

State of City Finances 2020

The South African Cities Network State of City Finances Publication

The South African Cities Network (SACN) conducts research on the state of its member cities' finances to determine their general wellbeing and assess their ability to deliver on developmental mandates.

The State of City Finances Report is one of the flagship publications of the South African Cities Network (2011). Like previous editions (in 2011, 2013, 2015 and 2018), the 2020 State of City Finances Report which was released in March examines the finances of nine cities in South Africa: Johannesburg, Cape Town, eThekweni, Ekurhuleni, Tshwane, Nelson Mandela Bay, Buffalo City, Mangaung and Msunduzi. The report's findings confirm that the challenges facing cities remain the same.

Cities are finding it increasingly difficult to raise sufficient revenues to cover their mandates, mainly as a result of structural issues within the local government fiscal framework (LGFF) and the deteriorating macro-economic environment in which they operate – both matters over which cities have little control. Of course cities can always improve their fiscal effort and expenditure efficiencies, but the fiscal space open to them has shrunk. The population of low-income groups continues to grow as urbanisation brings people to cities in search of jobs, which remain elusive due to slow and decreasing rates of economic growth. Reduced margins on electricity and water sales, as a result of both rising unemployment and stagnating household incomes, and above-inflation increases in the cost of bulk purchases, mean that cities are less able to cross-subsidise the provision of basic services for lower income residents.

The State of City Finances 2020 report finds that faced with a shrinking fiscal space, cities have used the Local Government Equitable Share (LGES) to cover some of their expenditure obligations, which is at odds with the original purpose of the LGES as envisaged in the 1998 Local Government White Paper. In shining a light on how cities attempt to fund and meet their mandates, this report raises important questions about the LGFF within which cities operate and their ability to meet as yet unrealised societal goals.

The State of City Finances 2018 makes the argument that the vision espoused in South Africa's urban policy (the Integrated Urban Development Framework) for productive, sustainable, inclusive and well-governed cities can only be achieved with a municipal fiscal framework that is fit for purpose. This argument, as well as proposed solutions to the systemic financing problems that cities face in meeting their developmental mandate, was also made in the State of City Finances published in 2015.

Municipal budgets should be aligned to policy, and urban planning should reflect that orientation. Cities need to find ways to bridge the capital funding gap which prevents cities meeting the infrastructure requirements of a steadily increasing urban population.

In 2016 in partnership with the City of Tshwane SACN convened an expert panel to examine this question. The panel, consisting of global and local experts in public finance, financial modelling, city development, urban economics and political economy, was tasked with formulating and assessing possibilities for alternative metropolitan financing models for cities.

In early 2017 the Alternative Metro Financing Models (AMFM) partners - SACN, City of Tshwane and National Treasury Intergovernmental Relations Directorate - identified three workstreams of mutual interest in metropolitan finance: metro revenue and expenditure optimisation; infrastructure financing, in particular land-based financing; and innovations within the sphere of metropolitan finance.

Cities are already operating in an unstable and difficult macro-economic environment, and this year have had to deal with the unexpected burden of Covid-19 and the associated lockdown, which resulted in lower revenue and additional responsibilities and costs. The pandemic has thrown into sharp relief the systemic problems affecting the ability of cities to achieve the policy goals of developmental local government and spatial transformation.

Just as the shock of Covid-19 has prompted many countries to re-examine the way in which societies are organised, it is perhaps time to review the way in which cities and other municipalities deliver on their constitutional mandate to provide services to communities in a sustainable manner.