BUREAU for ECONOMIC RESEARCH

Impumelelo GROWTH LAB

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What is going on in South African municipalities?

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Please refer to the glossary on the BER's **website** for explanations of technical terms.

Executive summary

The recent decision by the Minister of Finance to freeze payments to 69 municipalities has, once again, focused attention on municipal reform. Municipal reform is critical for economic success. In this note, we analyse the reform programme, highlighting that the missing link is appropriate intervention powers.

Municipalities are critical for growth: All growth must take place somewhere. Metros (city regions) remain the most important from a population and growth perspective. Therefore, as large metros continue to struggle, this starts to weigh on overall economic growth. There is evidence that suggests that growth is faster in better-run municipalities, highlighting the link between good governance and growth.

The current municipal problems are largely related to governance and financial management, rather than insufficient funding. Municipalities remain largely self-financing, generating around 75% of operating revenue from their own tax bases. However, they are increasingly unable to collect the revenue they bill: by December 2025, households and businesses owed municipalities R234.7 billion in outstanding consumer debt. At the same time, municipalities owed Eskom R70.1 billion and water boards R25.9 billion, creating a severe liquidity squeeze. As a result, many municipalities are unable to finance infrastructure investment and routinely underspend their capital budgets, even where funding has been allocated.

The reform agenda is going in the right direction. Finance Minister Enoch Godongwana's intervention shows that the National Treasury has decided to use the full force of its powers to improve governance, despite potential political headwinds and the upcoming Local Government elections. Operation Vulindlela 2.0's focus on trading services reform and the Local Government White Paper process is also welcome. We assess the White Paper's governance recommendations and its proposals to reform the municipal classification system. The White Paper has a range of excellent proposals, but it is not clear which will be prioritised and when. A shorter, clearly prioritised list of high-impact changes is arguably better than a long list.

We argue that there is a critical gap. The reform of municipal intervention powers under Section 139 of the Constitution has become a revolving door rather than a recovery mechanism. While the Constitution provides the government with the power to intervene when municipalities fail, the existing framework has proved ineffective in delivering lasting institutional recovery. Stronger intervention powers (particularly for appointed administrators) and more credible exit strategies are needed if interventions are to restore rather than postpone municipal failure.

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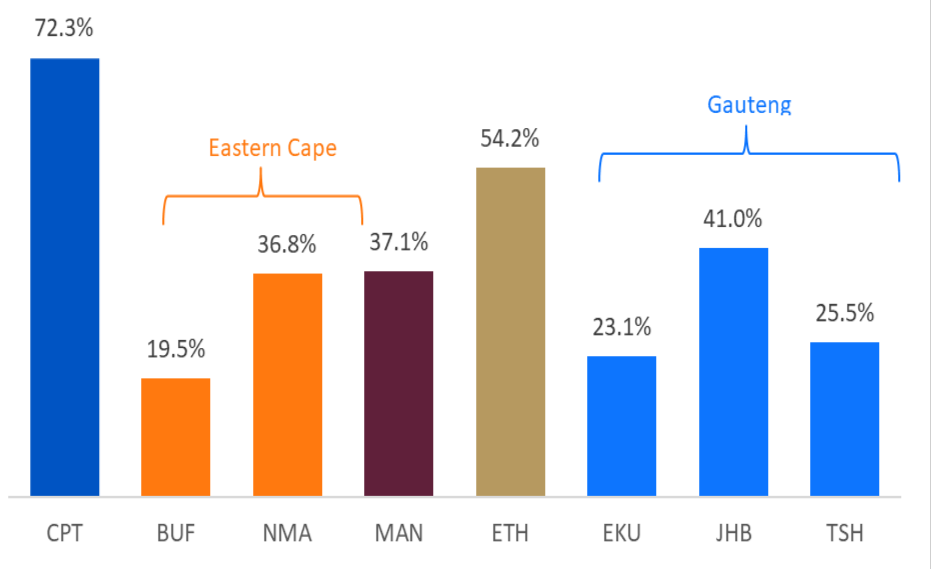
The changing role of municipalities

Economic activity is concentrated in South Africa's eight metros. Although metros account for only eight of the country's 257 local municipalities, they generate around 55% of national economic output and more than half of formal employment[1]. Within their respective provinces, their importance is even more pronounced. The City of Cape Town (CPT) produces more than 70% of the Western Cape's economic output; eThekwini (ETH) generates more than half of KwaZulu-Natal's output; while three Gauteng metros, Johannesburg (JHB), Tshwane (TSH) and Ekurhuleni (EKU), together account for almost 90% of the province's economic output.

The different types of municipalities

South Africa's Constitution establishes three categories of municipality. **Metros** (Metropolitan or Category A) municipalities are the sole authority in the country's eight largest urban areas, exercising both local and district-level functions. **Local municipalities** (Category B) cover the rest of the country and share authority with an overarching district municipality. **District municipalities** (Category C) coordinate cross-boundary functions — such as bulk water, sanitation and roads — across the local municipalities that fall within their area. See below for a discussion on proposed reforms to the tiered system.

Figure 1: Metropolitan municipalities dominate provincial economies
Share of Provincial Gross Value Added, 2025



Source: Quantec

Population growth has consistently followed economic opportunity. Over the past three decades, the eight metros have absorbed roughly half of South Africa's population growth, revealing that people continue to move towards cities despite increasingly unreliable municipal services, such as water supply interruptions and electricity outages and deteriorating road

[1] CITIES ECONOMIC OUTLOOK 2026

infrastructure. This reflects the continued concentration of economic opportunity in the country's largest urban areas, where jobs, firms and investment remain clustered. Therefore, when South Africa's largest municipalities underperform, the consequences extend far beyond service delivery. In addition, weak governance in these metros can disproportionately weigh on economic growth, employment, investment and even property markets.

There has been a slowdown in broader measures of economic activity. Real gross value added has grown only modestly across most metros over the past decade. Johannesburg and Tshwane each recorded average annual real growth of just over 1% between 2015 and 2025, while Buffalo City's economy stagnated over the same period. This shows that even South Africa's largest urban areas are expanding far more slowly than would normally be expected of cities that account for the bulk of the country's productive capacity.

Table 1: Real Gross Value Added (GVA) by metro

Rahgv	Metro	Average Annual Real Growth
1	Johannesburg	1.05%
2	Tshwane	1.05%
3	Mangaung[2]	0.78%
4	Cape Town	0.70%
5	eThekwini	0.48%
6	Ekurhuleni	0.31%
7	Nelson Mandela Bay	0.22%
8	Buffalo City	0.03%

Source: Quantec

Metros are also losing the employment advantage that has historically made them South Africa's primary engines of growth. Using a decade of South African Revenue Service (SARS) tax data, National Treasury's *Cities Economic Outlook 2026* shows that metropolitan employment growth outpaced the rest of the country between 2014 and 2017. Since then, however, this advantage has steadily eroded. Although employment growth has been weak across South Africa, the metros have increasingly grown at a pace similar to, or in some cases slower than, the rest of the country. This represents a notable departure from their historical role as the country's leading centres of employment and economic activity, where the benefits of agglomeration would ordinarily support relatively stronger job creation.

