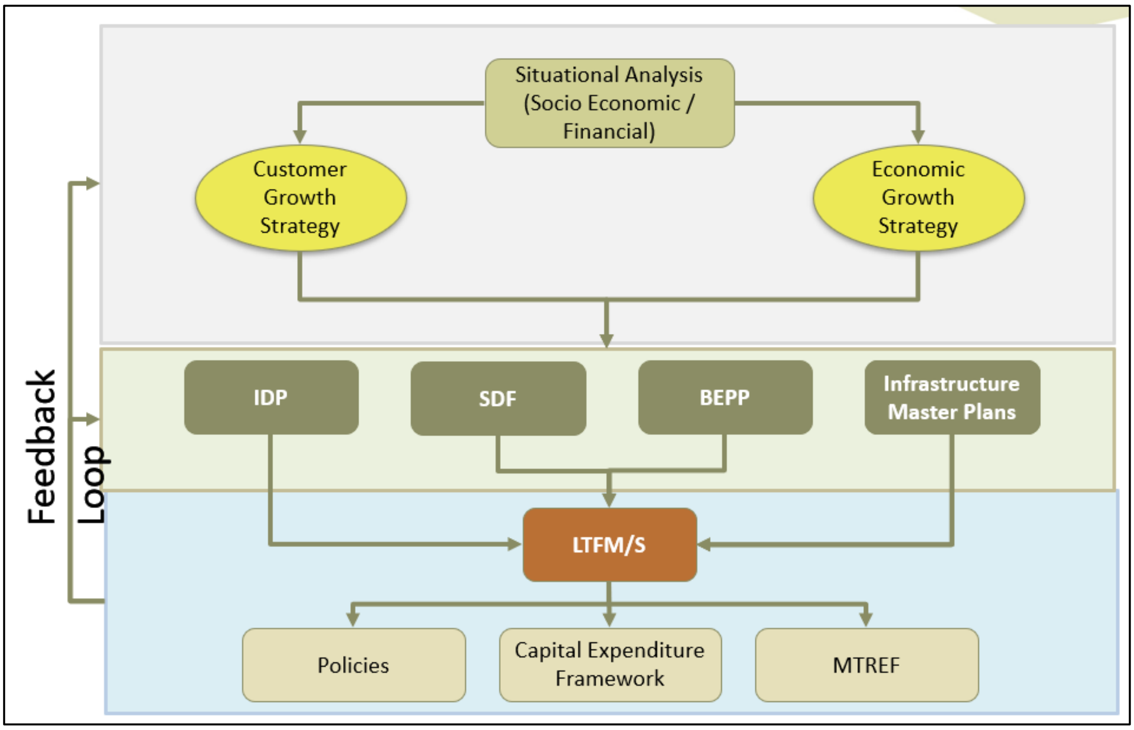
In his opening statement, Charl remarked that he sensed fear, uncertainty, and volatility in the discussions of local government finances. In providing a brief but comprehensive background of IPM, he mentioned that INCA's original mission of lending money to municipalities meant that it had to be sure of the risks and as such INCA built a deep understanding of municipal financial sustainability based on a robust credit assessment process underpinned by a credit model and it is this knowledge that IPM has used since its establishment for doing Long-term Financial Plans (LTFP). The latter he put forward as something that can ground decision-making and provide clear guidance on what must be achieved and what to use for benchmark monitoring.

Charl then proceeded to share the insights gained, the challenges observed and encountered and how these have been mitigated by IPM, the importance of long-term financial strategies (LTFS), some reflections on successes and failures and lastly, he showed what is available to assist government institutions because it is important that municipalities and its provincial and national monitors are on the same page.

A big part of the problem in municipalities is the different timelines applicable. There is the political term that overlaps with the Integrated Development Plan (IDP) of municipalities, i.e., 5 years, the strategic plans, and master plans in respect of spatial development and trading services which speaks to the IDP but are around 10 years, the useful life of capital investments (bulk infrastructure) up to 45 years and the loan tenors of external borrowing which are between 10 and 15 years. These must then be packaged in a municipal budget of three years.

To be noted though is that a funded budget does not necessarily translate to a financially sustainable budget because there are external factors which are not always visible during the budgeting process but then the LTFS and LTFP assist in this regard. The LTFS fits into the planning process as in ***Picture 12*** below.

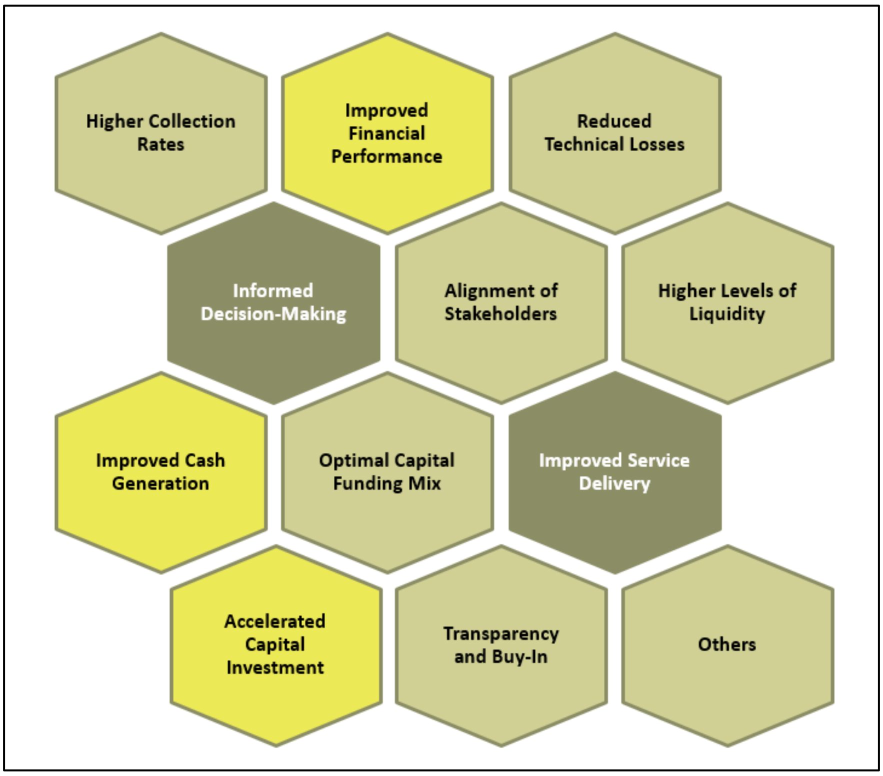
Picture 12: LTFS in the planning process



The LTFP is a totally different strategy that talks to a municipality financial sustainability and achieving the latter is normally a long process. It considers all the external factors and all plans and strategies are to be measured against it and guided by it which makes all of these then to become viable and actionable. It implies that the LTFP should flow into all the municipal policies and budgets because it is a trustable and sophisticated navigation tool which can guide municipalities in uncertain times where it is clear that grants are not the solution and there is questions about revenue, funding, etc. but still investment in infrastructure must be done.

Borrowing is a way of ensuring capital needs are met but municipalities tend to fear borrowing because they fear they will not be able to repay loans. The LTFP is the GPS tool that can point out future potholes and assist with more certainty around the ability to borrow and repay. The practical examples that Charl provided pointed out that no size fits all thus the development of an optimal funding mix for municipalities and using a trustable guiding tool is the answer. He said that in the case of Oudtshoorn Municipality, the financial model was even presented to the local business chamber and pointed out that this level of transparency brings peace of mind to property developers, businesses and residents and eases other discussions and decisions such as tariff increases. The resultant positive outcomes were presented to be as below. (**Picture 13**)

Picture 13: LTFP Positive outcomes



Charl discussed how the LTFP can be used during the budget discussions to bring more reality to the political/executive interface and the discussions taking place given the immediate ability of the model to show what the impact of councillors' thinking will be for the municipality's financial sustainability.

In conclusion, Charl pointed out the reasons why LTFS fail which include a lack of buy-in of the stakeholders, lack of accountability, SCM, lack of implementation and political and/or administrative instability.

