RESTRUCTURING URBAN LOCAL GOVERNMENT IN SOUTH AFRICA: Options for the Central Witwatersrand Metropolitan Area

by
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ABSTRACT

Local governments in South Africa, particularly the Black Local Authorities, are in a state of crisis. The crisis is largely a manifestation of the Black Local Authorities' lack of political legitimacy, limited revenue base, and lack of administrative capacity, to name a few reasons. The government has recently come to accept that there is indeed a malaise in the system of local government which needs to be remedied.

Since 1990, with F.W. de Klerk's speech to the Cape Province Municipal Association, non-racial local government and a "single tax base" have been accepted as basic key principles to reforming local government. The idea of a "single tax base", which in its simplest form implies bringing formerly white and black areas under a single administration, arose from demands made by the Soweto Civic Association in the 1980s while protesting a racially based system of local government.

The nature of the Central Witwatersrand metropolitan area is such that reforming local government will need to go beyond the creation of a "single tax base" and non-racial government. There are major structural and fiscal problems that have to be addressed either by transfers from the central government or by creating a metropolitan government. In view of the enormous fiscal burden that redressing the injustices of apartheid will place on the central government, the latter option seems more realistic. A two-tier metropolitan government in the Central Witwatersrand is recommended to overcome existing structural deficiencies as well as to allow the assumption of greater local authority responsibility for redistribution.

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CHAPTER 1: INTRODUCTION

The current jurisdictionally fragmented system of urban government in South Africa is characterized by underlying racial segregation, lack of political legitimacy and unequal distribution of resources. This system, as it stands, cannot hope to meet the challenge of rapid urbanization, and at the same time address the backlogs in infrastructure that exist in communities that were bypassed by previous developments. Urban needs, therefore, cannot be fully met until the system is reorganized.

The critical question that needs to be addressed is: What can be done to improve the situation? While it is not the aim of the paper to define the precise fiscal and organizational structure that should be adopted, changing the present structure of local government is a necessary condition for facing up to the challenges that lie ahead. This paper will describe the problem and present the various options available for reform, including their main advantages and disadvantages, as they apply to South Africa and the particular context of the Central Witwatersrand metropolitan area.

Purpose and Significance of the Study

The Central Witwatersrand (Figure 1.1) forms part of a larger metropolitan complex, the Pretoria-Witwatersrand-Vereeniging (PWV), which is the largest city in South Africa with a projected population of 12.3 million people by the year 2000 (Urban Foundation, Urban Debate 2010). The Central Witwatersrand forms the economic core of the PWV. Even without Pretoria and Vereeniging, its projected population of 6.5 million people by the year 2000 would make it South Africa's largest metropolitan city (IDRC Mission Report, 1992). It is a high density area covering 1,045 square kilometers, with Johannesburg City at its core. It is a
Figure 1.1: South African Metropolitan Areas

Source: The Urban Foundation Urban Debate 2010
multi-centered metropolitan city made up of 4 White municipalities (Johannesburg, Randburg, Sandton and Roodepoort); 4 Black Local Authorities (Soweto, Dobsonville, Diepmeadow, and Alexandra); and 5 Indian and Colored Management Committees.

South Africa’s metropolitan cities have been compartmentalized into separate racial entities administered by separate local government structures, each with its own legal, administrative and fiscal base. These separate entities are, in fact, economically and socially integrated. Their separation was not a natural response to urbanization but, rather, a deliberate attempt by the government to create apartheid structures. The fragmentation was based solely on political reasoning, and no economic justification comes close to backing it up. To overcome the inefficiencies and inequities created by the old system, a new improved system that would mobilize and utilize available resources in a more efficient and equitable way is needed.

In restructuring the system of urban government, there are a number of goals and objectives that will guide the reform process. In pursuing these goals, however, there are certain challenges and constraints imposed by the country’s history and current make up that will have to be addressed. Together, these goals and challenges will inform and shape the design of a new organizational structure within the Central Witwatersrand metropolitan area.

**Methodology**

The thesis starts off with painting a picture of the current system of local government and how it has evolved over the years. The problems with the system are then discussed to make an argument for reform. Having set the context, the following questions are then addressed:
(1) What can be done to improve the system?

Restructuring of local government into non-racial units that share a fiscal base has come to be accepted as a way in which the system can be improved. This is based on the pressing need for ensuring an equitable distribution of resources and of representation of interests of formerly restricted sectors of the population. Although redistribution and non-racism are acknowledged as central to the reform process, there are other reasons why reform is needed. Together, these are identified as the goals of restructuring.

(2) To what extent can local governments take on their service responsibilities and independently pursue redistributive policies at the local level?

The analysis is then focused on the financial position of local government in the Central Witwatersrand. The sources of revenue available to the existing local governments are examined so as to highlight the differences in fiscal capacities of the White and the Black Local Authorities, thus showing why fiscal redistribution is needed. Redistribution here is defined primarily in terms of redressing the fiscal and service interjurisdictional inequities that exist within regions. Ideally, it is necessary to establish what potential exists for dealing with demand for services and infrastructure and pursuing redistributive policies. The lack of financial data on African townships and on future investment needs makes this task difficult to accomplish thoroughly. The financial discussion does, however, show the huge disparities in fiscal bases among the magisterial districts that make up the Central Witwatersrand, and thus their ability to redress the infrastructure and service needs of African communities varies considerably.

(3) What implications do the findings have for the structure of local government that is likely to evolve in the Central Witwatersrand given the goals of restructuring?

In light of the challenges facing the restructuring process, some form of a
metropolitan urban government will be necessary to achieve the stated goals. An argument is then made for a two-tier metropolitan government structure for the Central Witwatersrand, the exact nature of which will be influenced by an interplay of a number of factors.

**Thesis Outline**

Chapter 2 begins with a historical background of local government in South Africa. It traces the path of local government development, highlighting the influence of statutory racism on the existing system of local government. The shortfalls of the local government system, and of more recent efforts at reform in instituting genuine change, are then discussed.

Chapter 3 discusses the goals of restructuring local government in South Africa. Having set the context, South Africa's history is discussed as an issue that may pose a constraint to achieving these goals. The focus is on the lack of administrative capacity and the ongoing "rent boycott".

Chapter 4 takes the discussion further by focusing on the current state of the system of local government finance in South Africa. To gain a better insight into the differences in fiscal capacities of the White and the Black Local Authorities, the sources of revenue available to each and their performance are assessed. In trying to assess the adequacy of the fiscal base in meeting future needs, it is determined that the lack of complete data precludes any conclusive statements from being made, although certain key issues can be highlighted.

In Chapter 5, some of the considerations that have to be taken into account in the reform process are reviewed. These include: decisions about local government
functions; the adequacy of the fiscal base; correcting the fiscal disparities; and the politics of restructuring. Alternative institutional arrangements that can be put in place to replace the racially fragmented system of local government within the Central Witwatersrand will be evaluated, and it will be argued that the final structure will be shaped by an interplay of the factors mentioned above, particularly the politics, which are difficult if not impossible to assess definitively during a period of such rapid transformation.
CHAPTER 2: A HISTORY OF LOCAL GOVERNMENT IN SOUTH AFRICA

The system of local government in South Africa followed the national policy framework of statutory racism. This policy affected local government in two ways: first, it required the spatial segregation of races; second, it created racially based local governments to administer the racially segregated cities.

Spatial Segregation of Races

The government of South Africa as we know it today essentially came to being in 1910 under the terms of the South African Act of 1909. The Act created a unitary system with three tiers of government -- central, provincial and local. Table 2.1 provides a brief chronology of legislation and policy shifts that affected local government in significant ways.

Table 2.1: The Making of a Racially Fragmented Local Government System

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
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<tbody>
<tr>
<td>1909</td>
<td>South Africa Act: South Africa becomes a Union</td>
</tr>
<tr>
<td>1923</td>
<td>Native Urban Areas Act: development of African residential areas in urban areas</td>
</tr>
<tr>
<td>1930</td>
<td>Influx Control Policy: systematic control over Africans in urban areas</td>
</tr>
<tr>
<td>1950</td>
<td>Group Areas Act: strict spatial segregation of races</td>
</tr>
<tr>
<td>1971</td>
<td>Bantu Affairs Amendment Act: administration of African residential areas is removed from the White municipalities and transferred to government appointed Administration Boards</td>
</tr>
<tr>
<td>1976</td>
<td>Soweto Riots</td>
</tr>
<tr>
<td>1977</td>
<td>Community Councils Act: first attempt at creating decision-making structures within African townships</td>
</tr>
<tr>
<td>1982</td>
<td>Black Local Authorities Act: the creation of Black Local Authorities with full municipal status</td>
</tr>
<tr>
<td>1983</td>
<td>New Constitution: &quot;own&quot;/&quot;general affairs&quot; distinction initiated</td>
</tr>
<tr>
<td>1985</td>
<td>Regional Services Council Act: the creation of metropolitan bodies</td>
</tr>
<tr>
<td>1986</td>
<td>Influx Control abolished</td>
</tr>
<tr>
<td>1991</td>
<td>Interim Measures Act: provisions for the establishment of local negotiation forums</td>
</tr>
<tr>
<td>1992</td>
<td>Provincial and Local Authority Affairs Amendment Act: powers of Provincial Authorities increased</td>
</tr>
</tbody>
</table>
The South Africa Act of 1909, together with the Land Acts of 1913 and 1936 which established reserves for African occupation, defined three quarters of the country as "White" South Africa, to be occupied exclusively by Whites (McCarthy, 1992). Africans outside the reserves, that is in urban areas, were seen as temporary residents of "White" South Africa. They formed a labor pool with the sole purpose of serving in the mines and were expected to return to the reserves at the end of their labor contract. Africans in urban areas were housed in single-sex dormitories, known as hostels, provided by their employers or in separate residential areas.

Development of African residential areas outside the reserves, commonly known as townships, was legislated through the Native Urban Areas Act of 1923 (Planact, 1992). The Act gave the local authorities the power to set aside land for African occupation in specified locations, or request their employers to house them. To regulate the movement of Africans between the reserves and the urban areas, the government initiated an influx control policy in the 1930s, a systematic control over the number and composition of Africans in the urban areas. The pass law, a tool used to enforce influx control, required Africans seeking residence in the urban areas to have authorization from the labor bureau, which was granted in accordance with labor requirements in specific labor centers. The laws were designed to keep South Africa "White" by deporting what were considered "idle, dissolute and disorderly" Africans from "White" South Africa (Davenport, 1991:

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1 The terms African and Native are used interchangeably in this paper when making reference to the Black population group.