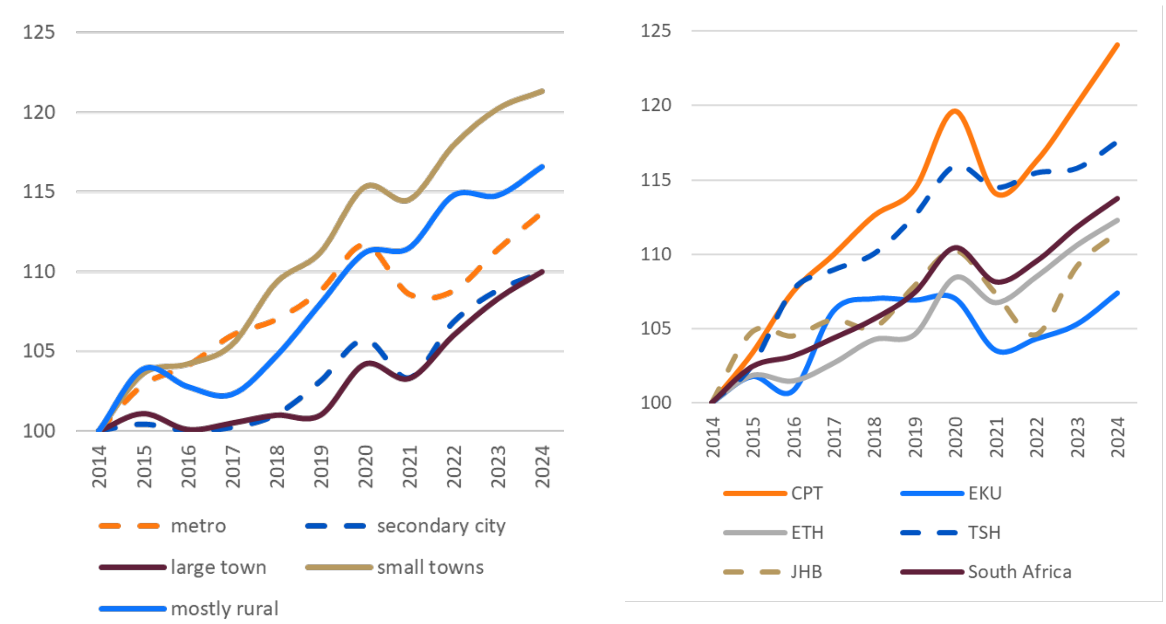
Post-2017 structural slowdown: The slowdown appears to have begun around 2017 and broadly coincides with the emergence of coalition governments in several major metros following the

[2] Mangaung is a partial exception, growing at 0.78% a year over the period, above several better-governed metros. GVA growth and institutional collapse are measuring different things; a regional economy can keep expanding even as the municipal administration serving it deteriorates to the point of a Section 139 intervention.

2016 local elections. Frequent changes in political leadership, weaker governance, delayed decision-making and deteriorating service delivery created a more uncertain operating environment for businesses. While these factors cannot fully explain the slowdown, they likely contributed to weakening the economic advantages that have traditionally underpinned metropolitan growth.

Post-2020 acceleration of the slowdown: The COVID-19 pandemic further accelerated this trend. Metros experienced deeper employment losses than the rest of the country as lockdowns disproportionately affected dense urban economies and service-sector industries. More importantly, the metros have not fully regained the advantage lost during the pandemic, suggesting that the shock had lasting effects rather than being a temporary interruption. The slower recovery reinforces concerns that structural weaknesses in governance and service delivery are increasingly constraining the economic performance of South Africa's largest cities.

Figure 2: Employment growth is fastest in small towns, while Cape Town leads the metros
Full-time employment index (2014[3] = 100)



Source: Spatial Tax Panel

Three channels through which coalition politics stalls delivery

1. **Repeated political leadership turnover disrupts budget and Integrated Development Plan (IDP) cycles.** Johannesburg alone has cycled through 11 mayors since the 2016 local elections. Each collapse forces the incoming administration to relitigate priorities rather than execute existing ones. Former city manager Trevor Fowler reportedly told EYEWITNESS NEWS that the pattern of rapid leadership turnover disrupts continuity and worsens

[3] The Spatial Economic Activity Data (SEAD-SA) platform structures its temporal panel datasets strictly around the standard South African tax year (1 March to 28 February)

infrastructure decay and governance failures. This is partly why unfunded and late-adopted budgets have become more common.

2. **Section 56 (senior) manager positions lie vacant or are plugged with temporary "acting" officials.** Nelson Mandela Bay is the starkest current case: city manager Noxolo Nqwazi has been on suspension since October 2023, with no disciplinary hearing concluded. The metro has cycled through five acting city managers since then, including a 14-day stint by the CFO after the mayor's own nominee was ruled improperly appointed. The suspended city manager has earned R6.7 million in salary over the past two years while on suspension, and for seven days in May 2026, the metro had neither a city manager nor an acting city manager, prompting the provincial government to warn of a full administrative takeover.

3. **Political leadership changes can create uncertainty around procurement and capital projects.** In 2018, Johannesburg's routine vehicle fleet tender was cancelled amid allegations of political interference, after Avis had scored highest as the preferred bidder. The contract was then redirected to a smaller operator, Afrirent, without a fresh competitive process. Afrirent's price, at R1.26 billion over two and a half years, was actually higher per month than Avis's rejected bid of R1.42 billion over five years: R41.8 million a month against R23.7 million, an increase of roughly 76%. National Treasury later ruled the replacement contract irregular.

Property markets can offer a market-based read on municipal performance. Residential property values have increasingly diverged across South Africa's metros, reemphasising how municipal performance can impact growth. According to the Residential Property Price Index (RPPI), Cape Town recorded annual price growth of 11.5% in January 2026 year-on-year, more than double Johannesburg's 4.7%. Semigration and tourism demand contribute to this gap, but its scale is difficult to explain without also crediting a premium for the relative reliability and predictability of the municipal environment.

Investment patterns reinforce this picture. Non-residential building plans, a useful proxy for private commercial and industrial investment intentions, remain heavily concentrated in municipalities where businesses have greater confidence in service delivery. Firms can postpone building a factory, warehouse or office far more easily than households can postpone where they live, making commercial building activity an early indicator of investor confidence in local institutions. The Western Cape, anchored by Cape Town, continues to attract a disproportionate share of this investment, while several municipalities with persistent governance challenges have experienced much weaker activity.