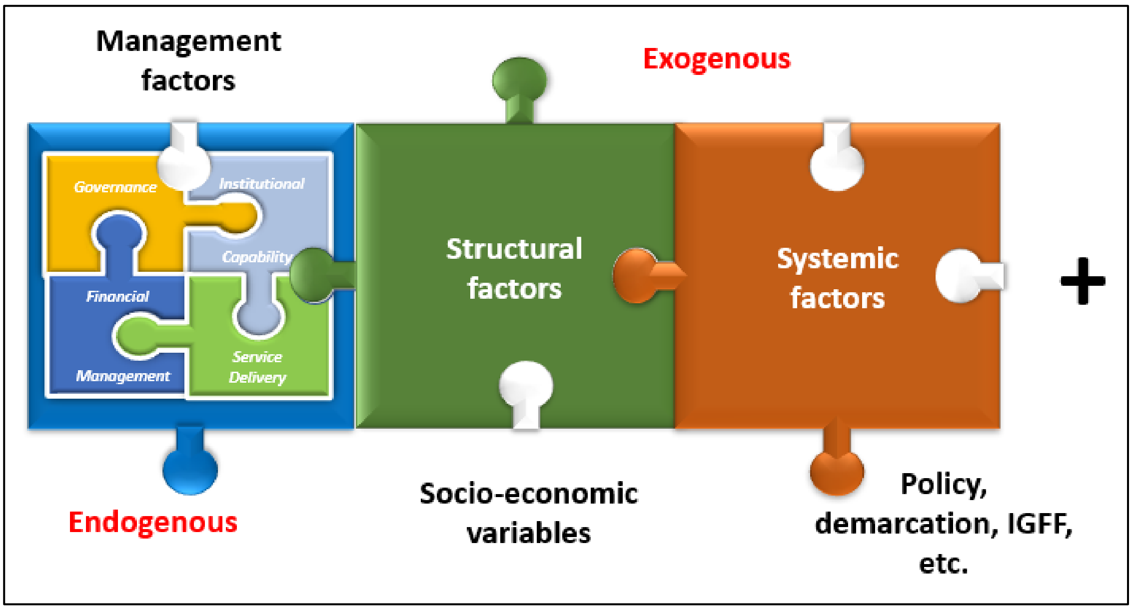
18 Local government initiatives and reforms for municipal financial sustainability – Kgomotso Baloyi and Dr Letsepa Pakkies

Kgomotso Baloyi, Director in Local Government Budget Analysis Chief Directorate National Treasury
Dr Letsepa Pakkies, Director in Intergovernmental Policy & Planning Chief Directorate National Treasury

As an introduction, Kgomotso put the role of National Treasury (NT) and Provincial Treasury (PT) in municipal finances into perspective with reference to their constitutional mandates and the primary and secondary legislation driving them to perform these mandates. She explained the local government accountability cycle and pointed out that municipalities' put more effort into the reporting and. auditing than proper planning (IDP and related plans) and budgeting, and this shows up in the AG reports.

She went on to explain the pillars that features in an assessment of municipal sustainability, these being governance, institutional capability, service delivery and financial management. Clearly, municipalities need good governance, capable leadership and must perform across the board well on these but, as Kgomotso explained, these pillars point to a functioning municipality while municipal sustainability is a much broader concept, and the latter is recognised by NT and PT. This broader perspective on municipal financial health acknowledges endogenous (internal) factors but then also take account of the exogenous (external) factors which, in combination, as depicted in ***Picture 14***, causes the downward spiralling of municipalities' sustainability.

Picture 14: Internal and external factors impacting on municipal sustainability



Certain of these variables are not controllable thus NT focuses on those aspects that municipal management can control and is introducing a more enabling policy and regulatory environment including planning alignment, fiscal reform, regulatory alignment and monitoring and reporting, albeit for NT it feels the more they come up with advice and recommendations on what needs to be done in the local government space, the worse it gets due to the lack of buy-in from the leadership.

She said the quality of information received from local government remains a challenge for NT as it has declined since the introduction of MSCoA. Credible budgeting is another challenge with NT trying to assist by analysing budgets and giving feedback to municipalities on how to improve these, but their advice is not heeded. A further focus is on prevention of municipal financial difficulties through early warning systems and recovery plans, but these mean nothing if not implemented therefore, from NT's perspective, the root cause of failure in local government is the leadership.

Kgomotso gave a run down of the support and tools NT have provided to date, its engagements with municipalities and the interventions they have done. She said the financial teams in NT have identified six game changers—

- A review of the MFMA and its regulations
- MFMA publications and helpdesk
- Support with funded budgets, revenue management and optimising on existing revenue, making sure there is efficient investment in infrastructure, asset management, SCM and audit outcomes
- Capacity programmes to assist municipalities
- Continued engagement with municipalities
- Intervention as a last resort and a new approach to financial recovery with three phases, i.e., a rescue, stabilization, and sustainability phase but still leadership remains an obstacle.

Other NT initiatives and interventions include—

- Programme and project preparation support - a dedicated grant to support cities in unlocking bulk economic infrastructure – water, sanitation and electricity
- Urban water reform – the efficient use of grants to address water challenges
- Ring-fencing of trading services (water and sanitation, electricity) to be run as a business and also to improve transparency in their financials
- Borrowing policy – a review of the borrowing policy to allow the municipalities to access funds for bulk and connector infrastructure
- Political engagements between the Deputy Minister of Finance and the mayors of the metros
- Professionalisation of local government - working with other sector departments to rewrite the national strategies to ensure competent and professional staff are retained in municipalities which implies that there must be one set of requirements and professional associations and institutions to play a key part in reviewing the competence of senior officials being appointed.

Dr Pakkies provided a perspective of the local government fiscal framework review focused on ensuring a sufficient share for local government (LG) including a refinement of the Local Government Equitable Share (LGES) formula.

In respect of the review, NT is—

- Looking at exploring additional revenue sources for LG and maximising undersubscribed ones which relate to LG powers that have not been properly used for generating revenue
- Looking at improving fiscal leakages, the dismal recovery of consumer debt being a significant part of it
- Evaluating the expenditure patterns and practices of LG to identify inefficiencies or non-aligned spending
- Reviewing the grant system to improve its efficiency and make sure there is alignment of provincial and municipal grants which then include improving the intergovernmental system to be more functional and supportive, in the process, NT will consolidate many grants and revisit many of the reforms done to date.

With regards to refinements to the LGES formula, NT—

- Will attempt to provide some differentiation in the costing of the relevant services included in the basic services component
- Wishes to create an explicit sub-component for health and firefighting to ensure funds follow function in respect of these services
- Will do alignment of the work of the different institutions involved in this space to pull in the same direction
- Will develop criteria for 'fit for purpose' municipal structures to enable sufficient financial muscle for municipalities to run the function and adequately serve their communities
- Will explore innovative methods to improve on the current revenue adjustment factor.

Letsepa explained that along with the fiscal reforms NT will also use the conditional grant system to change behaviour in respect of urban water reforms with the metros able to apply from 2024/25 for support for their water businesses. The hope is that this measure will assist to address the failing water infrastructure. For municipalities, it will require a business plan including changes in the municipal approved budget to ring-fence the water revenues. Furthermore, a new indirect grant for smart meters will be introduced by 2024/25 which will be administered by NT.

To create an enabling environment for borrowing Project Vumela administered by the Development Bank of Southern Africa (DBSA) has been designed to be catalytic in assisting metros and intermediate city municipalities to provide the bulk infrastructure that is required to unlock large scale property / real estate / housing developments.

Dr Pakkies explained the sustainable infrastructure development and financial facility programme in the Western Cape to support intermediate municipalities to develop bankable infrastructure projects through grant funding of project preparation up to the point of accessing blended finance, i.e., a combination of concessional and private sector funding.

Lastly, he said that NT is amending the Municipal Fiscal Powers and Functions Act, 2012 to create legal certainty for municipalities on how development charges (DC) should be levied with the aim being to create a more standardised, equitable and sustainable framework for DCs.

19 Panel Discussion – Moderated by Prof. Tania Ajam

Prof. Tania Ajam, Associate Professor in Public Policy, Finance and Economic, Stellenbosch University

Professor Ajam engaged the speakers with questions probing for more effective solutions to the problems and challenges highlighted by them and thereafter opened the session for questions from the floor.

The following were some of the points discussed:

- In respect of what can be done differently in municipalities to get different outcomes, the speakers felt that the following aspects are key: the quality of management, effective governance and financial stability, stability at the political/administration interface, an improved intergovernmental fiscal relations framework that look at LG within the context of provincial and national government, i.e., a holistic approach, bottom-up accountability with citizens practising elective discernment and keeping the elected responsible, the LTFP could be a compliance requirement but at least to be known (NT is working on a circular to give municipalities the basics of LTFP), compliance with the minimum competency requirements but more than that ensuring ethical people who will be accountable are in leadership positions, tackling LG issues not in a piecemeal way as has been the approach or thinking one solution fits all but really digging in with all spheres working together in cooperation with structured capacity building programmes.
- Intergovernmental relations can strengthen or weaken a capable municipal manager in his services' delivery mandate, e.g., the time it takes to get disaster fund assistance is ridiculous. It is time for other spheres to really support LG. It is difficult for capable staff to survive in an environment where the consumer has lost trust and does not want to pay for services.
- The interventions proposed by NT are not aggressive enough to turn LG around. The elephant in the room is the politicians, the political instability that undermines even the most capable officials driving them to live in fear.
- Capable officials are offended by the broad sweeping statements of LG incompetence by provincial and national government while the latter drag their feet with disaster monies leaving municipalities having to dig in their own budgets to address urgent issues. It is felt that the provincial and national officials are sitting in ivory towers very far removed from knowing or feeling LG despair.
- The debilitation of LG functioning caused by disruptive politicians is huge and has a severe impact on top officials to the point of diligent people becoming lukewarm in their approach to compliance.
- Good data, transparency with such data and optimal use of data to present factual evidence for informed decision making can mitigate against bad political decisions.
- NT has tabled many recommendations to CoGTA to address politics, to get rid of stumbling blocks in SCM but these have not been finalised between the departments.