2 Hostels formed part of the broader view that Africans are temporary residents of "white" South Africa. They were designed as a measure of control over the African labor force and to prevent them from bringing their families into the urban areas.

3 The term "township" will be used throughout the paper when referring to African residential areas.
This was to be the South African policy with regard to African urbanization for over 50 years.

Strict racial segregation of South Africa's urban areas was only achieved after the National Party came into power in 1948 and passed the Group Areas Act of 1950 and 1966. The Acts transformed South African cities from "segregated cities" to "apartheid cities" (Lemon, 1992). It ensured separate residential and commercial areas for the four major population groups: African, White, Colored and Indian\(^4\), within towns and cities.

**Racially Divided Local Authorities**

**Single Institutions for Jurisdictionally Fragmented Cities**

Prior to 1971, each White-elected local authority administered the African township within its jurisdiction. Thus, within the Central Witwatersrand, the African township of Soweto was administered by the White local authority of the Johannesburg City Council (Mandy, 1991). Even though the African townships were treated as an integral part of the White local authority, the level of service provision was virtually nonexistent as compared with services for Whites. The view that "every African township ought to be regarded as a reservoir for native (African) labor from which the worn-out laborer must be required to depart when he no longer ministers to the needs of the White man" (Davenport, 1991: 9), meant that the standards of housing, infrastructure and services was low. African townships were financed from a limited fiscal base and transfers of income of any kind from the White administrators to the African townships was discouraged. The White municipalities were required by law to keep separate accounts. The White

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\(^4\) The author wishes to note that the use of such racial terminology is merely to illustrate statutory racism as it exits in South African institutions, even at the local level.
areas were financed from a healthy revenue base made up of revenue from property taxes levied on homeowners and business and industry, as well as the sale of utilities. The townships, by contrast, were financed by revenues from rents, fines, proceeds made from sorghum beer production and retailing, liquor sales, and levies on Whites that employ Africans (Davenport, 1991; Cameron, 1992). As property in the townships was owned by either the central government or the responsible White municipality, there was no revenue from property assessment. Also, industrial and commercial activities in the African townships were prohibited; as a result, the townships lacked the fiscal base enjoyed by their White counterparts. Administration and servicing of townships was largely dependent on profits made from the local government monopoly over liquor retailing in the townships (Christianson, 1993; Mandy, 1991a; Mandy, 1992; McCarthy, 1992).

All services were to be financed from local sources, and there were no intergovernmental grants to offset the differences in fiscal capacities. The result of such differential treatment was the creation of suburbs with very different levels of service, infrastructure and housing density within a single city. To illustrate this point, Mandy (1991) estimates the average population density in the four White suburbs that make the Central Witwatersrand to be around 25 persons per hectare, while that of the corresponding four African townships to be in the area of 200 persons per hectare.

**Political Centralization of Local Government**

In 1971, the government passed the Bantu Affairs Administration Act. The Act removed township administration from the White local authorities and transferred it to the government appointed White administrators (Christianson, 1993; Swilling et al., 1991). Under the administration of the Bantu Affairs Administration Boards (BAABs), official representation that was permitted to urban African residents was
through the Urban Bantu Councils (UBCs). The sole function of the UBCs was to advise the BAABs, but they never acquired enough administrative, legislative or financial power to be able to influence the decisions of the BAABs.

The government policy was to discourage African urbanization; therefore, the BAABs were given not only the task of administering the townships, but also of enforcing influx control. The creation of the BAABs followed the government's belief that some of the White local municipalities were obstructing the implementation of the state's policy on urbanization, and could therefore not be relied upon. The Johannesburg City Council's (JCC) Report in 1967 on the need to make more land available for township development to cater for the expected increase in population, and the council's habit of financing Soweto's deficit out of its general rates account, were regarded as hindering the state's efforts at preventing a permanent African urban population. According to Planact (1989), annual contributions made by the JCC to the Native (African) Revenue Account between 1946 and 1969 varied between R200,000 and R900,000, and in 1972, they reached a high of R2 million. With the takeover of the townships by the BAABs in 1973, such subsidies ceased to exist following the ruling that administration of the townships was to be on a strict fiscal self sufficiency basis.

To enforce the policy of influx control, the BAABs set out to reduce the number of housing units built in the townships. In fact, from the early 1970s, no new formal township housing for Africans was built (McCarthy, 1992; Mabin, 1991). Despite all these efforts, the state had very little success with its urbanization policy. The state's lack of success was apparent in the continued increase in the number of Africans living in the urban areas, and a massive growth in informal housing and subletting within the townships. Overcrowding of

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5 R1 = US $0.29 (March 1994).
township houses was reported to have reached more than 40 persons per four-room house in some parts of the Eastern Cape (Mabin, 1991).

The Beginning of Change

The government's strict policy was inevitably challenged, with the most significant uprising coming with the 1976 township revolt called "the Soweto riots". In the wake of the riots, the government commissioned an inquiry, the Cillie Commission. The commission found that one of the major cause of the riots "had been a resentment of the BAABs' actions and dissatisfaction with inadequate services and facilities" (Mandy, 1992: 121). In response to the findings, the government sought to create a new system of local government within the townships with the passing of the Community Councils Act (No. 124 of 1977). The BAABs were, however, retained and made responsible for the Community Councils (CCs).

The idea of CCs was sold as the establishment of structures with substantial power, performing functions in the townships that were previously the domain of the BAABs. In practice, the councils had very little power in administering and influencing decisions. They lacked the skills to properly administer services and, when they had opinions, they were totally ignored by the BAABs, who continued to hold responsibility for administering services (Christianson, 1993).

The CCs were instructed to come up with innovative ways of developing the townships despite limited revenue sources. At the time of their takeover, there were huge infrastructure shortfalls. For example, about 80% of Soweto houses were not electrified by the early 1980s (Swilling et al., 1991). The costs of electrifying Soweto were met by a loan undersigned by the government, to be repaid from future electricity revenues. This belated recognition of the permanence of African townships was such that Soweto residents are still paying
for the capital costs of the electrical system, adding to their electricity bill, while
Johannesburg's system has long been paid off.

To meet such challenges, the councils resorted to increasing rents\(^6\). The CCs were given this unpopular task at a time of political instability. The CCs became very unpopular with the residents; they were regarded as puppets of the South African government, designed to shore up the apartheid regime. Very few residents participated in electing the councils. Between 1968 and 1978, the percentage of people who participated in the local elections dropped from 34% to 6% (Lemon, 1992). The CCs were rejected by the very residents that they were supposedly representing; in fact, they became the targets of local hostility and many members were forced to resign fearing for their lives. The government responded to the failure of the CCs by passing the Black Local Authorities Act in 1982 (discussed below).

**The 1983 Constitution**

The current system of local government in South Africa is rooted in the same principles as the tricameral parliament defined by the 1983 Constitution; as a result, it is extremely complex and convoluted. The system is jurisdictionally fragmented along racial lines; imposed over it is a distinction between "own" and "general affairs". Whites have their municipal councils, Coloreds and Indians their management committees and Africans have the Black Local Authorities (BLAs). The 1983 Constitution defined the White, Colored and Indian local bodies as "own affair" institutions falling under the respective Minister of Local Government in parliament (Refer to Figure 2.1). The BLAs on the other hand were regarded as

\[^6\] The term rent is commonly used in South Africa to mean general municipality charges, service charges and house rent.
"general affair" institutions falling under the control of the government-appointed provincial government, via the Department of Constitutional Development and Planning (DCDP).

Figure 2.1: THE CURRENT STRUCTURE OF GOVERNMENT IN SOUTH AFRICA

The White Local Authorities (WLAs) have full municipal status. They render services, levy and collect tariffs and taxes, and can invest and borrow on the
capital market. To a certain degree, the WLAs are subject to controls over their financial practices. There are, for example, various statutes which prescribe what revenues may be exploited by the local government and on what that revenue may be spent.

The Colored and Indian Management Committees are also within the jurisdiction of the White municipality, but only as advisory bodies. They do not constitute independent local authorities and they continue to be administratively and financially under the direct supervision of WLAs. The fiscal non-viability of the Indian and Colored Management Committee can be traced to a clause in the 1983 constitution that stipulated that separate local authorities ("own affair") for the various population groups can only be established once adequate financial arrangements are put in place to ensure their viability (RSA, Constitutional Guidelines, 1982, quoted in Cameron, 1992). The responsibility of the Indian and Colored Management Committees is limited to the allocation of housing and business licenses, leasing immovable property, and levying certain fees and taxes.

The BLAs essentially came into being in terms of the Black Local Authorities Act (Act 102 of 1982), which created them as fully independent and autonomous units. The BLAs have corporate status, which theoretically grants them more powers than the WLAs. They have the power to render services, collect taxes, own land, lease land, invest and borrow on the capital market. In reality, the BLAs are subject to intervention and tight controls from the provincial and central government. According to Wolfson (1991), it is the provincial authorities that deal with land issues in African areas, not the BLAs.

**Criticisms of the System**

The 1983 Constitution and the "own/ general affair" arrangement was viewed by the government as devolution of administrative functions to the lowest unit, so that
all communities may govern and manage themselves (Cameron, 1992). The presentation of BLAs as African self-government was used by the government to justify the exclusion of Africans from parliament (Christianson, 1993).

The system of the BLAs was built on the underlying apartheid framework, and, as such, enjoyed little political legitimacy from the majority of the people it served. Right from the time of their inception, the BLAs faced opposition. There was a call from the Civics\(^7\) to boycott the first elections held in 1983, resulting in low voter turnout, such as 10.7% of registered voters in places like Soweto (Shubane, 1991). After the elections, a campaign led by the Civics to force the councilors to resign got under way. By the end of 1990, over two-thirds of councilors had resigned and been replaced by White administrators appointed by the provincial government; and, by 1992, over 40% of the 262 BLAs had collapsed (Transitional Measures for Local Government, 1993; Shubane, 1991).

In addition to having little political legitimacy, the plight of the BLAs was compounded by their limited revenue base, which included only rent and service charges. The financial problems of the BLAs were made worse by the rent boycott that started in 1984 when the township residents responded to rent increases by boycotting payments. Even without this boycott, the financial problems of the BLAs would have persisted. By the time the BLAs took over, the central government had decided to privatize the most traditional and profitable source of revenue for township administration, liquor retailing (Christianson, 1993). In addition, the service levies that were paid by White employers had been frozen. The only source of revenue for township administration that remained was the rent and service charges levied on residents. These charges weighed heavily on the

\(^7\) The Civics are grassroots organizations that mobilized around local public issues such as education, housing, health, transport and services.
meager incomes earned by township residents, yet they were not sufficient to cover township expenditures. Also, particularly after influx control was abolished in 1986, there was a mushrooming of informal settlements that had started taking place since the 1970s. The effect of this was a huge increase in the squatter population that strained the already limited revenue base of the BLAs by contributing to their expenditures but not their revenues.