Figure 3: Building activity remains concentrated in better-performing municipalities

Number of buildings

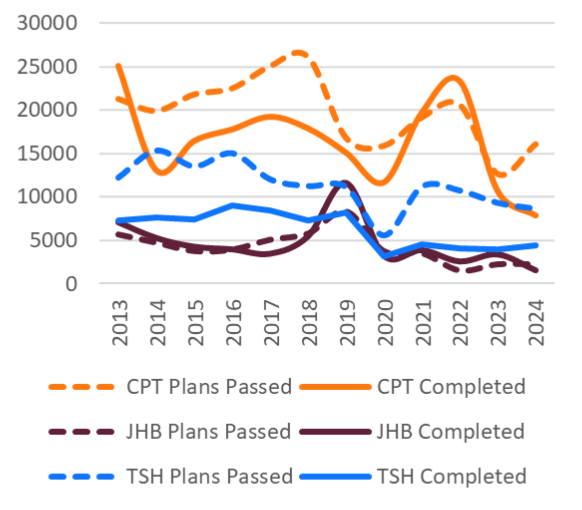
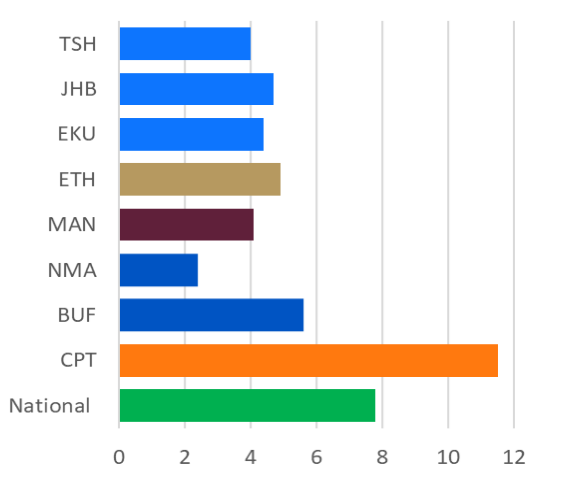


Figure 4: House prices increasingly reflect municipal performance

RPPI annual % change (January 2026)



Source: Stats SA

1. *Note: Plans passed (approved): Building plans approved by the municipality for proposed construction. This indicator reflects both developer investment intentions and the municipality's capacity to process and approve applications.*
2. *Completed buildings: Buildings that have been finished and officially reported. This indicator reflects actual realised investment and construction activity, typically occurring 12–24 months after plans are approved. As a result, completions generally lag behind plans passed*

Is the municipal crisis a money problem?

Municipalities are increasingly under financial pressure. On 7 July, Gondogwana announced the withholding of national government transfers to 69 local governments. Local governments were evaluated across a number of criteria before the decision was taken, including (i) whether or not they had an unfunded 2025/26 adjustment budget; (ii) their status with respect to unauthorised, irregular, fruitless and wasteful expenditure (UIFWE); (iii) outstanding amounts to third part creditors (e.g. SARS and the municipal pension fund); and (iv) outstanding bulk payments to either Eskom or the relevant water boards.

Nearly 70% of municipalities in the Free State, including the capital Manguang (Bloemfontein), had transfers delayed. The next-largest share is held by Northwest (57%, or 12 municipalities, including Mafikeng, one of the largest towns). The province with the fewest impacted municipalities was the Western Cape, with just three (Theewaterskloof, Laingsburg, and Beaufort West).

Table 2: Municipalities that had an equitable share delayed

	No. of Municipalities in Province	% of Municipalities in Province	Unfunded 2025/26 Adjustment Budget	UIFWE 30 April 2026	Auditor General	Pension Fund	South African Revenue Services	Eskom	Water Boards
.					Third Party Creditors			Bulk Creditors	
Eastern Cape	6	15.4%	1	5	1	1	2	2	1
Free State	16	69.6%	3	10	3	8	7	6	2
Gauteng	6	54.5%	1	5	0	0	0	1	4
KwaZulu-Natal	7	13.0%	5	4	1	0	0	3	0
Limpopo	5	19.2%	1	3	1	0	0	1	1
Mpumalanga	3	15.0%	0	0	1	0	0	1	1
Northern Cape	11	35.5%	1	3	1	3	1	3	2
North West	12	57.1%	0	6	5	4	3	1	2
Western Cape	3	10.0%	0	3	0	0	0	0	0
Total	**69**	**27.1%**	**12**	**39**	**13**	**16**	**13**	**18**	**13**

Source: National Treasury

This crisis is not primarily a funding problem but a governance and financial management problem. Municipalities have significant revenue-raising powers and, in aggregate, continue to generate most of their income from their own tax bases. The challenge is that too little of this revenue is collected, converted into cash and reinvested in maintaining and expanding municipal infrastructure.

Municipalities are primarily self-financing. Operating revenue from property rates, service charges and other own sources is expected to cover around 75% of municipal operating budgets. Most metros comfortably exceed this benchmark. In the first half of the 2025/26 financial year, the average metro generated between 80% and 90% of its revenue from local sources, with Buffalo City the main exception at around 73%. This demonstrates that the country's largest municipalities generally possess a substantial local revenue base.

National transfers have become relatively less over time. Stats SA data shows the national government's contribution to total municipal revenue fell from a peak of 33.3% in 2009 to 29% in 2020 and still further to 26.2% in 2025[4], even as direct transfers reached R170.3 billion in 2024/25 and the equitable share kept growing modestly in nominal terms over this period. Grant funding remains important, particularly for poorer municipalities, but the fiscal evidence does not point to declining transfers as the principal driver of municipal distress.

[4] A 20-year snapshot of municipal finances

Understanding how municipal financial flows work

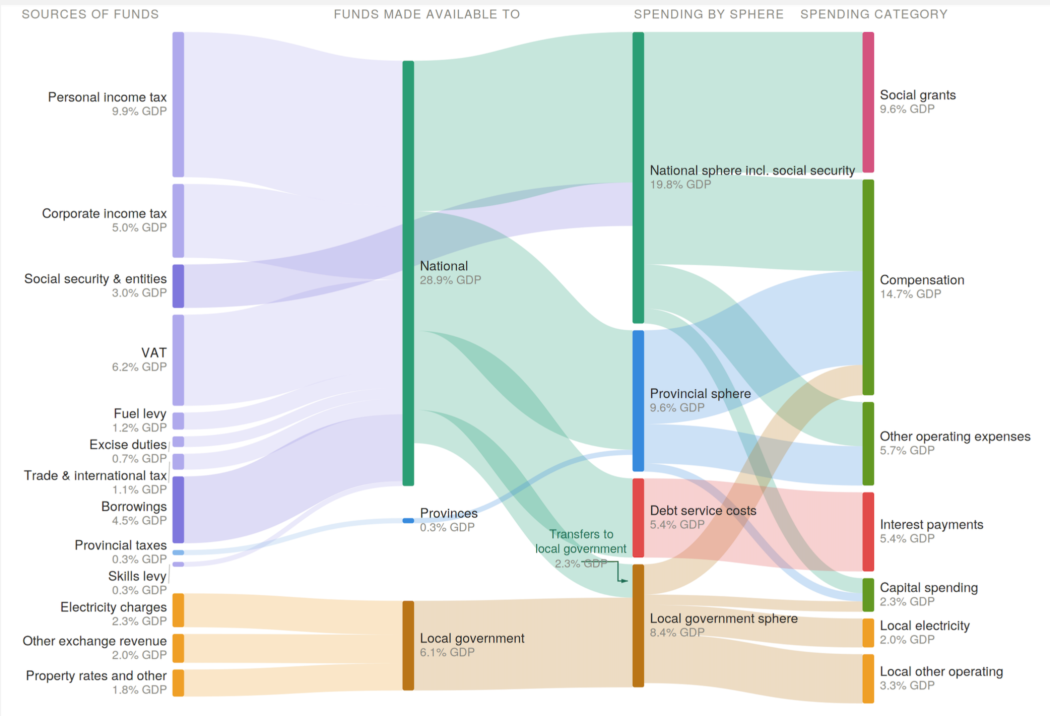
The figure below presents a unified view of the funding of the three spheres of government: national, provincial and local. Working from left-to-right it shows how money is raised and where it goes.