- NT has consulted with municipalities and the provincial governments on how to address disasters but the fiscus is constrained. However, NT realises that between the event and the funding another fund needs to be available. Of essence is proper verification for infrastructure rehabilitation funding but it is hoped that current reviews can speed up all the processes. The bigger conversation is the lack of grants for disaster funding.

Session 4: A New Approach to Urban Development

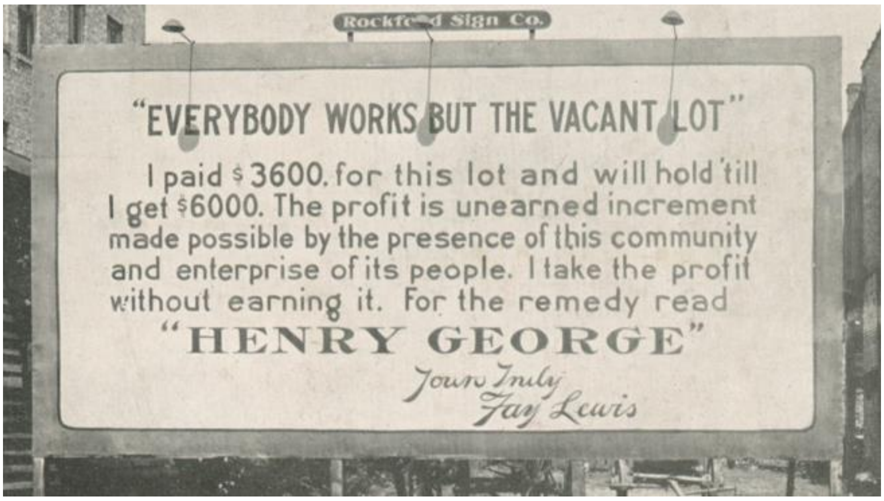
20 The concept of land value capture – its relevance in South Africa – Helen Rourke

Helen Rourke, Programme Director at the Development Action Group (DAG)

Helen provided an explanation of the concept and tools of land value capture (LVC) and spoke a bit about DAG's LVC programme in partnership with the City Support Programme in NT and the Lincoln Institute of Land Policy. She defines LVC as "a concept (and tools) whereby unearned value increments on private property resulting from 'community effort' are recouped by the public sector either through their conversion into public revenues or more directly through on-site land improvements for the benefit of the community." Thus, the recovery of unearned income or 'plusvalias' (Spanish term for 'capital gains') generated by actions other than the landowner's direct investments.

The concept is quite succinctly captured in the statement in ***Picture 15*** pointing to Henry George, a nineteenth-century political economist and land reformer, who advocated for land value tax.

Picture 15: Land value tax advocacy



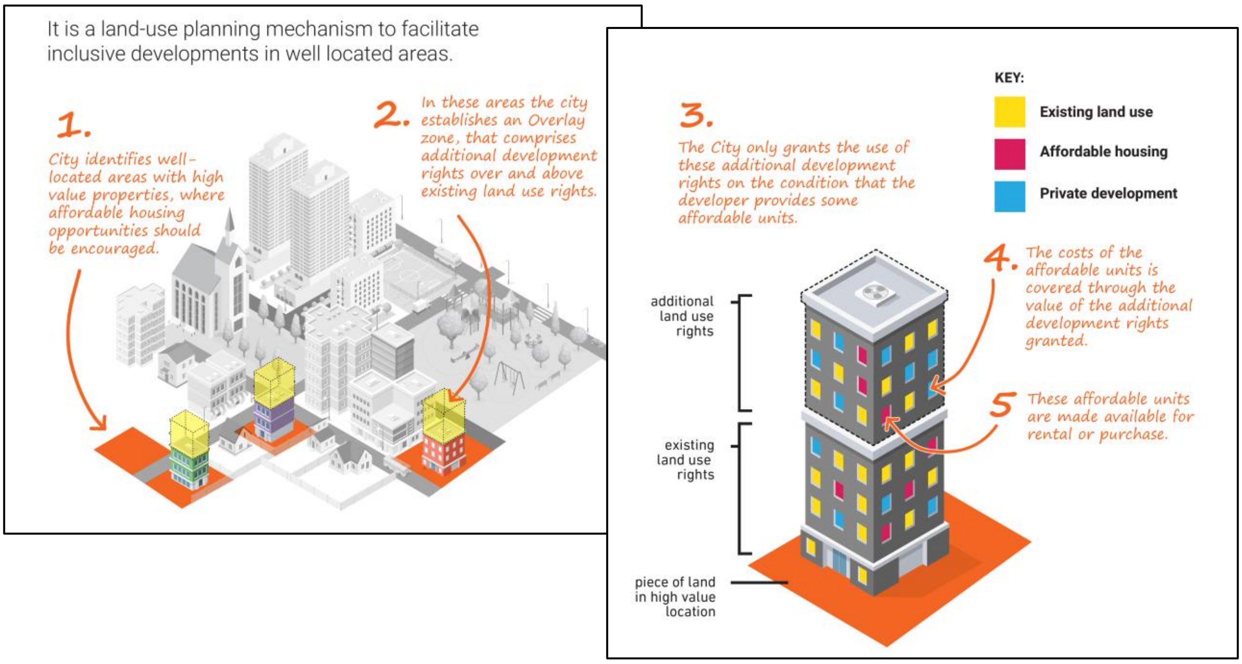
Helen discussed the LVC cycle starting with the creation of value through increasing land values due to changes in planning regulations and public infrastructure investment; followed by using LVC tools and instruments to recoup increments on private property resulting from 'community effort' and lastly value reinvestment which implies equitable and just redistribution of captured value toward public benefit. Value generation she described as changing the allowed land-use, e.g., from rural to urban (up to 400% increase in value possible), servicing land with bulk services and investment into public infrastructure such as a bus service that increases adjacent land values.

She shared the example of the Gautrain's impact on sectional title apartments in Rosebank, Johannesburg, with the average price of these units increasing by almost 200% in the past five years as well as increases in properties in surrounding suburbs and then went on to discuss several of the tools in the LVC toolbox—

1. **Sale of development rights** with the example being Sao Paulo in Brazil who first introduced Certificates of Additional Potential Construction Bonds (CEPACs) in 1995. It means that developers are allowed to build over and above the density ceiling in a defined area through a process where the additional square meters are payable in CEPACs and the CEPACs are purchased through public auctions by competing developers.

2. **Inclusionary zoning and housing** which is also gaining traction in South Africa is a program, regulation, or law that requires or provides incentives to private developers to incorporate affordable or social housing into market driven developments. ***Picture 16*** provides a clear illustration of the concept.

Picture 16: Illustration of inclusionary zoning and housing



3. **Public land packaging for affordable housing** which is quite applicable and necessary in SA where the public sector owns sizeable land areas that are well-located and vacant and can be used for decent affordable housing thus counteracting the typically exclusionary character of the property market. It is advisable that municipalities first streamline the municipal land release process through its phases of land identification, land de-risking, land disposal and lastly land development to avoid delays that can kill projects.

4. **Special assessment districts** with the construction of the Claremont Boulevard Road serving as a very good example where the Claremont Improvement District Company (CIDC) created the RoadCo entity, got a loan from DBSA and entered into an equally funded partnership with the City of Cape Town to build this road which played a catalytic role towards the regeneration of the Claremont CBD precinct and enabled the properties values in Claremont to multiply by 4 in 10 years' time.

5. **Land leasing** to capture unearned land value and to manage urban land.

6. **Property tax and tax increment finance** – for municipalities property taxes is an important source of income and tax-increment finance (TIF) is not an additional means

of LVC but refers to a portion of property tax funds directed towards specific public purposes.

In conclusion, Helen dealt with the lessons learnt by DAG through its experiences in implementing LVC. In the SA context LVC can drive a just urban transition, SA's experiences and shifting focus to improve the implementation of LVC is setting precedent for Africa, the starting point of an LVC program is an analysis of the urban land market, a foundational element is broad-based technical support and understanding of LVC, to embed LVC institutionally it needs political support, transversal alignment (planning, legal and finance) and strengthening capabilities.

21 The Adam Tas Corridor (ATC) in Stellenbosch – a practical example of land value capture and its benefits to the municipality – Chantel Hauptfleisch

Chantel Hauptfleisch, Strategic Spatial Planning, Stellenbosch Local Municipality (SLM)

Chantal provided a perspective of the main strategic goals, levers and objectives of Stellenbosch Local Municipality (SLM) that underlies its spatial strategies and policy enablers i.e., its Spatial Development Framework (SDF) and Capital Expenditure Framework (CEF) which enable the Adam Tas Corridor Local Spatial Development Framework (ATC LSDF) with its development guidelines and overlay zone supported by its Inclusionary Zoning Policy (IZP) and the Land-use Management and Zoning Scheme By-laws.

She explained the working vision of the ATC LSDF as being an intervention to fix past mistakes, enable equitable access to urban opportunities for all citizens; an integrated, inclusive environment for working, living and enjoyment; a partnership between public, private and community sectors to create a place that will be good, equitable and efficient as a settlement; and a new town within the town that integrates fragmented parts and exploits underutilised resources.