Finally, the fragmentation of local authorities along jurisdictional lines made it difficult to provide certain services that are metropolitan in nature. The recognition that the provision of such services as electricity, transport, water and sewerage could not be divided by racial categorization and boundaries led to the creation of Regional Services Councils (RSCs) in 1985. The RSCs were presented as horizontal extensions of the primary local governments, in the face of opposition from the WLAs, who feared that the new institutions would undermine their autonomy. The RSCs, it was argued by the central government, were not a separate tier of local government, superior to the primary local governments. They were not envisaged as metropolitan governments, but rather as instruments of horizontal cooperation with the local units (Refer to Figure 2.1).

**Regional Services Councils**

Essentially, the RSCs were defined as multi-racial, decision-making bodies with a mandate to:

1) provide additional sources of revenue for local authorities
2) upgrade infrastructure in areas of greatest need and
3) provide "hardware" services such as electricity, water, sewerage and transport, to all local authorities.

The RSC Act of 1985 introduced two special levies, one based on turnover and a second based on the payroll. These provided major sources of revenue for the
RSCs. Both levies, which are on business rather than individuals, are set by the Minister of Finance. The first levy was initially set at 0.25% of profit, and the second at 0.1% of payroll. For the 1991/92 budget, 66% of the RSCs' revenue was generated from business profit, 28% from payroll and 6% from other sources including user charges for services provided (Croeser, 1991).

The Act provided a clause which stated that priority had to be given to "the establishment, improvement and maintenance of infrastructure services and facilities in the areas where the greatest needs exist" (Mandy, 1991: 87). The implication, then, was that RSCs are to serve as a redistributive agency by channeling resources to areas with the greatest need for infrastructure, the BLAs.

Also, the RSCs were to provide certain "hardware" services to all the local authorities within their jurisdiction, subject to approval from the provincial administrator. To date, the "hardware" services that have been taken up by the RSCs are water, electricity provision, and refuse removal, even though these vary from council to council depending on the local capacity to provide any of them.

Initially, representation on the RSCs was made up of White municipalities and the Colored and Indian management committees. Later, after the fiscal non-viability of the BLAs was acknowledged, the BLAs were able to join. The RSC policy was a major step towards redressing the service and fiscal disparities that exist between communities.

**Performance of Regional Services Councils**

Under the RSC Act, priority had to be given to areas of greatest need, so the financially strapped BLAs replaced the Colored and Indian management committees as priority areas. By 1993, substantial action had been made towards upgrading infrastructure in the African townships. For example, in 1987/88, the RSCs in the Transvaal Province allocated 68.5% of their levy income to
development in African townships (Christianson, 1993; Humphries, 1991a). The transfers were more pronounced in the larger metropolitan RSCs, partly due to the availability of funds and the willingness of the more liberal councils like the Central Witwatersrand RSC (CWRSC). For instance, in the CWRSC, the Minister of Finance approved an application for a 16% increase in RSCs’ levy rates while in Pretoria, the RSC was not allowed to increase its levy rates at all (RSC Report, 1992).

The assistance given by the RSC to the BLAs was only for capital projects -- it did not do much to provide funds for the BLAs’ day-to-day administration of the townships. To help the BLAs, the central government made the decision to provide BLAs with so called "bridging finance". Bridging finance was meant to close the gap between expected revenue and expected expenditure on services, administration (salaries), and loan repayments (Humphries, 1991), particularly as it became apparent that rent payments from the residents were not forthcoming. Initially, the bridging finance was treated as loans to the BLAs with repayment expected once their financial position improves. The funds for bridging finance initially came out of the budget of the provincial administrators, and was soon a regular account entry in their budget. Actual bridging finance given to BLAs in 1988/89 amounted to R474 million; R322 million and R428 million were budgeted for 1989/90 and 1990/91 respectively (Croeser, 1991; Mandy 1992). The RSCs in the Transvaal province had been under pressure from the provincial government to help bear the burden of "bridging finance". Although the Transvaal Provincial Authority (TPA) had suggested that 15% of the RSC levy income be used for this purpose, the RSCs in the Pretoria-Witwatersrand-Vereeniging area have found themselves contributing more than 50% of their levy income to the operating costs of the BLAs (Humphries, 1992).
Criticisms of Regional Services Councils

The system of local government that has emerged over years is complex and confusing. Although the system is characterized by a proliferation of units, this should not be confused with decentralization of power. Both the RSCs and the BLAs fall under the appointed provincial administrators. In 1986, the system of elected provincial councils (for White) was replaced by government-appointed councils. As they are government-appointed, the Provincial authorities are not accountable to the Provinces, but to the central government, making the notion of "devolution of power" a mockery (Cameron, 1992). Moreover, even though the RSCs are multi-racial, decision-making structures, they have limited autonomous powers and are still controlled by an underlying system of racially separated local governments; so, the RSCs are subjected to the same opposition as the BLAs.

The RSC Act was designed to prevent domination of the RSC by one large local government through various provisions: a) central business and industrial areas have no votes; b) two-thirds of a majority is required to take a decision; and c) no one local authority can have more than 50% of the votes. However, such conditions do not help much because of the skewed distribution of the voting power that exists in the RSCs. Local authorities are allocated votes in proportion to RSC funded services consumed by the individual local authority relative to other participating local authorities. The effect of such a system is to give power to the more affluent White municipalities. For example, Johannesburg with an estimated population of 944,746 had 40.3% of the voting power in the CWRSC compared to Soweto whose 1.5 million people had only 17.3% of the vote in 1990 (Lemon, 1992; World Bank, 1992).

Despite the fact that some RSCs have made substantial contributions towards the welfare of the townships, the fact is that the voting system entrenched White dominance. According to Christianson (1993), BLAs have never gained the two-
thirds majority on any RSC needed to reverse decisions, nor has this improved much with time. The voting power of Soweto, the largest municipality within the CWRSC, increased from 12.8% in 1988 to 17.3% in 1990.

**Recent Policy Changes: Towards a National Policy Framework**

The campaign launched by the Civics against the BLAs worsened the overall situation further. The success of their campaign made them a force to be reckoned with, and forced the municipalities across the country and the Provincial authorities to enter into negotiations with them. A statement made by the Minister of Planning and Provincial Affairs, Hernus Kriel, in May 1990, about possible local government options (Atkinson, 1991; Swilling et al., 1991), and the signing of the Soweto Accord\(^8\) with Cabinet approval in September 1990, set the framework for local negotiations throughout the country.

In October 1990, the government-commissioned Thornhill Report, which supported the notion that every locality should negotiate its own arrangement, was released. And, in 1991, the government passed the Interim Measures for Local Government Act (IMA), which made provisions for the establishment of local negotiation forums. The Thornhill Report and the IMA were rejected by major political parties, notably the ANC, primarily because they were seen as attempts by the government to save the racially based local government. The government followed the IMA with the Provincial and Local Authority Affairs Amendment Act in 1992, which, in essence, increased the powers of the provincial government in

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\(^8\) The Soweto Accord is an agreement between the Transvaal Provincial Administration (TPA), the three Councils that form Greater Soweto, and representatives from the Soweto Civic Association and the Soweto Peoples Delegation, to end the rent boycott; to write off the R500 million in arrears owed by residents; and to establish the Witwatersrand Metropolitan Chamber. The chamber, made up of the TPA, all the civics and the local authorities (WLAs and BLAs) within the jurisdiction, was a forum established with the sole purpose of investigating the formation of a non-racial government. It was, however, only a forum, and, although it could influence policy, it did not have the power to institute policy changes.
local affairs. The Act gave the provincial authorities the power to establish joint administration of cities, and also to cut transfers to African communities that refused to enter into local negotiations. Like the IMA, the Amendment Act was rejected. A principal reason for its rejection is that it does not address the underlying structural problems that face local government in South Africa.

In March 1992, the Local Government Negotiation Forum (LGNF)\(^9\) was formally launched with the aim of negotiating, at a national level, the future of local government. Non-racial local government and a "single tax base\(^{10}\), initially demanded by the Civics, have been accepted by the government and LGNF as basic principles to reforming local government. In addition, other goals of local government restructuring have been identified, such as functional effectiveness and administrative efficiency. The next chapter turns to a more detailed discussion of the major goals of the reform process.

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9 The Local Government Negotiation Forum is made up of a Statutory Delegation to represent the existing local government structures and a Non-Statutory Delegation representing the extra-parliamentary interest groups, such as the Civics.

10 "Single Tax Base" or "one city one tax base", has been demanded by the Civics and was supported by F.W. de Klerk in his speech at the opening of Parliament in 1990. The call was based on the argument that township residents contribute to the wealth created in the neighboring White areas, and, therefore, have as much right as their White residents to the resources. An example of creating a "single tax base" would be consolidating Johannesburg and Soweto into one fiscal base. A single tax base has, however, been interpreted differently by the major interest groups. Groups like the WLAs do not envisage changes in the current expenditure pattern, while the Civics have called for expenditure patterns to be equalized.
CHAPTER 3: THE REFORM PROCESS: GOALS AND OBSTACLES

Goals of the Reform Process

The future of local government in South Africa is currently being negotiated at the Local Government Negotiation Forum (LGNF). There seems to be consensus among the major players that the current system of local government, plagued by its underlying racial character and the resultant inequities, is not sustainable. In an effort to reform the system, a number of measures, such as the creation of a non-racial local government system and a "single tax base" have been accepted. Apart from these two, a number of other goals have emerged, including the improvement of redistribution; functional effectiveness; political legitimacy; and administrative efficiency. There seems to be no clear ranking of these goals by the major parties; however, the need to redress past injustices came up repeatedly in the interviews conducted for this research. It can safely be inferred that redistribution ranks high on the list.

Redistribution

One of the foremost goals of urban local government restructuring is redistributing wealth within a metropolitan city. Establishing an integrated revenue base, as the "single tax base" implies, would facilitate the redistribution of resources within the urban areas as a whole. The idea behind this is that all residents have an equal right to the resources contributed by business and industry. The new local government system must redress the disparities in infrastructure

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11 This discussion on goals and challenges represent the author's view, built on numerous interviews conducted with individuals that are well-informed about the debates on local government reform in South Africa, and on a report on the agenda for a meeting of the LGNF.
and service provision inherited from the past. Although redistribution is generally viewed as a central government function, local government has an important role to play by adopting a fair system for raising local revenues and expenditure policies geared towards the poor. In the South African context of restructuring from apartheid to democracy, revenues may come from all population groups, but expenditures must be especially directed to the improvement of the poorer, historically neglected, African population's living areas.