In the second layer, the sphere that raises the income is presented. Nationally raised revenue is approximately 29% of GDP, provincially raised is 0.3% and local government raises 6.1%.

How these are raised is laid out in the far-left hand layer. It highlights that local government collects less from the same rates base than national government. In 2024/25, the largest source of all raised revenue was personal income tax, at 9.9% of GDP. This can be directly contrasted with property rates income ("non-exchange revenue" at 1.8% of GDP).

National government does, however, transfer 2.3% of GDP to local government in the form of the local government equitable share and conditional grants. (This is around 9% of all revenue).

Box Figure: Where does the money come from and where does it go?

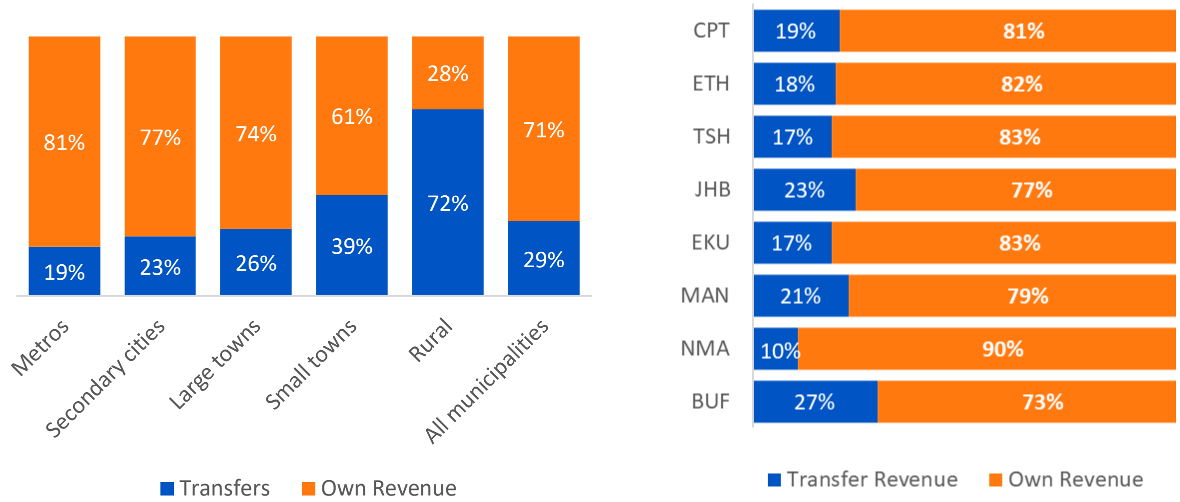


Sources: National Treasury Budget Review 2026 (Tables 4.2, 5.5 & Statistical Annexure Table 2, revised 2024/25 estimates); Provincial Budgets & Expenditure Review 2020/21–2026/27;National Treasury Consolidated S71 Q4 (Aug 2025). CIT includes dividends tax & other income (R52bn). % of GDP (R7 398.9bn), 2024/25

The figure also highlights the small share of capital spending by all spheres. Our estimate is that capital spending by all spheres is 2.3% of GDP, compared to compensation spending of 14.7% of GDP. This consolidated fiscal framework arguably needs reform – not only does there have to be improved revenue collection at local government level, but the composition of spending needs to change towards increased capital spending.

Finally the largest component of all spending by all spheres is compensation, which is approximately 14.7% of GDP.

Figure 5: Most municipalities have been able to generate sizeable own revenue



Source: Stats SA, Financial census of municipalities, 2020

Source: National Treasury S71 Reports Feb 2026 (unaudited)

The more fundamental problem is that municipalities increasingly fail to convert their revenue base into cash. Outstanding consumer debt reached R234.7 billion by December 2025, of which 81.4% had been outstanding for more than 90 days, well beyond any realistic prospect of recovery under MFMA norms. Johannesburg is in the weakest position, with almost 90% of its debtors' book older than 90 days. Importantly, much of this relates to non-payment for electricity, water and sanitation services, the very trading services expected to be the mainstay of municipal financing.

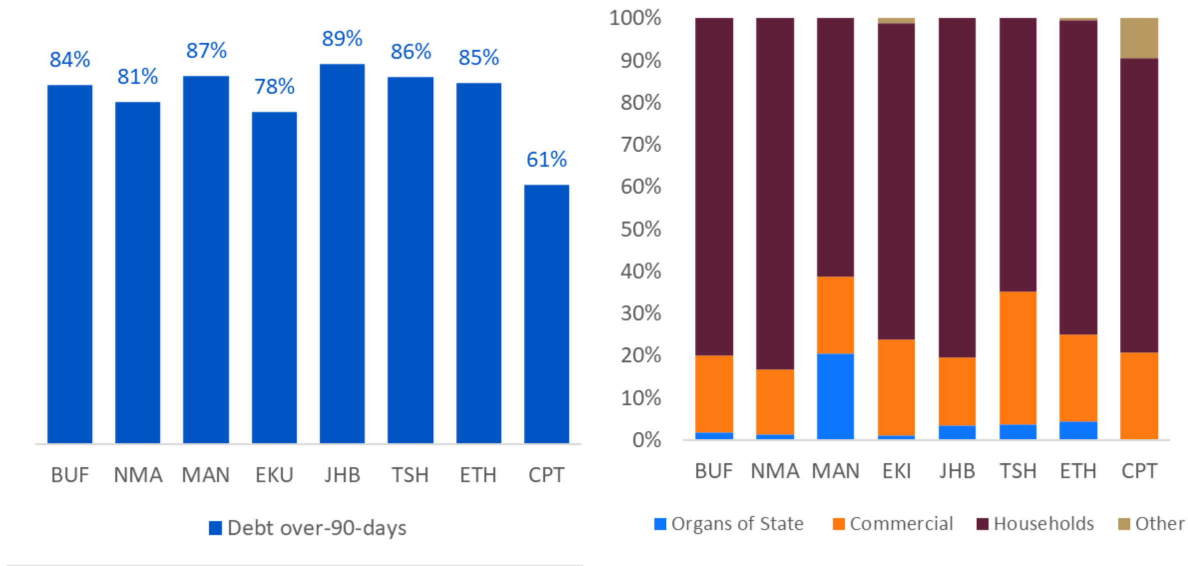
This debt pile-up is the visible symptom of a collection rate that has deteriorated across the board. Ratings Afrika's 2025 Municipal Financial Sustainability Index (MFSI) identifies low revenue collection as the major contributing factor to the current liquidity crisis, with municipalities collecting an average of just 83.9% of billed revenue nationally, against a benchmark of 95% regarded as the threshold for financial health. Metros perform only marginally better than local municipalities, averaging 85.3%. Johannesburg's revenue collection rate of 75%–82% sits well below even that metro average, and far below Cape Town's 96.6%, a gap that reflects an unwillingness or inability to collect money already owed rather than a harder underlying collection environment.