Essentially then the ATC is a catalytic spatial transformation project using the overlay zone and spatially targeted infrastructure to spatially restructure and transform Stellenbosch including an area of 375 hectares, 10 precincts with different owners and mixed use in all the precincts but some more residential and others more commercial.

Chantal dealt in detail with all aspects of the ATC development and highlighted the importance of getting the buy-in of property developers and how SLM accomplished to get a collective Memorandum of Understanding (MOU) with all the landowners in place followed by a current process of signing inclusionary housing agreements with these landowners. She pointed out that all the landowners bought into the concept of providing inclusionary housing.

She discussed the IZP's aims and principles and the foundations of inclusionary zoning and highlighted that it is not a housing subsidy to property owners and developers to meet their affordable housing contribution, but that such is absorbed in the land price paid and the awarding of additional land use rights to offset the costs. In essence then inclusionary zoning is a value exchange between the municipality and developers, a trade and not a tax.

Clearly the ATC development is going to have a massive macro-economic impact on Stellenbosch and all its residents and businesses will share in the advantages and opportunities created. ***Picture 17*** provided the estimated economic impact to be derived from the ATC development during its construction and operational phases.

Picture 17: ATC Macro-economic impact on Stellenbosch

CONSTRUCTION PHASE CUMULATIVE MACROECONOMIC IMPACT ON STELLENBOSCH

METRICS (MIN)	Direct impact	Indirect impact	Induced impact	Total
Impact on GDP (Rand million)	R 1 168	R 3 585	R 10 383	**R 15 136**
Impact on household income (Rand million)	R 437	R 1 672	R 4 546	**R 6 655**
Impact on employment (# jobs supported)	7 951	18 851	45 622	**72 424**

OPERATION PHASE CUMULATIVE MACROECONOMIC IMPACT ON STELLENBOSCH

METRICS (MAX)	Direct impact	Indirect impact	Induced impact	Total
Impact on GDP (Rand million)	R 639	R 1 558	R 5 406	**R 7 603**
Impact on household income (Rand million)	R 314	R 718	R 2 367	**R 3 399**
Impact on employment (# jobs supported)	2 404	8 049	23 751	**34 205**

In conclusion, Chantal also pointed out the importance of a housing market study to serve as a IZP informant.

22 Joburg inclusionary housing development – Minenhle Mophumulo

Minenhle Mophumulo, Assistant Director: Metro Planning, City of Johannesburg

Minenhle unpacked the key spatial challenges highlighted and responded to in the SDF, 2016 of the City of Johannesburg (CoJ) that set the foundation for inclusionary housing being used as a LVC tool by CoJ. She explained that CoJ as one of the fastest growing cities in SA, must inter alia—

- address spatial inequalities and the job-housing mismatch to break the marginalisation of a fairly large percentage of the population living on the city edges and not able to access opportunities,
- mitigate and discourage urban sprawl and fragmentation
- strengthen the core of the city, its inverted polycentric form towards a more compact polycentric expansion as well as strengthening the nodes and the strategically targeted areas to create more efficiency in respect of public transportation.

She provided a picture of the current spatial trends showing the areas where most town planning applications are coming from vis-à-vis the areas where there is the largest increase in informal dwellings across the city with the result that it is quite clear to see the disconnect between housing need and housing supply thus the market not provided for and the demands that infrastructure development has to address without the CoJ having an active part in the structuring of informal growth. The latter places the CoJ under significant financial and operational pressure.

It is within this scenario that the CoJ did a Nodal Review Policy in 2020 (annexure to the SDF) which is a very powerful tool that advises the nodal zones and boundaries using evidence-based data; the broad approach being infill compaction, transit-oriented development and promotion of brownfield rather than greenfield developments.

Turning to inclusionary housing, Minenhle said that CoJ was one of the engineering cities to put inclusionary housing (IH) on the map and made it quite clear that IH is not social housing or low cost housing but affordable housing which is defined as: "A housing programme that, through conditions attached to land use rights approvals, requires private developers to dedicate a certain percentage of new housing developments to low income and low middle income households, or to households that may not otherwise afford to live in those developments."

Minenhle mentioned the legislative and policy mandate and said the motivational rationale is that developers must also be part of the mandate that cities have, pushing the envelope to bring people together in an inclusive, efficient, and effective City. As such, IH is mandatory for any development application under the jurisdiction of the CoJ that includes 20 dwelling units (du) or more. It comes with different options and associated incentives which developers may choose from as depicted in ***Picture 18***.

Picture 18: CoJ Inclusionary housing options

Jo'burg

INCLUSIONARY HOUSING: Incentives, Regulations and Mechanisms **9**

Options	Description	Details	Incentives (summary)
Option 1	30% of Dwelling Units are:	Social Housing; **or FLISP Housing;** or Housing with a rental cap: R2100 per month (2018 prices).	a) Increase in FAR equal to the total % of inclusionary housing (max 50% increase) b) Increase in density (in du/ha) to accommodate the extra units c) Parking reduction for inclusionary units
Option 2	10% of the total residential floor area is made up of small units. **At least 30% of total units in the development must be inclusionary housing**	Minimum: 18m² Maximum: 30m² Average: 24m²	a) Increase in FAR to accommodate the 10% floor area for IH b) Increase in density (in du/ha) to accommodate the extra units c) Parking reduction for inclusionary units
Option 3	20% of the total residential floor area is made up of units that are 50% of the average market unit size **At least 30% of total units in the development must be inclusionary housing**	Maximum: 150m² Minimum: 18m²	a) Increase in FAR to accommodate the 20% floor area for IH b) Increase in density (in du/ha) to accommodate the extra units
Option 4	To the satisfaction (in writing) of City Transformation and Spatial Planning, City of Johannesburg		

According to work DAG did in CoJ to see what the uptake of IH is, it was found that almost 8000 IH units have been approved by the CoJ and that there is also an uptake in infill development. In conclusion, Minenhle pointed out that the IH of CoJ has clearly been met with adaption, acceptance and more appetite enabling the CoJ to move forward and refine the policy.

23 Panel Discussion – Moderated by Gerhard Pienaar

Gerhard Pienaar, Deputy Head of SECO

Gerhard mentioned that urban development is one of SECO's focus areas with one of quests being how to develop inclusionary housing including the services and getting buy-in from developers. He then proceeded to engage the speakers with probing questions aimed at unpacking aspects of their presentations before opening the session for questions and contributions from the floor.

The following were some of the points discussed:

- To manoeuvre a LVC through the municipal system requires consensus and agreement amongst all the line directorates and departments involved that this is the route to take. It specifically needs planning, legal, and finance to be onboard and it is best to focus on the outcome rather than getting tangled up in the technicalities along the way. Of great value is if the route taken already has full political support, is packaged in an approved policy with other planning and strategic documents aligned to the implementation objectives and has external support from community-based and non-governmental organizations in this space.
- Discussions about LVC also brings up ring-fencing of related revenue. It is felt that the ring-fencing of property tax is not advisable and possibly not permissible given that it is a spatially targeted distributive tool. Ring-fencing will need to be pursued in a holistic manner because there are several financial trade-offs involved and quite a robust institutional system is required to enable it.
- In Stellenbosch the Adam Tas Corridor perfectly overlays on the SLM's social restructuring zones and the priority human settlement areas thus also unlocking state land targeted for these kinds of development and easing the red tape for these. The ATC is following an integrated approach. To ensure inclusionary housing objectives and targets are pursued, SLM made it mandatory for affordable housing units to be preserved as such in the market for 30 years with an annual CPI increase. This is written into the title deeds, the latter being its urban management mechanism. To track compliance, the body corporates or development managers must provide SLM with an annual report of who are the beneficiaries. SLM is currently developing a tracking system with various monitoring and evaluation (M&E) components.
- In the CoJ, the IH is a city-wide policy and, as an overlay tool it serves the purpose of increasing densities all over even in the CBD. The policy has a minimum density requirement but an uncapped density maximum, the latter is restricted by the site-specific context. Bad buildings and vertical slums are a different target and not related to the IH policy roll-out. Some developers are not only doing the minimum of 30% IH targets but up to 100% IH thus the CoJ policy is certainly benefitting developers. Infrastructure challenges are not specific to IH but addressed in the wider perspective of renew and replace capital expenditure to upgrade aged infrastructure throughout the CoJ area. In CoJ's experience LVC certainly display where else the City can find funds and where else the City can have a shared responsibility in fulfilling the housing typologies and responding to the gap much beyond than what the City is able to cater for on its own.
- From DAG's perspective, cities going into the future are not going to be formal cities anymore, informality is going to be on a scale not even comprehended now. DAG has been supporting the scaling up of small-scale rental housing in the townships as part of a broader township economic development process but the challenge to densification is massive service delivery backlogs. Compounding this is the reluctance of developers to fully comply with regulations. The regulatory reforms needed must be carefully considered since do not want incentives to become subsidies.
- In the conversation around LVC, the municipalities' allies are the developers, and it has been found that they are happy to play within the rules of the game if given certainty.

The push back will come from landowners with the question being, whose City is it and who are your supporters or not.