In addition to distributing wealth more equitably, local government must adopt an equitable system of charging for services. The current structure has strongly favored the WLAs with basic services like electricity. There are currently two systems by which electricity is being supplied in South Africa, both of which have been set up to the advantage of the WLAs. Under the first, the WLA buys electricity in bulk from ESKOM\(^\text{12}\) and resells it at a profit to the neighboring BLA. Under the second, both the BLA and the WLA buy from ESKOM; however, due to a number of factors, such as ESKOM's formula to calculate bulk supply of electricity, Soweto residents paid 9.7 cents per unit of electricity, while Johannesburg's residents paid 7 cents in 1987. The formula was designed to vary service prices with demand, such that different prices are charged at different times. The effect has been to reduce the price paid by local authorities with high off-peak consumption and thus a significant industrial demand for electricity. However, since Soweto does not have any significant non-domestic consumers, the domestic consumers pay more per unit of consumption. The formula is clearly based on legitimate efficiency grounds, but it cannot be justified as equitable.

\(^{12}\) ESKOM is South Africa's national electricity utility company.
Functional Effectiveness

The metropolitan cities of South Africa embody its history and politics. Even with a recognition that Africans are permanent residents of the cities, the racially separate parts of the city continued to be administered and planned in isolation from each other. South African cities have been divided using race as a criterion, a reflection of the politics rather than any sound economic principle. As discussed in chapter 2, such racial categorization has been acknowledged as an impediment to the provision of services that are metropolitan in nature. To that end, the RSCs were created. The RSCs are, however, legally not local government, but rather entities that perform some metropolitan functions.

There is, therefore, a need for a functional approach to restructuring local government. In adopting such an approach to restructuring, local government service responsibilities become the basis of reform. Local government restructuring gets informed by economies of scale, the need to internalize interjurisdictional externalities, and to consolidate local government efforts. Such principles are of particular significance to the optimal government size.

Political Legitimacy

As discussed in Chapter 2, the introduction of the RSCs was in part a recognition of the need to consider functional effectiveness in the provision of services and also to reduce inequalities that exist within cities. However, instead of integrating the city, the RSCs were superimposed over a structure of racially defined cities, each with its own government. Both the RSCs and the BLAs enjoy little political legitimacy purely due to this reason. Even the huge transfers from the RSCs have not been enough to improve the political legitimacy of the BLAs. The result has been a continued rent boycott to protest the racially defined system of local government. An issue that has been raised in the local government
negotiations is that it is impossible to resolve the rent payment issue as long as payments have to be made to the discredited BLAs.

As already noted, meeting the needs of traditionally African communities is at the forefront of the reform process. This translates into being responsive to the needs of these communities, and being held accountable to the communities being served. There is, therefore, a need for a local government structure, and a bureaucracy that will promote consultation with the community and adopt transparent procedures in their day-to-day administration.

**Administrative Efficiency**

The current racially fragmented system of local government has led to unnecessary duplication of facilities and efforts in order to provide for separation of races. There is a need to cut down on the costs of administration associated with this fragmented nature of local government. Local government salaries under this fragmented system have been shown by Croeser (1991) to account for an unusually high amount of local government expenditures, and consolidation would release some of these funds for local development.

At the same time, as discussed below, administration of the townships has broken down. Reorganization of local government should seek to consolidate local government efforts, to eliminate duplication, and also to even out the quality of administration.

**Existing Obstacles to the Reform Process**

Apartheid legislation has created fundamentally unbalanced cities, in both the physical and the financial aspects. In addition to the disparities that exists, the apartheid legacy has also created some structural phenomena that are bound to pose as obstacles to the reform process. The main aim of this section is to
outline the institutional constraints that are likely to inhibit the realization of the goals of the reform process. Two key institutional issues to be addressed relate to lack of administrative capacity in the BLAs, and the broader question of redrawing boundaries in creating integrated local governments.

**Administrative Capacity**

The structure of administration, the BLAs, in the traditionally African areas was created to address political concerns rather than to serve as instruments of service delivery. From their inception, the BLAs lacked personnel with appropriate training in administration. Instead of training the administrative staff, the BLAs were made to rely on seconded staff from the DCDP. Their poor fiscal base and the protest leveled against them exacerbated the situation, making it impossible for them to offer competitive wages and thus to attract skilled personnel. The result has been a very low-skill staff base and a weak managerial structure that have constrained the BLAs in carrying out their responsibility for service provision. Simkins et al. (1991) mention that a 1991 Auditor General Report tabled in Parliament stated that only 5 out of 259 BLAs had presented audited accounts for the 1989/90 financial year, an indication of the lack of administrative capacity characteristic of the BLAs.

The WLAs have well-trained and skilled personnel, and one administrative solution could be to pass on the responsibility of township administration to them. This has already begun to happen in some townships with the contracting out of township administration to neighboring WLAs or the appointment of administrators to oversee the running of the townships. Such a possible arrangement suffers from a number of weaknesses.

First, the use of White administrators would severely limit their effectiveness because they lack legitimacy in the African areas. One thing that we have learned
from the past is that the bureaucracy charged with administering the townships must enjoy some legitimacy to be effective in the provision of services and the collection of rents and service charges.

Second, the officials in the WLAs have been trained to view the African residents of the cities as constituents to be controlled, not served. They have not been trained to deal with low income residents and cannot conceptualize the needs of the poor. "Even if the politics change, maintaining the same White personnel would be maintaining the status quo" (Keane, 1993, interview). This may not pose as big a problem in more liberal municipalities that have been in the forefront of genuine local negotiations, but is sure to be problematic in the smaller Conservative Party controlled municipalities. Personnel will need reeducation to minimize the likelihood of sabotage of the redistributive programs, and to sensitize them to the needs of the African community and the poor.

Recent proposal to deal with the issue of political legitimacy also create problems. Some of the White personnel would have to be carried over to ensure administrative continuity and integrity. In light of the need to ensure a legitimate and representative bureaucracy, careful consideration must be given to the composition of local government. A recent proposal tabled at the Local Government Negotiating Forum (LGNF) would require 50% of local government personnel to be non-statutory\textsuperscript{13} and 50% to be statutory. While the proposal attempts to address the issues of representation, it does not seem to be democratic, nor truly representative of the population distribution.

The potential non-statutory members of local government staff, drawn largely from the Civics, would find themselves having to move from opposing the state to

\textsuperscript{13} The non-statutory component is taken to include the interest groups that are not part of the current government structure. The proposal stemmed primarily from the Civics who have spearheaded the protest around services and the call for a single tax base, and have been an important component of the LGNF.
being part of the state. This issue has already generated a lot of controversy within the Civic movement; there are major differences of opinion regarding the role of the Civics in a future democratic South Africa. Some Civics adhere to the notion that they should remain independent from the state as watchdogs, and others view Civics as local governments in waiting.

The proposal also suffers from another weakness: it does not address the non-statutory group's lack of appropriate skills. In solving the above-stated political issue, some of these potential administrators may have to concentrate on acquiring needed administrative training. In my view, the likely outcome in the Central Witwatersrand is that the Civics will participate in the new local government, therefore necessitating some form of training program. Initially, there would be some trade-off between administrative efficiency and ensuring legitimate democratic representation.

**Redrawing Boundaries**

In South African cities, there are huge disparities among municipalities in terms of level of responsibility and fiscal capacities. Not surprisingly, the more affluent interest groups tend to be resistant to change. Reforming local government and thus redrawing the boundaries is bound to generate a lot of controversy. There are signs that this is already happening in the Central Witwatersrand.

It is generally accepted in local government forums like the LGNF that for local government to become more effective and efficient, amalgamation of the existing White and Black Local Authorities must take place. Amalgamation is also seen as a redistributive tool. To these ends, there has been talk of a metropolitan government in South Africa's large cities. As Joan Fubbs put it (in an interview, August 1993), "it would seem that the concept of a metropolitan government is not problematic, but what raises questions is how it's going to be structured". Under
pressure for substantial reform and amalgamation, some WLAs in the Central Witwatersrand have literally gone out shopping for BLAs of their preference. For example, Sandton and Randburg indicated that they prefer to merge with nearby Alexandra township, excluding the other 3 BLAs that form Greater Soweto. It should be noted that Sandton and Randburg are acting in an understandable manner given the size of Greater Soweto's debt and their investment needs. The next chapter will go into details about the investment needs of the BLAs and the resulting implications of required increases in revenue from WLAs. It will be shown, for example, that Greater Soweto will place a huge financial burden on the existing WLAs. Randburg and Sandton, as discussed above, have indicated a preference for a local rather than a metropolitan strategy in an attempt to avoid sharing this burden. Chapter 5 will discuss the various metropolitan arrangements possible within the Central Witwatersrand context.

"The Rent Boycott": An Example of Constraints on Reform

Calls for a "single tax base" and/or some form of a metropolitan government are a commonly proposed solution for merging the revenue-generating capacities of WLAs and meeting the financial need of the townships. Ironically, in view of the unequal total revenue-generating capacity between the townships and White areas, one of the most significant issues to be resolved is the continuing "rent boycott" in the African townships. The "rent boycott", another outcome of the history of South Africa, is a serious concern that deserves special attention. The poor fiscal base of the African areas, resulting from a number of structural weaknesses, has been further eroded by the long-standing boycott of rent and service charges. Heymans (1990) estimated that 75% of the Soweto City Council's total debt was due to these outstanding charges; the absolute value of arrears from rent and service charges was estimated at R516 million in 1990 (Financial Mail, October 8, 1993).
In 1990, following negotiations among the city councils that make up Greater Soweto, the TPA and the Soweto Civic Association (SCA), the city councils agreed to write off the debt and release the residents from any obligation to pay the arrears, and the SCA passed a resolution to end the rent boycott. Despite the signing of the accord, however, the rent boycott continues. Although the SCA confused the issue by calling for a renewed rent boycott in April 1992, the problem of non-payment goes beyond this action. In my opinion, the rent boycott has resulted in subsidized service provision which township residents have come to view as their right. The rent boycott has gone on for far too long to expect residents to resume payments overnight. In some areas of Soweto, it has been close to 10 years since residents paid rent; there is a culture of non-payment that will take some time to rectify. Current estimates are that only about 10% of Soweto households pay rent and service charges (Financial Mail, October 8, 1993).