And the consequences are increasingly evident in municipal balance sheets. As cash inflows weaken, municipalities struggle to meet their own payment obligations, particularly to Eskom and the water boards. The Auditor-General reports[5] that Eskom is owed R70.1 billion by 96 municipalities, while arrears to water boards total R25.9 billion across 68 municipalities. Although the National Treasury had introduced a municipal debt relief programme in late 2023 to write off debt over three years, progress has been disappointing: of the 71 municipalities that

[5] CONSOLIDATED GENERAL REPORT ON LOCAL GOVERNMENT AUDIT OUTCOMES 2024-25

signed up, only 14 had met the programme's conditions by October 2024, and only 10 municipalities are currently compliant with their payment obligations.

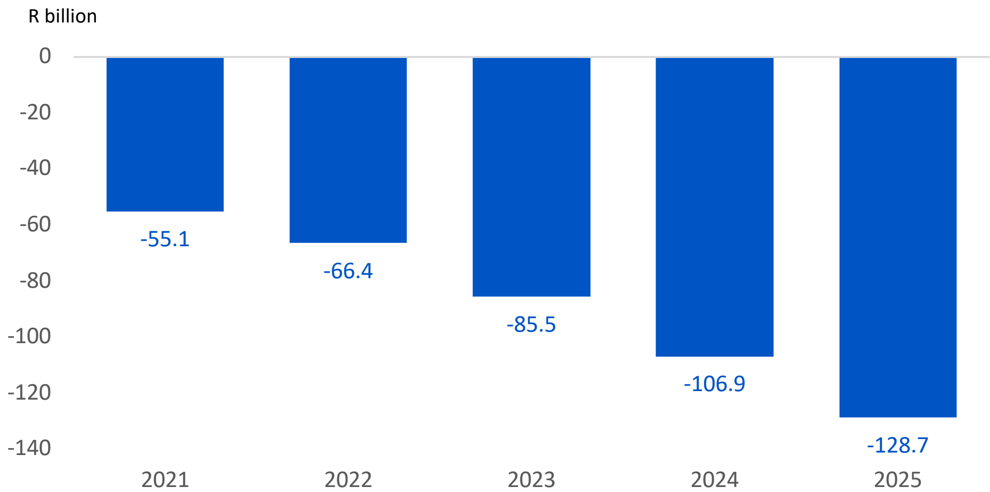
Figure 6: 90-day debtors age analysis: R197 billion in metro debt is effectively unrecoverable



Source: National Treasury S71 Part 4

Liquidity pressures further threaten the sustainability of municipal service delivery. Across local government, the Auditor-General reported a current ratio of just 0.86:1 for 2024/25, meaning municipalities held only 86 cents of current assets for every rand of short-term liabilities. The cash liquidity ratio was even weaker at 0.19:1, indicating that municipalities held only 19 cents in cash and cash equivalents for every rand of short-term obligations. Ratings Afrika similarly projected that liquidity pressures will continue to worsen as operating losses accumulate, revenue collection remains weak, and the economy remains sluggish. And so, without sufficient liquidity, municipalities defer maintenance, delay payments to suppliers and become increasingly unable to provide reliable basic services.

Figure 7: Municipal Liquidity Deficit has nearly doubled since 2021



Source: Ratings Afrika

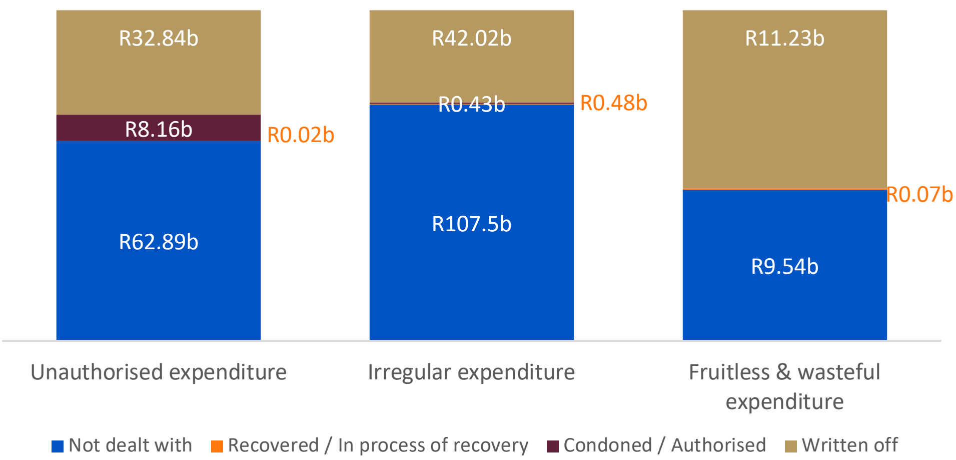
Additionally, some of the cash-flow crises trace back to a simpler, prior failure: municipal budgets that are unfunded from the moment they are adopted. Section 18 of the MFMA requires every budget to be covered by cash realistically expected to be collected that year, yet National Treasury's Section 71 report for the period 1 July 2025 to 31 March 2026 states plainly that it is common practice among most municipalities to inflate revenue projections to make excessive expenditure look affordable on paper. The scale is significant: total billed revenue by 31 March 2026 was R512 billion against a budgeted R717.2 billion, meaning the sector collectively overstated its revenue projections by close to 30%, roughly R200 billion, in a single year. When that gap materialises, municipalities are left having budgeted for cash they were never going to receive, and arrears accumulate in its place rather than the honest alternative of cutting expenditure to match actual revenue.

A municipality that both over-projects its revenue at the budget stage and then collects only around four-fifths of what it bills is operating on a fraction of the cash its budget assumed, which is precisely the mechanism behind the arrears and cash-flow emergencies documented elsewhere in this note.

These financial pressures increasingly crowd out productive spending. Employee compensation and bulk electricity purchases account for more than half of metro operating expenditure, while growing bad-debt provisions consume an increasing share of available resources. The result is that repairs, maintenance and other operational spending are often compressed as municipalities attempt to meet unavoidable operating costs. Rather than supporting infrastructure renewal, scarce resources are absorbed by the consequences of poor revenue collection and financial distress.

The persistence of UIFWE is less a reflection of weak legislation than of weak consequence management. The Auditor-General's findings explain why this persists. Firstly, many municipalities have not processed UIFWE cases through their Municipal Public Accounts Committees (MPACs), a delay that is frequently a function of coalition politics, where no governing partner wants to be seen pursuing consequences against another. Secondly, disciplinary boards remain inactive even when losses are confirmed, and, lastly, criminal referrals are rare. This is a clear example of how the absence of consequence management breeds non-compliance.