- In the experience of SLM, the ATC LSDF really needed political will power, i.e., a municipal political and executive leadership that can withstand and manage the pressure from developers and landowners. It also called for strong internal leaders to ensure an internal integration of resources. In terms of the latter, when SLM started with the planning process of which the implementation is currently underway, it was found that town planning, engineering, and financial services are all doing their own planning separate from the others. They used the capital plan as an instrument to ensure all planning is aligned within the IDP and the budget. From this the need for a Capital Expenditure Framework (CEF) arose which inter alia drove demand quantification, i.e., what bulk infrastructure is required, and a further step was to align the engineering masterplans with the SDF. In its 2023/24 CEF process, SLM succeeded to get 100% alignment between the SDF and engineering masterplans as well as the infrastructure availability timelines. To ensure the bulk services are available at the right time, SLM cannot rely on Development Contributions (DCs), funding will need to be obtained.
- The discussions brought to the fore that many CFOs in municipalities might not be in favour of ring-fencing.
- LVC might be met with resistance and certainly has it challenges but is a very workable concept if tackled correctly otherwise it would not have been so successful as various case studies indicate. Such case studies can be found at www.landvaluecapture.co.za

Day 3: 7 February 2024

Session 5: Breakaway Groups

The breakaway groups' brief put the following questions / tasks to them:

1. **Doing ordinary things exceptionally well**

   "You don't need to have extraordinary efforts to achieve extraordinary results. You just need to do the ordinary everyday things exceptionally well."

   What does this Warren Buffet statement mean in a municipal context?

2. **Developmental projects for investment**

   Context:

   The challenges facing South Africa's urban areas are well documented and debated. As a municipal official, you are well aware of the various service delivery, urban development and infrastructure development challenges that your municipality is facing.

   Your municipality has been approached by a Development Partner that is looking for financially sound developmental projects that could be supported. The Development Partner has a broad mandate of supporting the economic development of the country and its municipalities. This mandate includes topics such as urban infrastructure development and finance (at a programmatic or project level), urban service delivery, public financial management, urban development and planning and climate change.

Importantly, the Development Partner wants to see the full actualisation of the project, i.e. "results on the ground" that could be replicated in the municipality or in other municipalities. The Development Partner is especially interested to support a major urban renewal programme in your municipality that will contribute to spatial integration, open opportunities for infrastructure investment and address, if possible, aspects of urban climate resilience through adaptation or mitigation.

Task:

The MANCO has requested that your department prepare a short (4-5 slides) presentation that can be used to convince the Development Partner to invest in your municipality. Based on the presentations and discussions during the Summer School sessions, formulate your presentation based on the following outline:

Task #1 - What is the service delivery challenge to be solved? What project are you presenting for funding (this could include any service delivery, infrastructure development or urban development project)? Why this project – what is the Theory of Change, i.e. what are you aiming to achieve and what will be the causal pathway? <u>Note:</u> If there are more than two projects within in the group that could be put forward, decide on the two most viable ones for the presentation.

Task #2 – What is the level of technological innovation and complexity of the project? What are the innovative mechanisms, structures or technologies that you will be employing to deliver each project? How will implementation be phased and monitored? Does the municipality have the internal knowledge and skills to manage the project?

Task #3 - What is your ask from the Development Partner. What budget and timeframe are you looking at and what would be the role and involvement of the Development Partner?

24 Feedback from Breakaway Group 1

1. Doing ordinary things exceptionally well in a municipal context

It is agreed that the basic can be done well but the basics are only a foundation for the culture of enablement that needs to be created. This culture of enablement should be built on principled and conscious leadership. Characteristics thereof are to lead from the front, to take calculated risks, to do administrative coaching and to be bribe averse including no slight bending of any rules.

The administrative agenda followed by officials call for prioritisation of those strategic targets that must be chased as per strategic plans and the IDP and ensuring efficiency in prioritised processes including to feed the roots of service sustainability levers.

Intergovernmental relations require much attention including an inter-sphere advocacy programme for governance improvement and accountability and pride in work is at the core of good governance which means that to work for local government is not simply a job but a calling. The style of leadership should fit in with the notion of the job been a calling by being open to innovative thinking, irrespective of the changes it may bring, and to practice inclusive management.

2. Developmental projects for investment –

- **Saldanha Bay Local Municipality (SLM) - Vredenburg Urban Revitalisation Project**

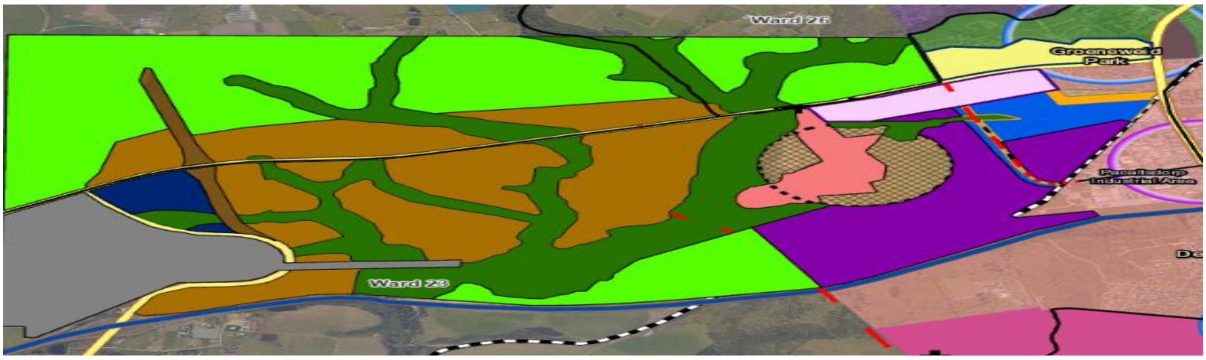
The project is about space integration consisting of an innovative government precinct and a mixed-use development. It is about work, live, play and revitalising the whole CBD of Vredenburg in the Saldanha Bay Municipality. The manner in which the developers are going to pay for the land is the inclusion of the municipal offices in the development.

- **George Local Municipality (GLM) – Renewable Energy Feeding to a Special Ratings Area (SRA)**

The project concerns an underutilised area in George which can be used in a new way to create business thus kickstarting the economy in that area. Refer to the diagrams below. The idea is to create a solar PV farm and utility scale battery storage and other sources enabling dedicated electricity supply to the area which, in the wake of the devasting impact of loadshedding on local businesses and municipal finances, can assist to mitigate loadshedding in the earmarked 11,7 sq. km zone.

Picture 19: Earmarked area in George

Picture 20: Potential development and growth as per SDF



Local Spatial Development Framework: Gwaing – George Always On

Renewable Energy Installations Zones →	Airport Zone → & Airport Support Zone →
Business Parks and Call Centre Zone →	Commercial Industrial (Mall) Zone →
Mixed Residential Zones →	Landfill Rehabilitation Restricted Zone →
Mixed Use: Service Trade Zone →	Existing Gwaiing WWTP →
Road Reserve / GoGeorge Expansion Zone →	Desalination Plant and Raw Water Storage Zone →
Link to Fancourt and Kingswood Golf Estates →	Residential Transition Zone →

The potential SRA, which is adjacent to the George Airport, lends itself to a mixed-use model including business parks, offices, call centres, work from home shared office spaces, mixed residential developments through various developers, commercial industrial area, expanded access to nearby golf estates, etc. The adjacent landfill has also been prepared for solar panels and the harvesting of gas thus all of these can feed in to make an SRA viable.

The idea is then further to ring-fence the electricity network in that SRA making sure it has dedicated and reliable supply. However, a reliable supply will require expensive battery storage with planning and financing considering that PV panels have a lifespan of about 15 years and batteries a lifespan of about 8 years.

Added into the mix of power supply could be SSEGs and Independent Power Producers (IPP). The only thing is that wheeling through the Eskom network is a challenge which must still be addressed thus nearby IPPs will be preferable. Power obtained via waste-to-energy solutions is another source that could be explored.

The proposed development will need to be done in phases. Considerations to enable it include the finalisation of bulk water services installation in that area, the wastewater treatment plant next to the landfill must be upgraded, creation of a dedicated industrial zone and use amendments approvals, tenders for smaller scale developers for internal roads and services, enabling IPPs and SSEGs to ensure maximum renewables energy use and a detailed cost benefit analysis per phase.

There are external factors not within the control of the GLM such as the expansion of George Airport to international status, but the GLM can work with ACSA to expedite this, and it will also be required to fast track EIAs.