To become financially viable, local government must successfully end the rent boycott. The failure to charge for services and to operate them efficiently would make service provision financially weak and in turn lead to poor service provision. On the other hand, getting payments of service and rental charges going again will be undermined by the long-standing lack of consistent service provision and accurate metering in the townships. The BLAs' lack of administrative capacity made it impossible for them to produce accurate accounts. This, coupled with their poor financial status, result in unreliable provision of services, as measured by breakdowns in services and the government's slow rate of responsiveness. Unless services are improved, payments of service and rental charges will not be forthcoming in large numbers. A program of service and infrastructure investment in the townships, as proposed in the World Bank Urban Reconnaissance (1993), will hopefully break the rent boycott and pave the way for a pricing policy that is designed to be efficient and equitable in the provision of services.
The task will, however, be made more difficult by the lack of service metering, particularly for water, in some areas. Planact (1989) reports that only 30% of Soweto houses are supplied with meters to measure water consumption, thus making benefit-related at best imprecise. This raises two issues that will have to be addressed: First, the economic feasibility of metering the remainder of the households, including the informal settlements, will have to be assessed. Second, introducing a system of separate user charges for water could be regarded by users as being unfair, since for a long time, water was viewed as free as its cost was incorporated into the house rent.

The boycott, however, is not only an economic issue; it is related to the lack of political structures discussed earlier. Residents cannot be expected to start making payments to the very people and government that they have opposed for a decade. Local government, however, cannot financially afford to wait until a new form of government has been devised and put in place. Some form of payment procedure has to be devised as an interim measure to get the payments going. In the long run, a legitimate structure must be created to be able enforce penalties for non-payment.

Legitimacy now seem to exists largely with the Civics in the townships. The ambiguous status of the Civics vis-a-vis government causes them to act inconsistently. In my opinion, the Civics have to stop swinging back and forth in this matter. They are part of the equation, and their opinion still holds strong in some communities. As a result of their indecisiveness, residents are not always sure when the rent boycott is on and when is not. In turn, even residents who could afford to pay for service and rental charges do not do so for fear of intimidation. If Civics are to be part of the new administration, such indecisiveness has to come to an end, or it would be difficult for them to participate meaningfully in future local government arrangements.
With or without the rent boycott, the history of apartheid has created a financial crisis in local government. In the Central Witwatersrand, the crisis is not only in terms of the importance of improving performance of the BLAs, but also in terms of the need for an overall restructuring of local government. Although the current situation harms all local governments, some are more affected than others. More details on the finances of local government and the financial issues surrounding restructuring are discussed in the next chapter.
CHAPTER 4: THE CURRENT SYSTEM OF LOCAL GOVERNMENT
FINANCE

As discussed in previous chapters, the local government financial crisis is most directly felt in the BLAs. The crisis also affects the WLAs, however, because they are expected to shoulder a large portion of the effort at redressing the service and infrastructure shortfalls that exist in the African townships.

The purpose of this chapter is to examine the sources of revenue that are available to local governments. This first section presents a summary of the overall revenue system of local governments in South Africa and more detailed analysis of data on the Central Witwatersrand. The data used are aggregated data for the 4 White municipalities in this area: Johannesburg, Randburg, Sandton and Roodepoort. It is worth noting that this aggregation hides differences in the fiscal capacity that exists across the municipalities, particularly when the African population within each jurisdiction is considered. These differences, and their implication for the structure of local government that is likely to evolve as reform proceeds, are discussed in the last section.

The analysis in this chapter is largely focused on WLAs due to lack of data on BLAs. Comparisons are made between WLAs and BLAs where possible. These comparisons indicate that the WLAs in the Central Witwatersrand have access to a considerably wider and more productive range of revenue sources than the BLAs.

Local Government Revenue System

White urban local governments in South Africa have access to four sources of revenue: non-tax revenue, tax revenue, intergovernmental grants from the central and/or the provincial government and borrowing. The BLAs’ sources of revenue are non-tax revenue, intergovernmental grants and, in theory, borrowing.
Non-Tax Revenue

Table 4.1 shows the composition of current revenue in the WLAs in the Central Witwatersrand. Non-tax revenues, which make up the largest contribution to the total income of local governments in the Central Witwatersrand, come mostly from trading services, for example water, electricity, sanitation, transport services, domestic refuse removal, and produce markets. The tariffs of most of these services are set at a rate that is expected to yield a profit. The most significant trading services are electricity, water and sanitation, which together accounted for 63.5% of total revenue for the 1991/92 budgets of the four White municipalities that comprise the Central Witwatersrand (World Bank Unpublished Data).

Table 4.1: Composition of Current Revenue in WLAs, Central Witwatersrand (Percentage of Total Current Revenue) 14

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<tr>
<td>Non-Tax</td>
<td>64.0</td>
<td>65.1</td>
<td>65.8</td>
<td>61.6</td>
<td>63.5</td>
</tr>
<tr>
<td>Local Tax</td>
<td>19.3</td>
<td>19.1</td>
<td>17.9</td>
<td>22.8</td>
<td>20.4</td>
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<tr>
<td>Operating Grants</td>
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<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Interest</td>
<td>13.3</td>
<td>12.5</td>
<td>13.0</td>
<td>12.3</td>
<td>12.7</td>
</tr>
<tr>
<td>Other</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
<td>1.9</td>
<td>1.9</td>
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Trading service revenues have grown in the aggregate with population, but this increase has not kept pace with inflation. Per capita figures (Figure 4.1) show that aggregate revenue from trading services grew at an average rate of 14.3%, lagging behind the 15% average rate of inflation. Breaking the total down to specific service categories reveals that electricity and other services grew at rates less than

14 Figures may not add up to 100% due to rounding.
Figure 4.1: Trading Services: Average Growth in Per Capita Income of WLAs in Central Witwatersrand, 1988-1992

the inflation rate, while water and sewerage sustained real growth. Figure 4.1 shows growth in electricity revenues was 11.2%, while that of water was 23.2%. With a growth rate of 33.8%, sewerage recorded the most significant growth. Such impressive growth rates in water and sewerage were, however, not enough to offset the weight of a real decline in electricity revenues, which account for over 60% of the trading service's revenue. In spite of the real revenue decline, surpluses on trading accounts showed positive real growth, an issue to which we return later.

Data on non-tax revenues of BLAs are not available to make comparisons with the WLAs. However, secondary data on the finances of BLAs reveal a loss in non-tax revenues even without the rent boycott (Planact, 1989). For example, while the WLAs always show a surplus on their electricity account, the BLAs always show a deficit (Planact, 1989; Swilling et al., 1991).

**Tax Revenue**

Table 4.1 shows tax revenues as the second-most important source of income for WLAs. Tax revenues are made up of property tax levied on homeowners and business and, more recently, the RSC tax on business discussed in chapter 2.

Local taxes have not only retained their position as the second-most important revenue source in the Central Witwatersrand, but have also grown in importance. From 19.3% of total revenue in 1988 to 20.4% in 1992. Table 4.1 shows, however, that the trend was not a linear one; it started on a declining note, then picked up again in 1991. Such fluctuations are typical of property tax revenues, with increases following property revaluation. In this case, the revaluation of assessed property began in 1989 with Randburg, followed by Sandton and Johannesburg in 1990, and Roodepoort in 1991 (World Bank Unpublished Data, 1993). The huge jump in tax revenue in 1991 follows revaluation in municipalities with a large property tax base, namely Johannesburg and Sandton. Per capita figures for the
same period, 1988 to 1992, also show a real increase. They registered a 24.4% growth rate over the period, well over the 15% rate of inflation rate (World Bank Unpublished Data, 1993).

A more detailed breakdown of tax revenue reveals that residential property rates revenue makes up only 30% of total rates revenue in the Central Witwatersrand (World Bank Unpublished Data, 1993). Compared to an average contribution of 50.8% for smaller local authorities elsewhere in the country, the share of residential property tax revenue for the Central Witwatersrand is very modest (Croeser, 1991). This low contribution can be attributed to the concentration of business, commerce, and industry in this area. These municipalities also offer property tax rebates to their residential ratepayers, further reducing the contribution of residential property tax payments.

Since the council-built houses in the townships are government-owned, and industrial and commercial activities in the townships were prohibited, the BLAs do not have a property tax base. The rents (house and site rent) charged to township residents are an equivalent of rates, in that they are property-based revenue meant to help finance general services (Planact, 1992). Even though there are no data available on this source of revenue, it is evident that the low incomes of the residents preclude the BLAs from charging rents commensurate with assessment rates in White areas.

**Intergovernmental Grants**

The third source of revenue for local governments is grants from the central and provincial governments. Smaller White local governments with weaker fiscal bases received about 6% of their income as grants from the central or provincial government (World Bank, 1991), while the bigger, more financially sound local governments, such as those of the Central Witwatersrand, received an average of
3% of their total income as grants in 1992 (See Table 4.2). The WLAs' low reliance on grants can be attributed partially to the central government provision of services like education and health care and partially to their relatively good local revenue base.

Table 4.2: Intergovernmental Grants to WLAs, Central Witwatersrand (Percentage of Total Own Revenue)

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<tbody>
<tr>
<td>Operating Grants</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Capital Grants</td>
<td>2.3</td>
<td>3.6</td>
<td>2.4</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Total</td>
<td>3.6</td>
<td>5.0</td>
<td>3.7</td>
<td>3.2</td>
<td>3.0</td>
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</table>


In recent years, grants have been an essential part of African township administration. Grants to townships have been in use since 1976, administered by the Administration Boards with the aim of easing the Community Councils' takeover of township administration. The grants introduced in the 1980s were intended to subsidize the BLAs in the wake of the rent boycott, and now keep township administration from falling apart until a new system of local government is negotiated.

The size of the grants has grown substantially since the provincial governments took over their administration in 1987. The proportion of grants to all local authorities, BLAs and WLAs, increased from 5% of total local government revenue in 1980 to 17% in 1990 (Croeser, 1991). The increase in grants as a proportion of total local government revenue has largely been due to the increased reliance of BLAs on "bridging finance", which was discussed in the previous chapter.
**Borrowing**

The fourth source of revenue for local government is borrowing from the domestic and international capital market for the financing of major capital expenditure programs. The national average contribution of external capital revenue to total overall income dropped from 6% in 1980 to 3% in 1990 (Croeser, 1991).

The main source of capital revenue for the WLAs in the PWV is the Consolidated Loans Fund (CLF). The CLF consists of accumulated funds built up within the municipality, which include surplus income, reserve funds and working capital (Simkins et al., 1991). The municipality accumulates funds which are used by the various departments within the municipality to finance capital expenditures.