Figure 8: The Majority of UIFWE Cases Remain Unaddressed in 2024/25

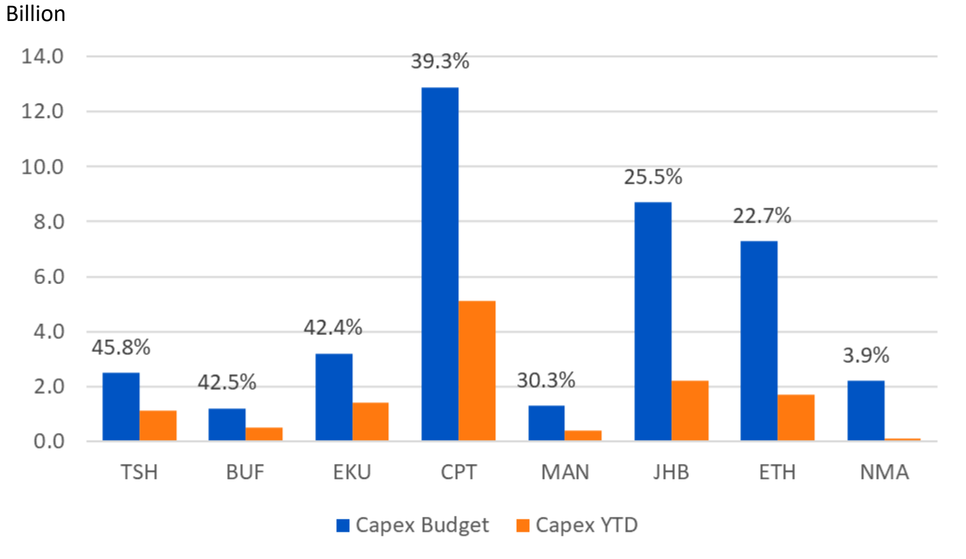


Source: Auditor General South Africa

The clearest evidence that municipal failure is not primarily a funding problem is capital underspending. Collectively, the eight metropolitan municipalities budgeted R39.2 billion for capital investment in 2025/26, yet had spent only 31.7% of that allocation by mid-year. (The South African municipal financial year runs from 1 July to 30 June of the following year.) No metro had reached 50% of its capital budget by December 2025. Nelson Mandela Bay had spent just 3.9% of its capital allocation, while even Tshwane, the strongest performer, had reached only 45.8%.

The problem goes beyond delays in building new infrastructure to the gradual deterioration of existing assets. The Auditor-General found evidence of underinvestment in maintenance across every metro. Capital spending remained below the National Treasury's benchmark[6], repairs and maintenance amounted to only around half of the recommended norm, and only 35% of capital expenditure was directed towards replacing or renewing existing infrastructure. This simply means that municipal assets are being consumed faster than they are maintained or replaced.

Figure 9: Capital Expenditure[7]: The money is there municipalities aren't spending it



Source: National Treasury S71 Reports Feb 2026 (unaudited)
Note: Year-to-date (YTD), July–December 2025.

The municipal reform agenda

In this section, we analyse the Operation Vulindlela 2.0 work programme for municipalities and focus on three areas: municipal intervention powers (which are not in Operation Vulindlela); trading services reform (which is) and the local government White Paper process.

[6] Capex spending below 85% of the capital budget constitutes a clear warning sign, according to the National Treasury.

[7] Source of revenue for capital expenditure: national government, provincial government, district municipality, transfers and subsidies, borrowing and internally generated funds

OPERATION VULINDLELA 2.0 IS A GOOD START, BUT DOESN'T GO FAR ENOUGH

Operation Vulindlela 2.0 identifies four flagship reforms. The list is a good one, but incomplete. Ahead of the announcement of OV 2.0, the BER outlined a set of reforms that could be undertaken in local government. These were largely reflected in the final Operation Vulindlela list:

1. *Shift to a utility model for water and electricity services to ensure financial and operational sustainability*. Widely known as "trading services reform", this is all about ring-fencing the large power and water entities within municipalities (particularly City Power and City Water in Joburg) to ensure that they are financial self-sustaining and make appropriate long-term decisions. .
2. *Standardise and professionalise the appointment of senior officials in local government.*
3. *Review the institutional structure of the local government system through an updated White Paper on Local Government*
4. *Review the funding model and functions assigned to local government, including the use of conditional grants*

This list is not exhaustive. Several additional workstreams are engaged in substantial research in the background.

Fundamental reform of intervention powers is not on the OV 2.0 list but, in our view, should be. The ongoing problems with the City of Johannesburg have once again highlighted that national government simply does not have sufficient intervention powers.

Much of what we outlined as problematic in 2024 (and also in an earlier note from 2021) remains the same. In the meantime, the deterioration of the city has focused attention on municipal intervention powers. Despite clear evidence that the city is in increasing financial and governance distress, the national and provincial governments have decided not to use their constitutional powers to intervene. Why? Well, the easy answer is that interventions in metros (e.g. Tshwane and Manguang) have not had the desired effects.

DEEP DIVE #1: WHY DO INTERVENTIONS NOT WORK?

The Constitution creates a system to put municipalities under administration. Section 139 of the Constitution allows the national or provincial government to intervene when a municipality cannot or does not fulfil its constitutional obligations, and mandates intervention when a municipality faces a financial crisis serious enough to threaten basic service delivery. In practice, this means the National Treasury (either of its own accord or through a province) imposes a financial recovery plan, assumes responsibility for its implementation, or, in extreme cases, dissolves the municipal council entirely and appoints an administrator. Where a province fails to act, the national government is constitutionally obliged to step in under Section 139(7). The framework was designed as a last resort, a mechanism to stabilise a municipality in acute distress and restore the conditions for normal governance.

In practice, however, Section 139 interventions have become a revolving door rather than a recovery mechanism. Since 2010, provincial governments have initiated 168 interventions across South Africa's municipalities[8], yet 38 remain active today, several having continued for more than five years, and others have cycled repeatedly through intervention. For example, Ditsobotla in the North West province has been placed under administration seven times under different provisions of Section 139, while about 13 municipalities have required intervention at least three times. Mangaung and Enoch Mgijima both deteriorated to the point where national government intervention under Section 139(7) became necessary.

Table 3: Section 139 intervention breakdown

Province	Total Interventions	Currently Ongoing	S139(5)/(7) Escalations	Resolved/Lapsed
Eastern Cape	18	**6**	**10**	12
Free State	13	**4**	**4**	9
Gauteng	6	**3**	3	3
KwaZulu-Natal	40	**6**	0	34
Limpopo	5	0	0	5
Mpumalanga	9	**5**	**5**	4
Northern Cape	4	**2**	3	2
North West	**63**	**8**	**10**	**55**
Western Cape	10	**4**	**4**	6
TOTAL	**168**	**38**	**39**	**130**

Source: COGTA S139 Interventions Register, March 2025

Three structural weaknesses help explain why interventions have struggled to produce durable recoveries:

First, political interference frequently undermines the intervention process itself. Administrator appointments are often contested, recovery plans become politicised, and implementation is delayed by conflicts between provincial governments, municipal leadership and political parties. In several North West municipalities, provincial interventions were ultimately overturned by the courts, prolonging governance uncertainty rather than resolving it.

Second, the legislative framework provides insufficient clarity over responsibility and accountability. The powers of administrators are often poorly defined, minimum competency requirements are not prescribed, and overlapping responsibilities between COGTA and the National Treasury frequently delay decision-making.

Third, interventions rarely leave municipalities with the institutional capacity needed to avoid future failure. Financial recovery plans generally succeed in addressing immediate fiscal crises, but they do far less to strengthen revenue collection systems, rebuild technical capacity or even improve governance. Once interventions end, municipalities frequently return to the same political and administrative conditions that caused the original collapse. Both the Parliamentary Budget Office[4] (PBO) and the **BER Impumelelo Growth Lab** have identified the absence of

[8] PROVINCIAL INTERVENTION IN LOCAL GOVERNMENT IN TERMS OF SECTION 139 OF THE CONSTITUTION AND THE MUNICIPAL FINANCE MANAGEMENT ACT AS OF 2010 TO DATE

credible exit strategies as one of the principal reasons why municipalities repeatedly relapse into financial distress.