Regarding the complexity and technology of the project, the following will be considerations—

- PV panels and low-peak periods to charge Battery Energy Storage Systems (BESS)
- Create an area where electricity supply is ensured, not reliant on Eskom – "Always On"
- Supply electricity to only to the new development to ensure controllable electricity network, isolated from Eskom infrastructure – avoid wheeling on Eskom infrastructure
- Enable SSEG and IPP participation to reduce end-user cost
- Sustained, guaranteed electricity supply in a specific industrial / development area
- Use renewable PV/BESS electricity to power desalination plant and pumps to bring raw salt water from ocean – 10km away and 180m lower in elevation
- Automated billing and SSEG refunds

With respect to what would be needed from a development partner—
- Transactional advisor/s to navigate legislative requirements safely
- Fast track EIA's
- Financing support e.g. grant and loans at concession rates
- Not through NT / departments but directly
- Sharing of technical expertise e.g. technical / feasibility studies
- Diplomatic relations / dealing with possible political interference
- Promote initiative internationally to draw investors, developers, and business partners

25 Feedback from Breakaway Group 2

1. Doing ordinary things exceptionally well in a municipal context

Within the municipal context there are a few factors with which the administration must live—
- An unstable political environment
- Top- down legislative framework approach
- Macro-economic realities
- Energy crises
- Failing state
- Over-regulation

The foundation that enables doing ordinary things exceptionally well includes—
- A clearly defined Council strategy
- Acknowledging the municipal service delivery mandate
- Contracting with the community in respect of service level standards
- Clear direction from the executive
- A service-oriented organizational culture
- Leading by example and thus a sound moral and ethical framework

Essential building blocks to follow on the above foundational structure are—
- Pro-active planning processes, IDP, SDF, Master plans (must be aligned and able to withstand political change)
- Knowing the environment including the sectors driving the economy and stakeholders
- 10-year capital implementation plan
- Long-term financial plan & strategy to support the above
- Multi-year operational strategy (MFMA Section 33 contracts)
- Institutional planning, human resource's structure, recruitment and succession planning, organizational policies to support processes and by-laws
- Multi-year budgeting and a Service Delivery Budget Implementation Plan (SDBIP)
- Procurement planning, strategic procurement, and multi-year contracts
- Planning for the unexpected/emergencies/anomalies

Investment is required in respect of—
- Appropriate systems, people, and processes
- Innovation, artificial intelligence (AI), automation, integrated systems, and smart working
- Information/data – lead to informed decisions
- Sound and well thought through decisions benefitting the institution

The focus should be on—

- Ensuring planning processes translate into executable action plans
- Resources' allocation to where the need is the greatest and where the municipality can make the biggest difference
- Ensuring a return on investment
- Directing resources to core functions/mandate
- Efficiency gains through all actions
- Ensuring maximum output with minimum input to use all resources effectively and efficiently

Municipalities also need partnerships thus—

- Stakeholder collaboration (must know who they are)
- Build relationships
- Consult and communicate (stakeholders, database)
- Community, business, NT, PT, and the AG

For local government to succeed the following must happen—

- Review of the LG framework
- Review of the LG funding model
- Differentiation according to the capacity of each municipality
- More collaboration from NT, PT and Accounting Standards Board (ASB), when legal frameworks, norms and standards and accounting standards are set
- Understanding from NT, COGTA of the impact that changes and reforms have on small and medium size municipalities.

2. Developmental projects for investment – Adam Tas Corridor (ATC), a multi-disciplinary approach to enable continued service delivery in an urbanising context for the next 10 years

A project such as the ATC has multi-disciplinary service delivery challenges—

- Spatial Planning – identify suitable sites for bulk infrastructure
- Land use management – plan multi-use public services
- Landscape & urban design – design north-south orientated plots
- Design space to incorporate green building designs – PV, rainwater harvesting
- Infrastructure & engineering services - diversify electricity mix
- Decentralise bulk infrastructure
- Enable new electricity networks & protect the household and social facilities from interruptions
- Financial planning - sustainable finances

Picture 21: Development simulation

Phase 1 of the ATC catalytic development stretches over 10 years. The demand quantification (bulk services) is for development proposals for 3266 residential units with several social facilities. The SLM wishes to provide a 2,3kva level of service which equates to a 6MV demand at a cost of R100m. The business-as-usual picture is for this demand to be available in the next 6 to 10 years whilst the phase will include a total developable rooftop area of 445 253 in precincts 2 – 6 that can be used for PV installation thus the intention is for these rooftop areas to be owned by the municipality.

The benefits of this are from a municipal perspective that—

- It can mitigate peak demand
- Recover PV installation costs over a maximum of 5 years
- It is a long-term additional source without bulk purchases
- A reduced opportunity and cost of vandalism
- Bio-directional metering enabling feeding back into the grid for other users
- Long-term revenue source

For consumers it would be—

- immediate and consistent availability of energy and
- a cost reduction in service tariffs.

26 Feedback from Breakaway Group 3

1. Doing ordinary things exceptionally well in a municipal context

Understood within a municipal context the following applies—

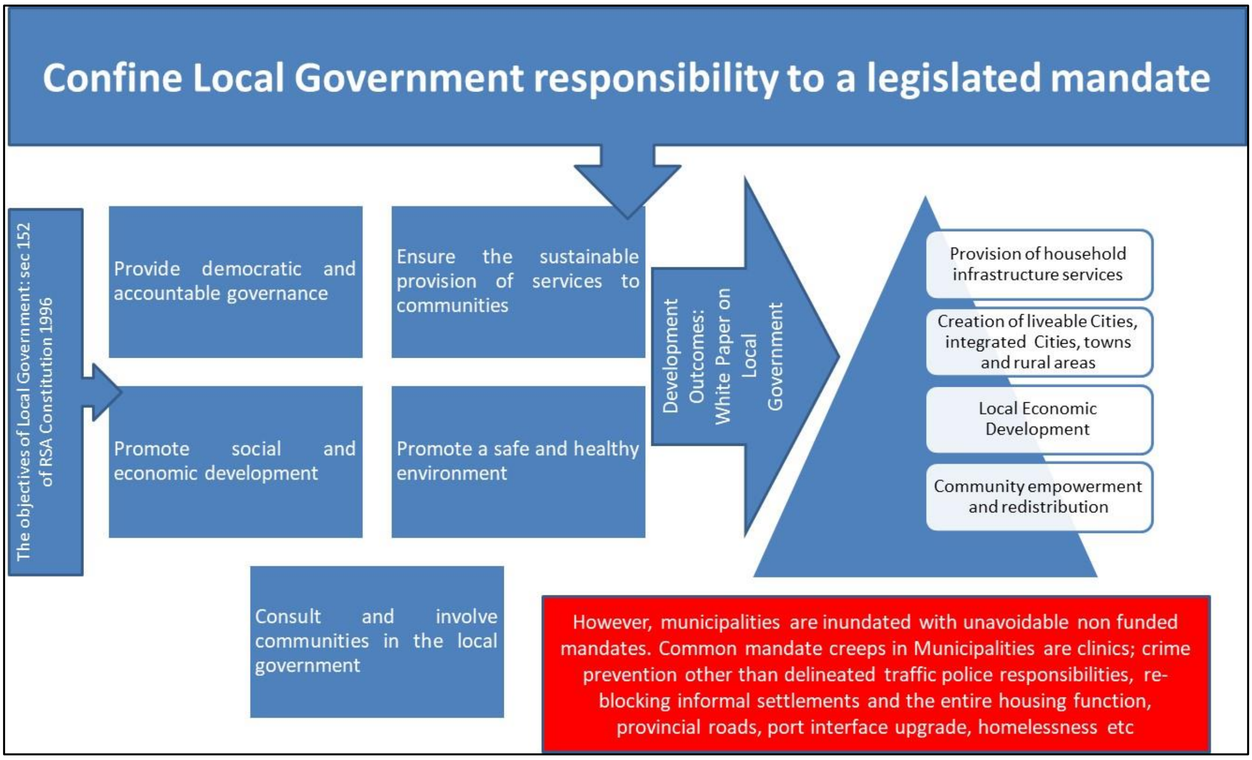
- Municipalities spend an inordinate amount of time and money doing things that they were not established to do (maybe out of necessity).
- As a result, basic core mandates of municipalities are often relegated to low status because there is no time and money to focus on them as basic mandates.
- Therefore, municipalities need to sharpen their understanding of the core mandate and start doing simple things everyday exceptionally.

The group provided the following hypothesis definition to put forward the conundrum of LG—

> The Local Government mandate has been diluted by additional functions or responsibilities of other spheres of Government such that a lot more effort and resources are expended to achieve extraordinary results – which are always elusive. This challenge is exacerbated by the complex intergovernmental relations across the three spheres of government and within municipalities themselves.

The question is then: "What do municipalities urgently need to do in the context of this complexity?" The answer is going back to the drawing board and making sure LG's responsibility is confined to a legislated mandate and all stakeholders stick to the ordinary stuff that needs to be done well. Diagrams to illustrate and discuss these points are below as ***Pictures 22 and 23***.

Picture 22: LG legislative mandate



Picture 23: Ordinary stuff to be done well

To address the true elephant in the room it is necessary to—

- Measure the performance of national and provincial government departments using outcomes of the perception survey from municipalities
- Revive IDP Forum as the coordination and integration nerve centre for all of government in a municipal space starting with metros and then intermediary municipalities
- Align service boundaries to ensure alignment resources

- Allocate higher percentages on the transversal management KPIs for all accounting officers in the government ecosystem

2. **Developmental project for investment – Durban Waterfront Development Project**

The project is an inner-City redevelopment catalytic project to curb urban decay. As such it is a mixed-use development which is strategically located at the entrance to one of the busiest ports in Africa and it is adjacent to the Ushaka Marine Theme Park.

