



METRO TRADING SERVICES REFORMS

FREQUENTLY ASKED QUESTIONS



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



A. OVERVIEW

1. What is the Metro Trading Services Reform Programme?

The Metro Trading Services Reform programme is a national government initiative, endorsed by Cabinet and one of government's priority programmes to support economic development and improve social outcomes during the current administration. National Treasury has introduced a performance-based grant that creates an incentive for the eight metropolitan municipalities to turnaround the long-term decline in the provision of three municipal trading services electricity, water and wastewater, and solid waste management.

2. Why was this reform programme established?

The poor and declining performance of water, electricity and solid waste services in South Africa's metros undermines citizens constitutional rights, job creation and economic growth. These eight cities account for over two-thirds of economic activity in South Africa and are where more than 4 in every 10 people live. The areas are the engine for South Africa's future economic growth and prosperity.

3. What is the purpose of the reforms?

The purpose of performance-based grant is to create a strong incentive for the metropolitan municipalities to establish the necessary conditions for effective performance of the trading services and to improve service performance and outcomes, improving the quality and reliability of services so that these services can support livelihoods, investment and job creation in the metros.

4. How will the reforms benefit residents and businesses?

The reforms will lead to an increase in investment in infrastructure and improved operations and maintenance of the three trading services. This will result in the improved reliability and quality of these services. This will benefit both households and businesses who bear the cost of service interruptions, and will create a climate for increased investment leading to job creation.

5. What is the expected impact on service delivery sustainability in urban areas?

The reforms will improve financial performance and lead to improvements in the sustainability of services.

B. PARTICIPATION AND SUPPORT

1. Which municipalities are eligible to participate in the programme?

All eight metropolitan municipalities can participate in the programme provided they meet programme entry conditions. The programme is restricted to metropolitan municipalities only.

2. Is participation in the reform mandatory?

No, participation in the incentive programme is voluntary.

3. How can metropolitan municipalities participate?

Municipalities must demonstrate political support for the turnaround in the performance and service outcomes of their trading services through Council-approved trading service improvement strategies, institutional roadmaps and business and investment plans for each trading service that, when implemented, will result in a turnaround in the decline in the performance and service outcomes of these services.

4. How many metros are participating in the programme?

All eight metros have met [or are expected to meet during this financial year] the entry requirements and are participating in the programme for all three of their trading services.

5. Is there political support for the programme?

Yes, the Council's in each of the eight metros have endorsed the programme through approval of trading service strategies, institutional road maps and business and investment plans that are aligned to the reform objectives. The programme is also a flagship reform under Phase 2 of Operation Vulindlela which was approved by Cabinet in early 2025.

C. KEY ELEMENTS OF THE REFORMS

1. What are the three key reforms?

- (1) Municipalities must manage the service using a business-like approach with delegated management authority and accountability for performance.
- (2) Effective management capability must be established.
- (3) A financial turnaround in the performance of the business must be achieved to support improved outcomes.

2. Why is a business-like approach important?

The failure to manage these services using a business-like approach with management capability and accountability has led to the long-term decline in services.

3. Why is a turnaround in the financial performance of these services essential?

Electricity, water and solid waste services depend to a large extent on revenues from service charges. Within a inter-government grant framework that supports the cost of providing these services to poor households, these services are required to generate sufficient revenues to meet their operating costs and contribute towards investment in infrastructure. Poor financial performance has led to chronic under-investment and declining service outcomes.

4. What institutional changes are introduced under the reform?

In order to access the incentive grant, the trading services must be managed as a business unit or through a corporate structure, with sound governance. Both models have been used successfully in the past in South Africa to deliver effective services and are not new. Internationally, it is more common for trading services to be provided through corporate structure.

D. THE PERFORMANCE-BASED GRANT INCENTIVE

1. How can municipalities access the performance-based grant incentive?

After meeting programme entry conditions, participating metropolitan municipalities must establish effective management for the provision of each trading service and set performance targets that, when achieved, will result in a demonstrable and sustainable improvement in the financial and technical performance of the service, and in service outcomes. The incentive grant payments will depend on municipalities maintaining an effective accountability framework and be linked to the extent municipalities achieve their performance targets.

2. What are the conditions for effective management of these services?

Effective management is achieved through establishing an accountability framework that has the following elements:

- (1) a single point of management accountability with delegated management authority;
- (2) the provision of the service through an organization structure that has all the required functions in

- one business for effective service delivery;
- (3) an agreed service compact between the municipality and the trading service;
- (4) full financial transparency; and
- (5) a practical business and investment plan showing a path to financial viability and performance improvement and that is funded.

E. ALIGNMENT WITH GOVERNMENT POLICY AND LEGISLATION

1. Do the reforms respect the constitutional duty of municipalities to ensure the provision of municipal services?

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2. Are the reforms consistent with existing policies and legislation?

Yes, municipalities can participate in the reforms without contravening existing policies and regulation.

3. What is the relationship between the reforms and the current reviews of the White Paper on Local Government and the local government fiscal framework?

Participants in the reforms are also participants in these reviews. The programme will be adjusted to align with any changes in policy and legislation or in the local government fiscal framework.

4. Are these reforms a form of privatization of municipal services?

No. Municipalities remain responsible for the provision of the service and get to choose how the service is provided. Any decisions to change the way a service is provided will be done in a way that is consistent with government's policy and legislative framework.

F. PROGRAMME ARRANGEMENTS

1. How did the reforms come about?

The evidence of the long-term decline in the quality and reliability of the trading services in the metro areas is now accepted by a wide range of stakeholders. The reforms were designed in response to calls from City Managers, CFOs and other senior metro leadership on the relevance of taking a business-oriented turnaround approach to metro water services and the need to strengthen this reform and extend it to other trading services.

2. How will the reforms be funded?

National government is offering a grant incentive to the value of R54 billion over six years. The expectation is that this grant will be match by own-source revenues of a further R54 billion to support increased levels of infrastructure investment necessary for improved service outcomes.

3. Who is leading these reforms?

National Treasury, under its mandate to promote economic growth, is leading these reforms, in close collaboration with relevant national departments. Poor trading service performance constrains economic growth imposing a significant cost on society. The reform is therefore a whole of government reform requiring alignment, coordination and collaboration between the National Treasury, the Presidency, the Department of Cooperative Governance and Traditional Affairs, the Department of Water and Sanitation, the Department of Electricity and Energy, the Department of Forestry Fisheries and Environment, the Department of Human Settlements, and the South African Local Government Association.

4. How will implementation be monitored?

The metros will publish annual financial statements for each of their trading services. The metros will report on performance against an agreed performance improvement action plan that has clear and agreed performance improvement targets.

5. What are the phases and timelines of the reform process?

The reforms will proceed through three phases as follows: (1) programme entry, (2) establishment of the accountability framework and agreement on a performance improvement action plan with clearly defined performance improvement targets, and (3) implementation. All metros have met (or are expected to meet during this financial year) the entry conditions for each of their three services. The second step is anticipated to be achieved over one financial year, and implementation will take place over five years. The reforms are proceeding in two cohorts with 12 services in each cohort, and with a one year lag between cohorts.

6. How does this reform align with Operation Vulindlela's broader goals?

The Metro Trading Services Reform programme is identified as a priority in the government's Medium Term Development Plan 2024-2029 and has been included in the second phase of Operation Vulindlela. The programme is fully aligned with the broader goals of Operation Vulindlela.

7. Where can people find more information about the reforms?

Further information on the reforms can be found at:

https://lg.treasury.gov.za/ibi_apps/portal/Municipal_Trading_Service_Reform