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</thead>
<tbody>
<tr>
<td><strong>Internal Financing</strong></td>
<td>89.2</td>
<td>93.1</td>
<td>93.9</td>
<td>90.6</td>
<td>90.6</td>
</tr>
</tbody>
</table>


In a study of municipalities within the PWV, Simkins et al. (1991) detected a marked preference for internal financing of capital projects as opposed to using the capital market. The data on the Central Witwatersrand (Table 4.3) confirm these findings. These local authorities would rather borrow from their CLF and face interest rates lower than the market rates. Larger local authorities have the freedom to set their own interest rate on money borrowed from their CLF while smaller local authorities have to accept the interest rate set by the Local Authorities Loan Fund\(^\text{15}\) at the beginning of each year. In 1991, this rate was 16.01%, compared to

\(^{15}\) The Local Authorities Loan Fund is a national fund. Although much older, it was capitalized by the Central government with a large contribution in 1984.
10.9% set by larger local authorities for themselves.

Capital revenue in South Africa is only accessible to local authorities with municipal status. The BLAs in the Central Witwatersrand, given their municipal status, can, in theory, also borrow from the capital market, but their weak financial positions have made it impossible for them to access this source of revenue. The poor financial position of BLAs and their inability to balance their budgets, let alone accumulate surplus funds, has precluded their using arrangements like the Consolidated Loans Fund (Simkins et al., 1991; Swilling et al., 1991). The result has been an overall decline in the rate of borrowing on the capital market by local authorities.

**Expenditure Patterns and Surplus Income**

An analysis of the expenditure pattern and financial position of local government reveals stark differences between the WLAs and the BLAs. A study by van Reyneveld of 262 BLAs and 528 WLAs in the Transvaal using 1988/89 data showed WLAs accounting for 88.8% of total local government expenditure and BLAs 11.2% (Planact, 1992).16 The results of such differentials translate into expenditure per capita for all services of R1, 641 for WLAs and R355 for BLAs within the Central Witwatersrand jurisdiction.

Table 4.4 shows the composition of expenditures for the WLAs that make up the Central Witwatersrand, and how they have changed over time. Current expenditures of WLAs stand out as they represent the largest portion of total

16 In the Central Witwatersrand, BLAs share of expenditure as a percentage of total income was 21.7% for the Johannesburg magisterial district, 12.5% for Roodepoort and 10.8% for Randburg /Sandton. If these expenditures are taken as a proxy for infrastructure and service needs in the respective African townships, then amalgamation would create a highly unequal distribution of the fiscal burden. This issue is discussed in detail below (See Variations in Fiscal Capacities).
expenditures. Even though current expenditures began to decline in the 1990s, the situation has not changed that much. Capital expenditure and debt service on loans continue to make up a small and relatively stable share of local government expenditures.

Overall, in the period 1988 to 1992, per capita expenditure figures recorded real growth, with per capita current expenditures recording an average growth of 16.0%. However, the growth in expenditures on trading services tends to be less. Per capita expenditure on these services grew at an average rate of 12.8% compared to the 14.3% growth in revenues, allowing local governments providing these services to generate surplus income (World Bank Unpublished Data, 1993).

Table 4.4: Composition of Total Expenditure, WLAs, Central Witwatersrand (Percentage of Total Expenditure)\(^1\)

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</thead>
<tbody>
<tr>
<td>Current</td>
<td>64.2</td>
<td>64.3</td>
<td>65.1</td>
<td>55.4</td>
<td>54.5</td>
</tr>
<tr>
<td>Capital</td>
<td>16.0</td>
<td>17.4</td>
<td>16.6</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Debt</td>
<td>12.0</td>
<td>11.0</td>
<td>11.6</td>
<td>12.8</td>
<td>13.9</td>
</tr>
<tr>
<td>Other</td>
<td>7.8</td>
<td>7.2</td>
<td>6.8</td>
<td>14.3</td>
<td>14.0</td>
</tr>
</tbody>
</table>


As noted above, trading services in the Central Witwatersrand are known for the substantial surplus income they generate. For each individual service, the difference between the actual cost and the revenues derived from the provision of the service is the surplus income that the individual local authority derives. Surplus income generated from the provision of trading services grew at an average rate of 22.1% for the period 1988 to 1992, well above the inflation rate (See Figure 4.1).

\(^1\) Figures may not add up to 100% due to rounding.
At the same time, average increases in revenue (Figure 4.1) were lower than the average annual growth in the rate of inflation. Croeser (1991), in his analysis of the financial position of local government in South Africa came to a similar set of conclusions using country wide data from 1984 to 1988. He found that surplus income generated from the sale of electricity grew at an average annual rate of more than 20%, well above the inflation rate of 15.9%; at the same time, the average tariff increases were below the average annual increase in inflation.

Given such surpluses, the provision of these services could be considered as a way in which the local authorities tax the users. In essence, the tax rate on trading services, which is surplus income expressed as a percentage of total cost, for the WLAs that make up the Central Witwatersrand stood at 19.2% for the 1991/92 financial year (World Bank Unpublished Data, 1993).

There can, therefore, be no doubt that net revenues from trading services represent an important source of revenue for the WLAs of the Central Witwatersrand. To some extent, these revenues can help to offset the costs of services that are not self financing. General municipal services make up 43% of total expenditures, while local taxes contribute an average of only 20% to total revenue. Moreover, the local authorities that make up the Central Witwatersrand have a policy of granting residential ratepayers a rebate on their assessed property value. The surplus income generated in the provision of trading services affords these local authorities the ability to offer these rebates.

The question, then, becomes: How do these local authorities manage to generate a surplus from the sale of these services and thus offer their residential ratepayers a rebate, while their revenue is growing below the rate of inflation? The data do not offer any concrete answers and we can only speculate. It could be that the WLAs that make up the Central Witwatersrand are extremely efficient in their provision of these services, or that they are not undertaking all of the necessary
expenditures. If the latter is true, then the policy of granting residential ratepayers a rebate could be at the expense of maintenance of these services. This scenario suggests that the condition of the infrastructure is deteriorating in these WLAs, and would call into question the view that future investment needs are necessarily greatest in African townships. It is to the question of the ability of local authorities to meet future investment needs that the discussion now turns.

Meeting Future Needs

The key question for local fiscal reformers is whether available resources can meet future investment needs. Do local economies have the capacity required to generate sufficient revenue for the local governments to independently carry out their functions? Although there are major limits on the extent to which the analysis can be taken, what can be said with certainty is that the burden would have to be spread unequally among the individual local authorities.

One of the most frustrating problems with trying to do a financial analysis of local government is the lack of accurate and reliable data on the finances of BLAs. Although revenues from these areas constitute only a small proportion of total local government revenue (given the population size of the African townships), there is potential for increasing their importance. The African population which resides in the Central Witwatersrand is estimated at 4.4 million. Revenues from the BLAs could potentially contribute significantly to financing projects to overcome infrastructure shortfalls in these areas, if they can overcome the serious constraints on revenue generation. For one thing, the poor fiscal base of these communities and the continued rent boycott has made it impossible for them to cover even their operating costs of the most basic services. The experience of the rent boycott has proved that it would be unrealistic to increase rents sufficiently to be able to finance major investment programs without risking a revolt.
Even without the rent boycott, it would be evident that, while there may be some residents who can afford to pay for services, there are a large number who cannot afford to finance even the minimum level of services. The current moderate estimate of the unemployment rate within the African population stands at 54%. In spite of this, any analysis that does not take the potential contribution of BLA revenues into account could grossly underestimate the fiscal capacity of a new urban government.

The other issue that limits the possibility of doing a needs/revenue sufficiency analysis is that, as yet, no attempt has been made to quantify the infrastructure shortfall in the African townships. The only study that comes close to doing so is the most recent World Bank Urban Reconnaissance, which is essentially a laundry list of infrastructure needs that are likely to be priorities based on specific development programs. It does not reflect the preferences of the communities that are to be served. In addition, no analysis has been carried out to ascertain the economic viability of these programs. Until a complete study is done, it will be difficult to state how much financial assistance will be required to meet future investment needs. However crude the World Bank preliminary analysis might be, however, it is a start, and it does bring to light some conditions that will impact on the structure of urban government that is likely to emerge. The analysis reveals disparities in fiscal bases among the magisterial districts that make up the Central Witwatersrand, and, thus, their ability to finance future investment needs.

Variations in Fiscal Capacities

To simplify the previous analysis, the Central Witwatersrand has been treated as a single entity. The truth of the matter, however, is that it is made up of separate local authorities that differ in their financial capacity and population size, particularly in relation to the population that resides in the African townships. The
use of aggregated data tends to hide the differences across jurisdictions. These
differences deserve special treatment, given the type of behavior they have
generated among some of the local authorities, as well as their implication for a
desirable urban government structure.

In trying to emphasize the variations in fiscal capacity that exist among WLAs,
the analysis will limit itself to the property tax base due to lack of other data.
Table 4.5 presents per capita property tax figures, first in terms of the total White
population, and then in terms of both the total Black and White population.

Table 4.5: 1991 Per Capita Property Tax According to Magisterial District,18,
Central Witwatersrand

<table>
<thead>
<tr>
<th>Per Capita Income</th>
<th>Johannesburg</th>
<th>Roodepoort</th>
<th>Sandton/Randburg</th>
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<tbody>
<tr>
<td>White</td>
<td>R535</td>
<td>R471</td>
<td>R458</td>
</tr>
<tr>
<td>Black and White</td>
<td>R238</td>
<td>R260</td>
<td>R266</td>
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Source: World Bank Aide Memoire (June 13, 1993)

In relating the property tax revenue to the population of each magisterial
district, at the top is Johannesburg with a per capita income of R535, followed by
Roodepoort with R471 and Sandton/Randburg with R458. The picture changes
considerably when the property tax revenue is expressed in terms of the both the
White and the African population and that falls within the magisterial district. The
per capita property tax revenues of WLAs becomes R266 for Sandton/Randburg,
R260 for Roodepoort and R238 for Johannesburg. This suggests that if
consolidation of local authorities is to happen as the "single tax base" suggests,
Johannesburg would have to spread its resources more thinly to cover the whole

18 The use of magisterial district as the unit of analysis is adopted to allow the incorporation of data on
Black population. Sandton, Randburg and Alexandra form one district; Roodepoort and Dobsonville
another; and Johannesburg, Soweto, Diepmeadow form the third district.
population since its African proportion of the population is the highest of the group.