The 6 precincts include recreation, residential, historical/heritage, sustainability-greenery-rooftop gardens, offices, retail and promenade extension.

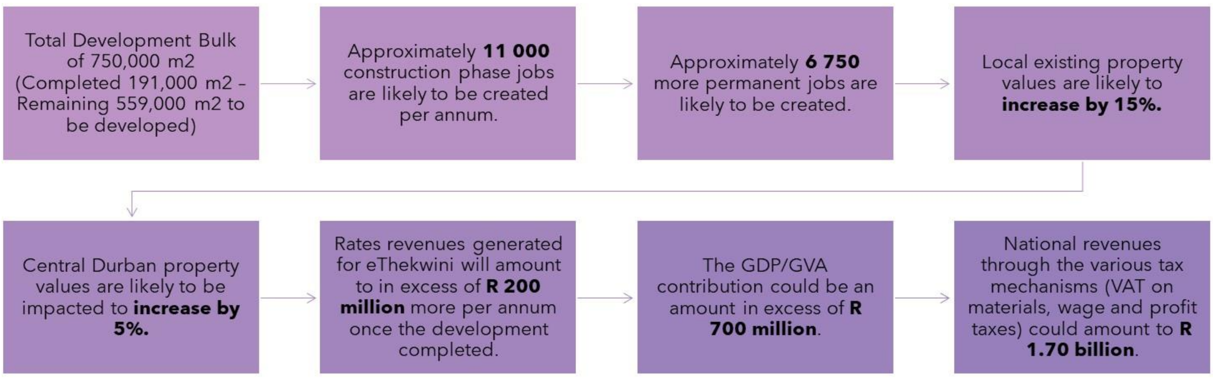
The rationale behind the project is to change a formerly unsafe industrial area through redevelopment that incorporates principles of place-making, crime prevention and environmental design to attract direct foreign investment (DFI), create tourism opportunities and jobs and a mixed-use development to realise a “live, work, play” lifestyle.

Ethekwini City has established the Durban Point Development Company as the main developer for this catalytic project and is fast tracking project approvals. The development subscribes to the Green Building principles of retention of natural water courses, energy saving, and green spaces within the development. The City’s catalytic investment facility pulls together internal knowledge and skills from the City.

The project has three phases with a total Gross Development Value (GDV) of R27.91bn and a Gross Development Cost (GDC) of R23.04bn. To date Ethekwini City has spent R400m on the promenade extension and R600m has been invested into bulk infrastructure provision. In progress are residential units to the value of R550m with a planned launch by November 2024. Also in the planning phase are a private hospital, shopping mall and residential apartments.

The total contribution to the economy is as illustrated in ***Picture 24***.

Picture 24: Durban Waterfront Development – economic impact



Ethekwini City’s development partner is Rengnong, a Malaysian company, that brings world class integrated urban development experience to the table as well as funding and planning, engineering and sustainable development expertise.

27 Conclusion / Vote of thanks

Gerhard of SECO thanked the groups for excellent presentations. He said official development assistance in the SA has been declining for several years now and the remainder is focused on Just Energy Transition (JET), mostly in Mpumalanga. Where donors do become involved, it is to promote their own national business interests. Switzerland is expected to do so too in the future. He emphasized that municipalities must remain in control when a development partner is sought, found, partnered with and it is essential for derisking of projects to be done. Lastly, he encouraged municipalities to, when engaging with a development partner, also ask about such partner's other networks because there might be opportunities for other projects in other disciplines, e.g., SECO has a science and technology desk in the embassy.

Yasmin of AFD also expressed appreciation for the groups' presentations. She explained that AFD is a development finance institution focused on supporting long-term concessionary type projects. Grant funding for technical assistance has typically involved a multi-year relationship with a municipality to unlock tangible and concrete goals. Focus areas are anything that will improve the resilience of a municipality to deal with climate shocks, climate change, etc., but it can be in the broadest sense. Another focus area is social and spatial projects to address historical impacts and a third focus area is capacity building and these are fully needs driven as AFD embark on a journey with a municipality.

Attie of INCA thanked SECO whose contribution made the Summer School possible and AFD who also contributed grant funding to the Summer School Report that the Programme Director will produce. Attie reiterated that all the role-players attending the Summer School are not doing their jobs for themselves but are serving the people they love and who will benefit from it. Sincerely appreciated by the Summer School is the quality of people attending it and that they do so despite their busy schedules.

Attie said that there is a reason why in the SA institutional setup we talk about three spheres of government, but the LG sphere does not always act as an independent sphere. The inclination is to look toward the provincial sphere and the national sphere for leadership and this is untenable given that the LG sphere is not supposed to be subordinate to these other spheres. In fact, LG is the most important sphere and therefore it can and must stand up for itself and sometimes also push back when its needs are not served. A way to push back is to be informed of what happens in the bigger picture and the Summer School aims to provide this opportunity. He went on to talk about the G20 countries that meet each year with heads of state accompanied by an entourage of business leaders and said that this event is the one place where projects can be pitched and promoted and to be noted is that SA is the host country of the G20 meeting in 2025 thus LG must prepare and strategise to make the most of this opportunity. As the past has proven, investment is available for SA, but procrastination based on trying to squeeze for better rates makes investors to lose interest or funding to become more expensive and opportunities lost.

On behalf of all the attendees, Kevin Jacoby, CFO of the City of Cape Town thanked the funders and especially Attie and Joanne of INCA as well as the other IPM staff for putting together the Summer School.

28 Summer School Rating

The ICBF requested the delegates to complete rating sheets on an anonymous basis to assist it to always improve. The assistance so rendered is highly appreciated and will be considered for the next Summer School program and arrangements. Refer to **Annexure 3**.

29 Some observations emanating from the Summer School

The presentations, discussions, and breakaway groups' feedback highlighted the following—

1. ***Integration of Effort***
   - *Each sphere of government to practice its mandate within a holistic view of governance and funding to follow function with an end to unfunded mandates.*
   - *Cooperative governance to be understood and practised without ignorance and arrogance.*
   - *Intergovernmental relations to grow up, get beyond apathy and the blame game and role-players to work together to achieve some maturity that can benefit services delivery at national, provincial, and local government level.*
   - *Government at all levels to eventually learn the lesson of 'one size does not fit all'.*

2. ***Address the disruptors***
   - *Legislation or policy instruments to make sure politicians are of a better quality and integrity.*
   - *Linked thereto policy instruments to protect municipal managers, CFOs, and other members of the administrative executive against politicians and their agendas and specifically against chaotic coalition politics and behaviour so that good governance is not held captive, and communities subjected to suffering because of disruptive politics.*

3. ***Fix the weak links***
   - *Municipalities to fix their non-revenue water problems – bring the private sector onboard. The Strategic Water Partnership with access to funding mechanisms is ready to assist.*
   - *Municipalities to launch revenue enhancement programmes (if not done already) that will address the entire revenue cycle and point out the weak links, then address those with zero tolerance and implement consequence management as part thereof.*

4. ***Legal and policy reforms***
   - *Local government is in urgent need of private sector involvement but must make it possible. The cumbersome legislation has been an obstacle and is in the process of been reviewed and amended. Municipalities to make sure that the result will fit the purpose by becoming involved in the process via existing fora. Do not rely on CoGTA or SALGA to do this for you.*
   - *What is a bankable project? What does it mean to do de-risking to make projects possible? Guidelines will be helpful, LG to lobby for these to be done on a national basis.*
   - *Long-term financial plans are excellent tools and should really be implemented by all municipalities. For now, guidance on how to do this and efforts to bring it to more municipalities should be a governance priority.*

5. ***Fiscal Framework***
   - *The current local government fiscal framework review does address several of the LG's challenges that have been identified repeatedly, eventually now getting attention. Municipalities to be really involved in this review via their own fora.*

6. ***Make the tough decisions***
   - *Local government practitioners have more power than they think they have. Take your constitutional mandate and enforce it, find ways to drive it, use it to lobby for investment and, as practitioners, stand together, learn together, carry each other, exercise power in unity.*