The economic consequences extend well beyond the municipalities themselves. Three of South Africa's eight metros have experienced formal Section 139 interventions, yet none have produced a durable institutional recovery. Mangaung has remained under some form of administration since 2019. Nelson Mandela Bay exited intervention without resolving many of its underlying governance weaknesses, while Tshwane continues to experience prolonged political instability associated with repeated coalition collapses. When some of the country's largest urban areas remain trapped in governance crises, the national benefits of broader structural reforms become increasingly constrained.

Substantial strengthening of intervention powers is needed. A first step would be to increase the status of the "national or provincial representative" and appoint a senior, professional administrator who would then assume the powers of both the municipal manager and the chief financial officer. This would create legal certainty.

DEEP DIVE #2: METRO TRADING SERVICES REFORM

Electricity, water and sanitation services have historically operated as municipal departments and been funded out of the general municipal budget rather than as financially sustainable utilities. Revenue generated from these services has often been used to subsidise unrelated municipal activities rather than being reinvested in maintaining and expanding the infrastructure that generates it. The result has been deteriorating service reliability, growing infrastructure backlogs and weakening financial sustainability despite municipalities continuing to collect substantial service revenue.

Metro Trading Services Reform seeks to break this cycle by introducing greater financial discipline and accountability. Participating municipalities are required to ring-fence their trading services within dedicated business units or municipal entities, each with a clearly defined management structure, separate financial reporting, service delivery agreements and long-term investment plans demonstrating a credible path towards financial sustainability. By making the financial performance of trading services transparent, the reform aims to improve operational decision-making, strengthen infrastructure planning and ensure that service revenues are reinvested into the systems that generate them.

The reform represents a significant shift away from crisis management towards institutional prevention. Unlike Section 139 interventions, which are triggered only after municipalities have entered severe financial or governance distress, Trading Services Reform attempts to strengthen municipal institutions before failure occurs. Participation is voluntary, and all eight metros have chosen to participate. Implementation will occur in two cohorts over five years, supported through a combination of National Treasury oversight and performance-based grant incentives.

However, the reform does not fully address the broader governance failures identified throughout this note. Ring-fencing trading services can improve financial transparency and operational accountability, but it does not resolve weak political leadership, procurement failure, poor revenue collection or even project execution challenges. Nor does it eliminate the political instability that has undermined investment planning in several metros. These institutional weaknesses remain among the principal reasons municipalities struggle to maintain infrastructure and deliver reliable public services.

Additionally, there are also implementation risks. Municipalities develop many of their own Performance Improvement Action Plans (PIAPs), which can make performance targets achievable rather than genuinely transformational. Although the National Treasury and World Bank will monitor implementation, the effectiveness of this incentive-based approach has yet to be demonstrated at scale. Success will depend less on the design of the reform and more on whether municipalities consistently implement the changes needed to improve operational performance.

DEEP DIVE #3: LOCAL GOVERNMENT WHITE PAPER

A core component of the municipal reforms has been the initiation of a comprehensive reform package under the leadership of COGTA Minister Velenkosini Hlabisa. The main proposals are contained in the **Local Government White Paper**. In this section, we look in a little more detail at the White Paper's analysis, its proposed solutions and a possible way forward.

Timing of Reforms

The White Paper sets out two periods of reform which map to the next two local government election cycles: (i) 2026 – 2031 and (ii) 2031 onwards (i.e. following the next local government elections in late 2031 / early 2032).

The recommendations should be read with this in mind. Recommendations that might appear "urgent", e.g. the move to a more differentiated system between municipalities, may well be five years away.

What does the White Paper say are the problems?

The White Paper gives an unsparing and accurate account of the governance problems in municipalities (see page 37):

> *The crisis is not caused so much by flawed policy and missing laws…, but by leadership failures, abuse of the system, and weak enforcement.* ***South Africa's local government crisis is, in significant part, a crisis of political leadership and the behaviour of the political system****. The evidence highlights inconsistent political leadership, interference and manipulation by political parties outside council structures (referred to by many as the "invisible hand"),* ***patronage appointments, blurred political-administrative boundaries, unstable coalitions and criminality and unethical behaviour as central drivers of municipal failure.*** *A culture of impunity grows when parties and leaders (and officials) protect their own, excuse wrongdoing and avoid disciplinary action, even when the law is clear. In that environment, ethical councillors and officials are punished for doing the right thing, while corrupt individuals and networks learn that the risk of being caught or sanctioned is low.* ***Coalition dynamics intensify this problem. In many hung councils, instability is driven by tactical manoeuvres and repeated leadership changes****. Simple majorities can determine executive mayors who then appoint mayoral committees, reducing inclusive decision-making and creating strong incentives for short-term tactical political advantage over long-term service delivery. Accountability is also misdirected. Councils often fail to exercise effective oversight, especially when delegations to the executive or the administration are weak or ignored, while overall municipal accountability tends to flow "upwards" to political party structures or factions…*

That said, the White Paper is relatively thin on enforceable actions. Its list of recommendations on governance is provided as follows:

Table 4: White Paper governance interventions

Section	Recommendation	Summary	Comment
4.4.1	Ethical leadership and culture change	Political parties and councils must actively build a culture of ethical conduct.	Unclear how this would be enforced
4.4.2	Strengthen the Councillor Code of Conduct	The Code must be tightened breaches automatically escalated and standardised sanctions	It is unclear why this cannot be a legislative instrument, e.g. a regulation, with criminal sanction
4.4.3	Minimum competencies for council leaders	Nationally defined competency framework.	Support
4.4.4	Single national system for councillor induction and development	A standardised national training for all councillors,	Would improve skills
4.4.5	Public performance contracts for mayors and Member of the Mayoral Committee (MMCs)	Mayors and MMCs must sign public performance contracts	Would strengthen accountability
4.4.6	Clarify executive authority through differentiated delegations	Delegation frameworks must clearly separate the roles of council, mayor), and the municipal manager (administrative operations), differentiated by municipal type and capacity.	Agree, see note below on separation of Mayor and MMC for Finance roles with respect to the budget; and between mayor and municipal manager

Source: White Paper, BER Analysis

More practical recommendations

- **A clear separation between the finance role and the executive role**. Currently, the mayor tables the municipal budget. This is unprecedented: imagine if the president tabled the national budget, or the premier of a province tabled the provincial budget. A separate and accountable finance function starts with a separation. Section 21 of the MFMA vests all budget authority in the mayor, creating significant governance risks. Section 21 of the MFMA should be amended to separate the roles of the municipal councillor for finance and the mayor.

- **Clarify that any organ of state — not only the municipal council — can bring an action against a municipal official for financial misconduct.** Under Chapter 15 of the MFMA, the power to investigate and sanction an official for financial misconduct (including, per section 171(4), allegations against the accounting officer) vests exclusively with the municipality itself. The National Treasury has no legislative authority to discipline an official directly, even where it identifies a transgression. The VBS Mutual Bank case exposed the weakness this creates: officials at several implicated municipalities received corrupt payments to facilitate unlawful deposits, and the same councils responsible for holding those officials to account were themselves compromised, so self-policing failed. Amending the MFMA to give other organs of state , such as the National Treasury, the Auditor-General, or the Special Investigating Unit, the standing to institute disciplinary or civil recovery proceedings directly would remove this single point of failure.