The analysis also suggests that if infrastructure standards are to be equalized, the burden of infrastructure development would be unevenly spread among the various magisterial districts. Even though the analysis does not offer concrete conclusions as to how the burden will be spread among the respective local authorities, it does highlight the differences that exist among local authorities and that alone is a cause for concern. A more detailed analysis that looks at the infrastructure needs and costs, as well as potential revenue for each African township will have to be carried out to determine the capacity of each district to finance the costs and how interjurisdictional differences can be reconciled.

In a World Bank Aide Memoire on the Witwatersrand Metropolitan Area (June 14, 1993), the analysis is taken further by relating the cost of future investment needs to the resources available to WLAs. If maximum investment programs of R1.0 billion, R208 million and R50 million are implemented for the respective African townships, property tax revenue in Johannesburg would have to increase by 28% in real terms, 42% in Roodepoort, and 5% in Randburg/Sandton. The point of the exercise was to illustrate the expected differences in future investment needs and their likely impact on the fiscal burden.

Even though the investment needs profile of each locality might turn out to be different, it is unlikely that their relative position will change. Roodepoort will be worse off than the others, while Randburg/Sandton will bear the least burden. Such conclusions explain recent efforts by Randburg and Sandton to form links with the neighboring township of Alexandra. Their stated preference to take on the

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19 As already stated, the needs are merely defined in terms of a laundry list of investment projects; that does not, however, completely undermine the value of the analysis.
responsibility of Alexandra can only be explained as a way of avoiding amalgamation with Greater Soweto\textsuperscript{20}, whose population and infrastructure shortfall will more than likely put a much more serious strain on their resources\textsuperscript{21}. These fiscal disparities are among some of the most important considerations in local government reform in the Central Witwatersrand. It is to broader reform issues that we now turn.

\textsuperscript{20} Greater Soweto includes Soweto, Dobsonville and Diepmeadow City Councils.

\textsuperscript{21} This piece of evidence came out of some of the interviews conducted for this study. Christianson(1993) also picked up on this phenomenon in the case of Pinetown and its adjacent African areas, and he refers to it as "Cherry Picking".
CHAPTER 5: CONCLUDING REMARKS

It would seem that reorganization of the local government system in South Africa has been accepted as inevitable, but what is unclear is what form it should take. Having reviewed the current situation in South Africa, my aim in this section is to highlight some of the key considerations that have to be evaluated as part of the reform process.

Matching Local Government Functions with Finances

Decisions have to be made about what functions are to remain the responsibility of local government. According to Bird (1990), the literature on local government reform in most developing countries reveals the tendency to allocate functions to this level of government without giving them access to adequate resources to do their job. This has been the case with BLAs but not WLAs in South Africa. In addition to being given access to a wide range of sources of revenue, the healthy position of the WLAs has been, in part, due to the central government provision of services like education, which has had the effect of reducing White local government fiscal burden.

Although no firm conclusions can be drawn regarding the adequacy of local governments’ sources of revenue to meet future needs, a summary can be made regarding the utilization of current sources of revenue. Overall, increases in revenues from the trading services have lagged behind the average increase in the inflation rate. Revenues from water and sewerage did in fact increase in real terms; but they were offset by the failure of electricity tariffs and, thus, overall revenues to keep pace with inflation. In the recent past, this has not prevented WLAs from generating surpluses on trading services. If future investment needs are to be financed, however, it is likely that revenue performance will have to improve.
Another important source of revenue for local government in the Central Witwatersrand is the rates account. The practice of offering residential ratepayers a rebate on their assessed property valuation represents a large outflow of income which could be put to good use. Doing away with the rebates overnight, however, would be a bit of shock treatment for ratepayers, particularly at a politically sensitive time like now. It would thus be best to phase the removal of rebates over a period of years.

Simkins et al (1991) detected a trend towards internal financing of capital expenditures among WLAs within the PWV, which the data on the Central Witwatersrand confirmed. If local governments are to meet expected future investment needs in the Central Witwatersrand, borrowing on the external capital market will almost certainly have to increase.

The adequacy of local government's sources of revenue to meet expenditure needs will also depend on the cost of future investment needs. Investment needs, based on projects that are economically sound and, at the same time, show high social rates of return, must therefore be measured more accurately than they have been to date.

**Correcting Existing Fiscal Disparities**

Disaggregating data across the various local administrative units revealed another important issue that has to be addressed: the variations in the fiscal capacity that exist among the magisterial districts that form the Central Witwatersrand. After ensuring that local governments fully tap their available fiscal capacity, there are two ways in which remaining differences can be corrected:

1) Intergovernmental grants from the center can be used to offset the differences across localities. However, in redressing the inter-regional disparities created by
apartheid, the central government is more than likely to be fiscally constrained and unable to make adequate transfers to local authorities within the Central Witwatersrand.

2) Some form of a metropolitan government could be created. The creation of the RSCs, to a large degree, represents an idea in this direction, however flawed the underlying framework might be. The aim of reorganization would be, amongst other things, to offset the interjursidictional differences that exist within metropolitan areas. Reorganization of the structure of local government in metropolitan areas is a very complex issue, due partly to the conflicting goals and principles of reorganization, as well as to the politics that are involved in any restructuring.

**The Politics of Restructuring**

Local government reorganization must be done through the political process, at both the national and local levels. Major political parties at the national level view it as being imperative that local issues be negotiated at the national level. In a racially divided country like South Africa, this is considered of particular importance to ensure that national objectives are met. The national leadership should, therefore, set the legal framework that should precede any efforts at reforming local government.

Given the repression of major political activity, politics at the national level have been played out at the local level in South Africa. A key manifestation of this is the history of the civic movement which has entrenched the link between national and local level politics as well as highlighted the importance of reaching a national settlement on basic issues before attempting major reform at the local level.
The importance of local political concerns cannot be overemphasized. In a country riddled with conflicting interests, a restructuring of local government based on local negotiations would result in less conflict than one based solely on views imposed from above. However, such local interests can only be allowed to prevail within the limits of nationally negotiated principles, particularly non-racism, democracy and greater equality.

Reforming Urban Government

The jurisdictionally fragmented structure of local government in South Africa has been shown to be flawed in a number of respects. Some types of reforms can be put in place to help provide adequate services for the entire metropolitan area. Economic theory that informs decisions regarding horizontal fiscal responsibilities is discussed as a basis for helping to determine the most promising type of metropolitan government structure for the Central Witwatersrand.

Theoretical Background

According to Bahl and Linn (1992), economic theory does not offer firm conclusions on what constitutes an optimal division of horizontal fiscal responsibilities between governmental institutions. It does, however, provide a framework for dividing various functions among the different levels of the public sector. In trying to figure out the best way of organizing the public sector, the question that needs to be answered is: What form of government system can best provide the three economic functions (stabilization, distribution and allocation) of the public sector. The stabilization function (maintaining stable economic growth) is primarily a central government function and as such will not be dealt with here.

The second function, distribution, entails redistributing income from the rich to the poor in an attempt to reduce regional and/or interpersonal disparities in wealth.
It has always been argued that because of the problem created by the potential mobility of residents and firms at the local level, the redistribution function is best served by the central government. A decentralized government that decides to independently adopt redistributive policies, it is argued, is likely to induce an outflow of wealthy residents and an inflow of poorer households into the jurisdiction, thereby defeating the purpose. Also, to the extent that redistribution is deemed to be of national interest, decentralized governments left on their own could choose to pursue local policies that are in conflict with the national policy (Oates, 1972; Wolman, 1990). Smoke (1989) argues that even though the problem of mobility of the rich is unlikely to be much of a problem in many developing countries, there is still a case to be made for assigning a substantial part of this responsibility to the central government. Local governments in developing countries tend not to have the necessary financial and administrative resources to carry out major redistributive functions. This does not, however, imply that local governments in developing countries have no redistributive role to play. Even though the financial instruments at the disposal of local governments may not afford them much scope to pursue large scale, independent redistributive policies, financing of services can be structured in a reasonably progressive way, thereby allowing them to pursue some form of redistributive programs at the local level (Smoke, 1989). As Bird (1990) argues, the manner in which a local government finances and delivers some basic services may have greater effects on the welfare of poorer households than national redistributive policies.

Redistribution can also be defined in terms of the need to reduce the interjurisdictional disparities within regions. In the context of the Central Witwatersrand, reorganization would be needed to optimize the jurisdictional distribution of resources between the WLAs and the BLAs. However, the discussion in the previous chapter suggests that reorganization of local government
along non-racial lines would lead to an uneven distribution of the fiscal burden among local authorities. This could have an effect of encouraging business to move out of districts with a large proportion of the deprived section of the population (African), defeating the purpose of reorganization. Such an outcome lends strong support to the argument for sharing the fiscal burden of redistribution within the broader Central Witwatersrand metropolitan area.

Local government is better at performing the third key function of the public sector, allocation, which entails the delivery of local services. Decentralization of functions to local government allows service provision to vary according to the needs of the communities. Also, when there is potential for mobility, people are likely to move to areas whose tax and service package reflects their preferences. If this is the case, a decentralized level of government makes service provision more market like, where individuals can select the community of their choice, as they would purchase a commodity in a market. The existence of a large number of decentralized governments, it is argued, also allows for greater innovation and experimentation in the provision of services by fostering cost-effective ways of service provision (Oates, 1972).

**Implications for the Structure of Government**

The most useful way of thinking about the type of local government that best addresses the distribution and allocation function is to consider a range of possible structures differing in terms of the degree of centralization/decentralization. As already noted, the argument for a large number of decentralized local governments in the provision of services is that it improves the welfare of individuals by allowing them to choose the public services they want in their community or to choose a community whose tax and service package gives them the greatest satisfaction. There are, however, other compelling reasons why centralization of
local service provision would maximize efficiency under certain conditions. Some services generate spatial externalities, that is, their costs or benefits spill over into neighboring jurisdictions that fall outside the government providing the service. The economic solution to the externality problem is to make the government's jurisdiction large enough to include those benefiting from the service (Fisher, 1987).

In addition, for services that exhibit economies of scale, more centralized provision of such services allows individual local governments to reduce costs by sharing the good and its total costs. It is, however, possible that the optimal service provision area might be different for the different public goods, and, in some cases, may cut across political boundaries. In seeking an optimal structure and size of local government, Smoke (1989) argues that it is important that such cost savings should be weighed against the potential benefits of a decentralized structure.

Finally, the need to minimize the administrative costs of governance is another economic reason for more centralization of service provision. The argument that more centralization would reduce administration costs is really one which sees economies of scale in the administration of government. Likewise, reduction in administration costs in consolidating governments should be weighed against the potential loss associated with service provision over a wider jurisdiction that may have different tastes and preferences.