30 Annexure 1: List of Delegates

Delegate List

Attendees		
Dr Michele Gratz	Municipal Manager	George
Riaan du Plessis	CFO	George
Bradley Brown	CFO	Drakenstein
Mava Shude	CFO	Langeberg
Heinrich Mettler	Municipal Manager	Saldanha Bay
Stefan Vorster	CFO	Saldanha Bay
Geraldine Mettler	Municipal Manager	Stellenbosch
Kevin Carolus	CFO	Stellenbosch
Chantel Hauptfleisch	Spatial Planner	Stellenbosch
Albert de Klerk	Municipal Manager	Hessequa
Mbulelo Memani	Municipal Manager	Bitou
Felix Lotter	MM Advisor	Bitou
Keaobaka Ignatius Boikanyo	Director Public Safety	Rustenburg
Vivian Mdhluli	CFO	Rustenburg
Mxolisi Kunene	CFO	uMhlatuze
Nomkita Fani	Executive Manager Economic Development	Mogale City
Kevin Jacoby	CFO	City of Cape Town
Elmari Wassermann	CFO	Swellendam
Riaaz Lorgat	CFO	Kouga
Kagiso Michael Lerutla	CFO	eKurhuleni
Stanley Mandla Mnguni	Municipal Manager	Steve Tshwete
Elliot Maseko	Municipal Manager	Govan Mbeki
Xolani Malindi(Acting)	CFO	Rand West
Mpoti Machaba	COO	Rand West
Delight Sibanyoni	CFO	Mbombela
Gerhard Pienaar	Deputy Head	SECO
Daniel Lauchenauer		SECO
Seabelo Nyawo		SECO
Sandra Sekgetle	Director: Local Government Finance Policy	National Treasury
Sam Naidu	Consultant	National Treasury
Kgomotso Baloyi		National Treasury
Dr Letsepa Pakkies		National Treasury
Attie van Zyl	CEO	IPM
Charl Bouwer	Director	IPM
Gert van der Linde	Specialist	IPM
Joanne Whiting	Director	IPM
Dylan Mould	Analyst	IPM
Anita Botha	Facilitator	PAMS
Yasmin Coovadia	Consultant	
Charl Kocks		Ratings Afrika
Thapelo Matlala	Municipal Manager	Sol Plaatje

31 Annexure 2: Programme of the ICBF Summer School of 2024

LOCAL GOVERNMENT CAPACITY BUILDING SUMMER SCHOOL 2024

Leadership and stakeholder participation in pursuit of Municipal Sustainability

The Balalaika Hotel, Sandton

SUNDAY, 4th FEBRUARY 2024		
14H00 Onwards	Delegates arriving on Sunday to book into The Balalaika Hotel Spend afternoon/evening at leisure.	

MONDAY, 05 FEBRUARY 2024

07H00 – 07H30	**BREAKFAST (FOR DELEGATES ARRIVING ON SUNDAY)**	
07H30 – 08H00	***Registration***	Conference venue
08H00 – 08H15	*Overview of summer school program and domestic arrangements*	Program Director: Anita Botha
08H15– 08H30	*Official word of welcome on behalf of ICBF*	Attie van Zyl, CEO Inca Portfolio Managers (IPM)
SESSION 1:	**TOPIC: SERVICE DELIVERY CHALLENGES – ROOM FOR STAKEHOLDER PARTNERSHIPS**	**MODERATOR : AMANDA JITSING**
08H30 – 09H15	***Keynote address:*** *What is the perspective from the property sector of municipalities today & what support is possible from a key stakeholder like Growthpoint if a true partnership can be developed and its contribution to sustainable municipalities.*	Neil Schloss – Head of Asset Management, Growthpoint Properties Limited
09H15 – 10H00	*The positive impact of ensuring a safe and crime free urban environment. What partnerships are possible between key stakeholders to "take back" our towns and cities? The City of Cape Town's approach.*	Andrew Mortimer – City of Cape Town
10H00 – 10H45	*Changes in the electricity sector were brought about by the inability of Eskom to provide the necessary supply. How do municipalities respond to the challenges resulting from loadshedding and how to deal with the consumers moving totally or partly of the grid. The approach by George Municipality.*	Dr Michele Gratz – MM, George Local Municipality
10H45 – 11H30	***Question and Answer Session***	Moderator: Amanda Jitsing
11H30 – 11H45	**REFRESHMENTS**	
11H45 – 12H30	*The challenge of waste management /landfill site development and ensuring a clean liveable environment. Different modalities of public private partnerships to enhance effectiveness in the sector.*	Leon Grobbelaar – MD, Raalebborg Environmental (Pty) Ltd and Past President of Institute of Waste Management, South Africa
12H30 – 13H15	*Ensuring adequate quality potable water. What picture does the latest green and blue drop report provide? What is required to prevent "water shedding" and ensure sustainability?*	Dr Sean Phillips - DG: Department of Water & Sanitation
13H15– 13H45	***Q&A and conclusion on morning session***	Moderator: Amanda Jitsing
13H45 – 14H30	**LUNCH IN THE HOTEL RESTAURANT**	
SESSION 2:	**TOPIC: EXECUTIVE LEADERSHIP SHAPING THE FUTURE**	**MODERATOR: ATTIE VAN ZYL**
14h30 – 15H00	*Leading during challenging times*	HE Mirko Manzoni, Ambassador of Switzerland to South Africa
15H00 – 15H30	*Making the tough calls – My experience as CEO of the Bank*	Richard Wainwright - CEO of Investec Bank
15H30 – 16H00	*The task of the Executive Manager is to execute the mandate given to him/her*	Lesetja Kganyago - Governor of the SARB
16H00 – 17H00	*Q&A to the panel and final comments*	Moderator: Attie van Zyl, IPM
17H00	*Closing comment and arrangements for rest of the evening*	*Program Director: Anita Botha*
18H00	**WELCOMING FUNCTION HOSTED BY AFD/SECO/IPM**	

TUESDAY, 06 FEBRUARY 2024

07H00 – 08H00	**BREAKFAST**	
08H00 – 08H15	***Re-cap of 1st Day***	Program Director: Anita Botha
SESSION 3:	**TOPIC: FINANCIAL SUSTAINABILITY**	**MODERATOR: PROF. TANIA AJAM**
08H15 – 08h45	*The current financial state of municipalities.*	Leon Claassen, Ratings Afrika
08H45 – 09H15	*Reflecting on findings and trends highlighted in the "State of the City Finance Report"- October 2022*	Danga Mughogho – South African Cities Network
09H15 – 09H45	*Lessons Learnt from utilising LTFS/LTFM: INCA Portfolio Managers ex-post experience.*	Charl Bouwer – Executive Director, IPM
09H45 – 10H30	*Local Government initiatives and reforms for municipal financial sustainability*	Dr Letsepa Pakkies & Kgomotso Baloyi - National Treasury
10H30 – 10H45	**REFRESHMENTS**	
10H45 – 11H45	***Panel Discussion***	Moderator: Prof Tania Ajam
11H45 – 13H00	*Group Break Away Session: "You don't need to have extraordinary efforts to achieve extraordinary results. You just need to do the ordinary everyday things exceptionally well." What does this Warren Buffet statement mean in a municipal context?*	Discussion in breakaway groups for report back at the end of the Summer School for repackage as a take-away from the Summer School
13H00 – 13H45	**LUNCH IN THE HOTEL RESTAURANT**	
SESSION 4:	**TOPIC: A NEW APPROACH TO URBAN DEVELOPMENT**	**MODERATOR: GERHARD PIENAAR, SECO**
13H45 – 14H30	*The concept of land value capture – its relevance in South Africa*	Helen Rourke – Programme Director at DAG
14H30 – 15H15	*The Adam Tass Corridor in Stellenbosch -a practical example of land value capture and its benefits to the municipality*	Chantel Hauptfleisch, Stellenbosch Municipality
15H15 – 16H00	*Joburg inclusionary housing development*	Minenhle Mophumulo, City of Joburg
16H00 – 16H15	**REFRESHMENTS**	
16H15 – 17H00	***Q & A with the panel of top executives***	Moderator: Gehard Pienaar
17H00 – 18H00	***Concluding Remarks*** ***Breakaway groups convene***	Programme Director Breakaway Groups – work on assignment provided. For repackaging as takeaway from Summer School and input to a development partners support program.
	EVENING FREE	

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WEDNESDAY, 07 FEBRUARY 2023

07H00 – 08H00	**BREAKFAST**	
08H00 – 08H30	***Synopsis of the first two days. Presentation, deliberations and confirmation of feedback required from breakaway groups.***	**Program Director: Anita Botha**
SESSION 5:	**BREAKAWAY GROUPS**	
08H30 – 10H00	***Breakaway groups convene to consolidate notes and prepare feedback***	Response to assignments given.
10H00 – 10H15	**REFRESHMENTS**	
10H15 – 10H45 10H45 – 11H15 11H15 – 11h45	***Breakaway groups feedback (30 min per group)***	Facilitated by: Anita Botha: Program Director
11H45 – 12H00	***Concluding remarks by Programme Director***	Anita Botha
12H00– 12H30	***Concluding statement from ICBF and information on follow up flowing from the Summer School and arrangements for Study Tour in June 2024***	**Attie van Zyl**
12H30	**CLOSING LUNCH**	

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32 Annexure 3: Rating Results of the ICBF Summer School of 2024

LOCAL GOVERNMENT CAPACITY BUILDING SUMMER SCHOOL 2024 BALALAIKA HOTEL, SANDTON, JOHANNESBURG	INCA CAPACITY BUILDING FUND %
Conference, arrangements and facilities overall	**92.11**
Reception on arrival	91.92
Welcoming function	90.91
Breakfasts, lunches, teas	86.87
Overnight accommodation	92.59
Breakaway rooms / auditorium	89.90
Time allocated for presentations	91.92
Time allocated for Q & A, panels	89.90
Subject content: Session 1	91.92
Subject content: Session 2	94.95
Subject content: Session 3	91.92
Subject content: Session 4	92.93
Summer School staff support	94.95
Role of facilitator	95.96
Overall conference experience	92.93