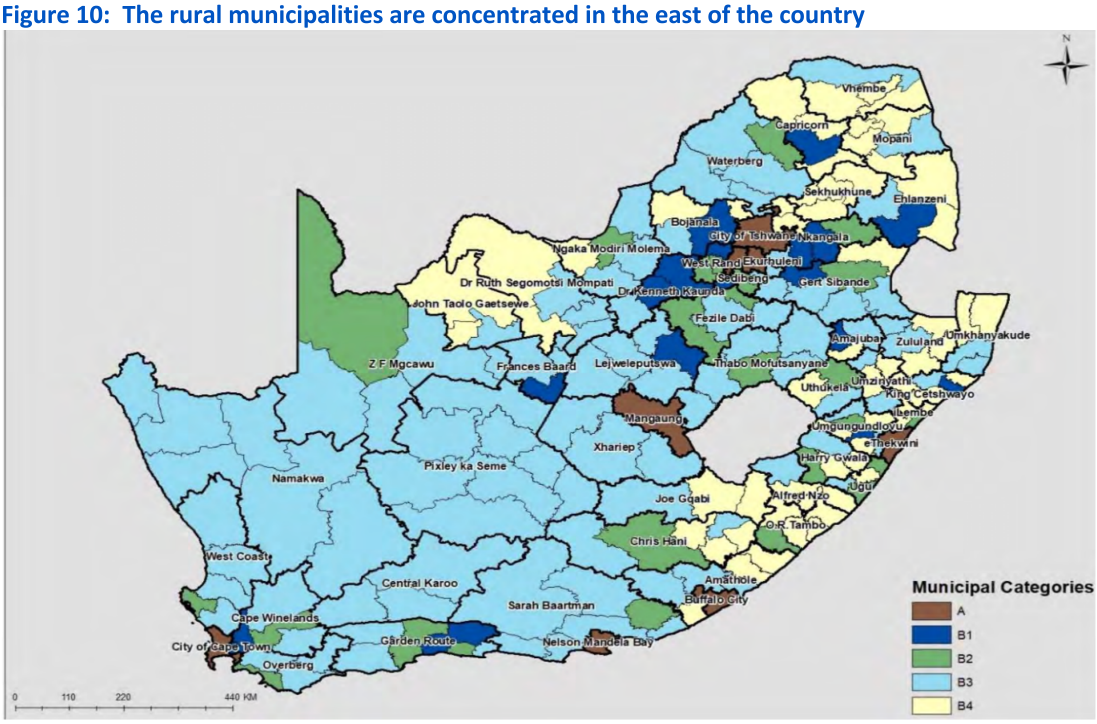
Recommendations for changing the current municipal classification system

Following 1994, 1 100 fragmented authorities were consolidated into the current 257 municipalities (8 metros, 44 districts, 205 local).

The rest of the country is in a two-tier system. There are 205 **"local municipalities" (Category B)**, each of which falls under a **district municipality (category C)**.

Although it is not formally part of the system, there are a variety of category B municipalities: There are 21 secondary cities (B1), large towns (B2), small towns (B3), and rural-focused areas (B4). Secondary cities include George and Stellenbosch, and can be quite significant economic hubs. The distinction between the various types of category B municipalities has limited practical application. For example, the different categories do not have different powers and functions, nor do the different categories receive different funding amounts. That said, it is widely used: Stats SA reports on the different municipalities, and the National Treasury publishes spending analysis based on the different classifications. Similarly, C1 and C2 are widely used ways to describe different types of district municipalities.

Figure 10: The rural municipalities are concentrated in the east of the country



Source: **StatsSA (2024) The state of basic service delivery in South Africa: Analysis of the Census 2022 data**. *Note that this relies heavily on Census 2022 data and there are a number of methodological concerns with the data, see, for example,* ***Moutrie and Dorrington (2024)***

The White Paper argues that, as municipalities vary, the one-size-fits-all allocation of municipal powers is significantly ineffective.

The most notable recommendations are

1. *Expand the Category A definition* (i.e. to create more single-tier municipalities). For example, some of the existing, successful, large secondary cities, such as George or even Stellenbosch, could become mini-metros with the same powers and functions.
2. *Formalise the sub-categories*. As noted, the subcategories of local government (B1-B4) and C1-C2 categorisations developed by the National Treasury are widely used and understood.
3. Over time, abolish the two-tiers (i.e. the distinction between Category B and Category C) entirely. In some cases, a local municipality may be merged into a district municipality and in other cases, a district municipality may be abolished.

The expansion of the number of Category A (metro-types) is a good step, but won't solve many of the problems. It is likely that well-functioning, large secondary cities will find a number of benefits from not sharing powers and functions with districts. For example, the Garden Route District Municipality includes large and relatively well-run local municipalities such as George and Mossel Bay, as well as municipalities that are currently under administration (e.g. Kannaland, which is centred around Ladismith).

In essence, a practical step is to create a Category A-2, i.e. allow the big category Bs to be a special type of metro. This will reduce one bureaucratic layer (the district municipality).

That said, it is unclear how this will assist service delivery. Municipalities that are in crisis are generally those with coalition governments. Restructuring municipalities is not necessarily a panacea.

Conclusion

South Africa's municipalities are too important to fail: they are where growth happens and where residents experience the state most directly. Yet the evidence in this note points to a governance and financial-management crisis rather than a funding crisis. Municipalities generate around three-quarters of their own operating revenue, but suffer from massive cash-flow problems, leaving capital budgets underspent.

The reform agenda is moving in the right direction, but prioritisation is the missing ingredient. Operation Vulindlela 2.0's focus on trading services and the White Paper's proposals to overhaul the municipal classification system both address real structural weaknesses. Without a short, clearly sequenced list of priorities, however, implementation risks stall under the weight of its own ambition.

Taken together, this note proposes ten priorities for municipal reform:

1. Strengthen municipal intervention powers by raising the status of the national or provincial representative and creating a full curator/administrator role that assumes the powers of the Municipal Manager and CFO, to create legal certainty.

2. Adopt the utility model for water and electricity trading services, ring-fencing entities such as City Power and City Water so they are financially self-sustaining.

3. Standardise and professionalise the appointment of senior officials in local government.

4. Review the institutional structure of local government through an updated White Paper on Local Government.

5. Review the funding model and functions assigned to local government, including the use of conditional grants.

6. Separate the finance and executive roles by changing section 21 of the MFMA so the municipal councillor for finance, not the mayor, tables the budget.

7. Give other organs of state — such as National Treasury, the Auditor-General, or the Special Investigating Unit — standing under the MFMA to institute disciplinary or civil recovery proceedings against officials directly.

8. Expand the Category A definition to allow well-run large secondary cities to become single-tier “mini-metros.”

9. Formalise the B1–B4 and C1–C2 sub-categories that National Treasury and Stats SA already use in practice.

10. Over time, abolish the two-tier system entirely, merging or removing district municipalities where they no longer add value.