The task of achieving an optimal local government structure is not an easy one, given the potentially conflicting principles that go into reforming a local government structure. Principles for local government reform may generate criteria that are incompatible and it is possible that there would be some trade-offs between welfare gains and losses. An optimal service provision area could be achieved through various means, such as arranging contracting or cooperative
arrangements between local units; or restructuring the political borders of local
government to fit the service area.

The experience of other countries is highly diverse, such that no generalizations
can be easily made. The outcomes of efforts at reforming local government
systems have not been the same across countries. In trying to meet the demands
that have been placed upon them and also achieve some acceptable level of equity
and efficiency, urban local governments have evolved into complex structures that
take different geographical and administrative forms in different countries (Bird,
1990). Common horizontal institutional arrangements in metropolitan areas
include 1) consolidating of small local governments into a single unit, 2) allocating
functions along functional rather than geographic lines, and 3) establishing a two-
tier system of local government. These arrangements depends on whether the
emphasis is on central coordination, functional efficiency or some local control
and participation. These horizontal arrangements are discussed within the context
of the Central Witwatersrand in the next sections22.

Centralized Structure

A centralized structure would entail the consolidation of local units into one
general-purpose, area-wide local government structure. There could be a few
special-purpose districts, such as the Rand Water Board and Eskom, operating
within the service area. Such a single local government structure would eliminate
fragmentation completely as the local units get replaced by one super-structure.
The rationale behind such an approach is that consolidation will improve
efficiency by:

22 The discussion on the horizontal arrangements between local governments is largely based on Bahl
• reducing interjurisdictional externalities,
• improving output of services by capturing economies of scale in service provision,
• easing the coordination of activities and implementation of plans on an area wide basis, and
• eliminating the duplication of efforts and services associated with numerous jurisdictions.

The problem with this form of government structure is that it could create units too large to be responsive to local needs, thus failing to satisfy the individual needs of communities. The Central Witwatersrand is currently made up of 13 local units each with its own set of interests to which a single unit covering the entire area is unlikely to be responsive. Large cities often deal with this problem through further division of neighborhoods into wards or districts to allow for some level of citizen participation. There is, however, no guarantee that such an arrangement will lead to any significant decentralization of decision-making. These decentralized units could just be fulfilling an administrative role.

**Functional Fragmentation**

Functional fragmentation involves delegating some of the municipal functions to an autonomous body, sometimes referred to as a Special Purpose Authority. It addresses the problem of functional efficiency and effectiveness since the size of the authority can be tailored to the particular service.

Functional fragmentation tends to be attractive for the following reasons:
• service provision may be divorced from political influence,
• user charges and taxes can be raised with ease,
• it is possible to bypass the regular government wages scale, and attract a more skilled professional staff by offering higher wages, and
because some utilities generate a profit under marginal cost pricing, functional fragmentation can use revenue generated from the sale of services to finance capital expansion.

Some of the very attractive qualities of functional fragmentation, can, however, turn out to be problematic. The ability to finance capital expansion can lead to over investment in one area. Functional fragmentation also removes some of the most important income-generating services from local government. Given the huge dependence of WLAs on revenues from the trading services, removing these services from local government would cripple them.

In addition, functional fragmentation reduces the possibility of financing one service with surplus income generated in another. This is of particular importance, given the role that some services play in offsetting the deficit in the rates account caused by offering rebates to residential ratepayers.

Functional fragmentation also suffers from other weaknesses-- it removes service provision from community control, making the authorities non-accountable to the electorate; it makes coordination between functions more difficult; and it results in complex intergovernmental arrangements.

**Two-Tier Government Structure**

A two-tier solution to metropolitan restructuring provides room for a general-purpose body to have control over all area-wide planning, while retaining a lower tier to take care of local or community needs. A two-tier model is a compromise between a centralized and a jurisdictionally fragmented system of local government, and an attempt at capturing the advantages of both. There are a number of criteria, some of which have been discussed above, on which the structure of local government should be evaluated.

One of the criteria used is whether service provision reflects local preferences.
Such a criterion embraces the public choice approach of focusing on the individual community in evaluating the performance of local government. There is a recognition that individual communities have their own preferences for public goods and services, and that communities should dictate what goods and services are to be provided. The local government gets evaluated on how responsive it is to the community's needs, that is, how close it is to providing the community's preferred goods and services. A two-tier metropolitan government has an institutional structure that makes room for community participation and for preferences of individual communities to be reflected in the budget of the lower tier unit.

In addition, there are other criteria on which the local government gets evaluated -- capturing economies of scale in service provision, reducing interjurisdictional externalities, reducing disparities between jurisdictions, and coordinated planning on an area-wide basis. The higher tier of the metropolitan structure makes it possible to achieve these goals.

If a two-tier metropolitan structure is decided upon, a number of issues are likely to present themselves as problematic:

**Decisions have to be made regarding the specification of boundaries and service area.** The jurisdiction of the metropolitan government should be governed by functional rather than political concerns as has been the case in South Africa. Traditionally, the PWV area, which includes the Witwatersrand, Pretoria and the Vaal Triangle, has in the past been treated as a single metropolitan entity. As a single metropolitan area for the PWV would be too large, the assumption in this paper has been to treat the smaller Central Witwatersrand as a single metropolitan area. Even then, as stated earlier, there are signs that this might generate a lot of controversy among some local authorities.

Decisions have to be made about the boundaries of the lower tier as well. The
present racially based system of local government cannot be retained. There would have to be reorganization of the current local units along non-racial lines. However, amalgamating existing Black and White Local Authorities could lead to units that are too large to be responsive to community preferences. For example, the combined population of Johannesburg and Soweto is over 2.5 million people. In such cases, the communities could be subdivided further into wards.

**Decisions have to be made regarding the allocation of functions between the two levels of government.** The experience of the RSCs has shown that allocating too many municipal functions to a metropolitan authority can generate a lot of resistance from the local units who view this as an erosion of their autonomy. This, of course, depends to a large extent on the type of relationship between the metropolitan authority and the lower tier. There has to be some clarity on the relative weight and importance attached to the two tiers that form the urban government to avoid intergovernmental confusion and problems. The RSCs were presented as a horizontal extension to the local units, complementing the efforts of the local units. The local units could as well be strong or weak relative to the metropolitan authority.

A strong lower tier would have the primary responsibility of service provision, unless there is an overriding need to allocate some functions to a metropolitan authority. In the particular context of the Central Witwatersrand, the current WLAs would be merged with the neighboring BLAs, and share their fiscal, technical and administrative bases, thus ensuring administrative continuity and integrity. The local units would have full taxing and revenue raising powers and be agents of redistribution by adopting expenditure and service provision patterns that are geared towards the poorer communities. The higher tier would be responsible for area-wide planning, fiscal redistribution, the provision of bulk services and correcting fiscal disparities between lower tier units.
Alternatively, the upper tier, the metropolitan authority would have more powers than the lower tier. The upper tier would have the primary responsibility for service provision and delegate those services with a local nature to the lower tier. The advantage of such an approach is that it allows for a wider scope for addressing the fiscal disparities between localities, and for strategic planning and development.

Unlike the RSCs, the upper tier would legally be a local government institution, with all the powers of a local authority. It would have full taxing and revenue-raising powers such as borrowing. It would levy all the major rates, including the current RSC levy rates and some revenue sources that are currently the domain of the lower tier. The metropolitan authority would have a larger tax base, and thus the capacity to borrow more on the external capital market and to finance capital projects than would the individual local authorities.

The position of the lower tier can be that of fully fledged decentralized local units, or they could merely be administrative agents, under the control of the metropolitan authority. They could either be funded by transfers from the metropolitan authority budget, or have access to some local revenue sources, or there could some revenue sharing among the two tiers. These do not represent absolute positions that can be adopted, but rather points along a spectrum, making any combination of level of responsibility and revenue-raising powers possible.

Decisions have to be made regarding the basis of representation on the two tiers of the metropolitan government. Representation can be on the basis of appointed officials from the lower tier, or officials elected by the citizens. Such a decision would depend on the relationship between the upper and the lower tier, as discussed above. In a strong upper tier model, members of the metropolitan authority would have to be directly elected by the citizens if they are to be held accountable to the electorate. In the strong lower tier model, the governing council
that makes up the metropolitan authority could be appointed from the lower tier. A way of allocating votes in the metropolitan authority has to be devised. Anything similar to the RSC system of allocating votes according to consumption is totally unacceptable, as it would just be entrenching the inequalities that exists between localities.

Merging WLAs with neighboring BLAs is likely to pose problems regarding decisions about representation and voting rights. This problem has been referred to above in Chapter 3, where the suggestion that 50% of representation be statutory and the other 50% be non-statutory, was discussed as one way of dealing with the problem. This solution, however, does not address the question of voting rights. The possibility that the BLAs, debt-ridden as a result of the on-going rent boycott and the lack of property tax base amongst other things, will be merged with WLAs is likely to generate strong opposition from interest groups like the Ratepayers Association in the White areas.

On a final note, a two-tier metropolitan government promises to offer the best solution to restructuring local government in the Central Witwatersrand. This form of urban government structure has all the advantages of centralization --capturing economies of scale, internalizing interjurisdictional externalities, reducing disparities between jurisdictions, improving the quality of administration, and planning and coordinating capital investments. At the same time, a two-tier metropolitan government structure allows for community participation and diversity of preferences. Even though the two-tier metropolitan government seems to be the most suitable local government structure for the Central Witwatersrand, implementing it might not be that easy. Allocation of functions between the two levels of government could turn out to be complex. Unless functions of each tier are well specified, restructuring could lead to confusion and loss in efficiency. The experience of the RSCs has also revealed that the creation of a strong metropolitan
authority could generate a lot of resistance among existing local units. This could have serious repercussions on the relationship between the two tiers.

In spite of potential difficulties with implementation, a two-tier structure is best suited to achieving the goals of local government restructuring in the Central Witwatersrand. The experience of most developing countries with major reforms to local government has been that such reforms are never accepted in their entirety. Incremental reforms, with local government playing a major role in the reform process, would have better luck in being accepted than those imposed from the top. Whatever final structure of a two-tier metropolitan government gets adopted, the process of restructuring should be gradual. Changes in the institutional arrangement and in the assignment of fiscal responsibilities of the two tiers of government should be phased in over a period of years to avoid a complete breakdown in the system.
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**Interviews/ Conference**

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23 The conference was held at the Wanderers Club, Johannesburg on September 21, 1993.