

METRO TRADING SERVICES REFORMS

Engagement with
Minister of Finance, Deputy Ministers of Finance
& City Leadership

PRESENTED BY:

Deputy Director
General:
Intergovernmental
Relations

Date: 29 September
2025



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



METRO TRADING SERVICES REFORM JOURNEY

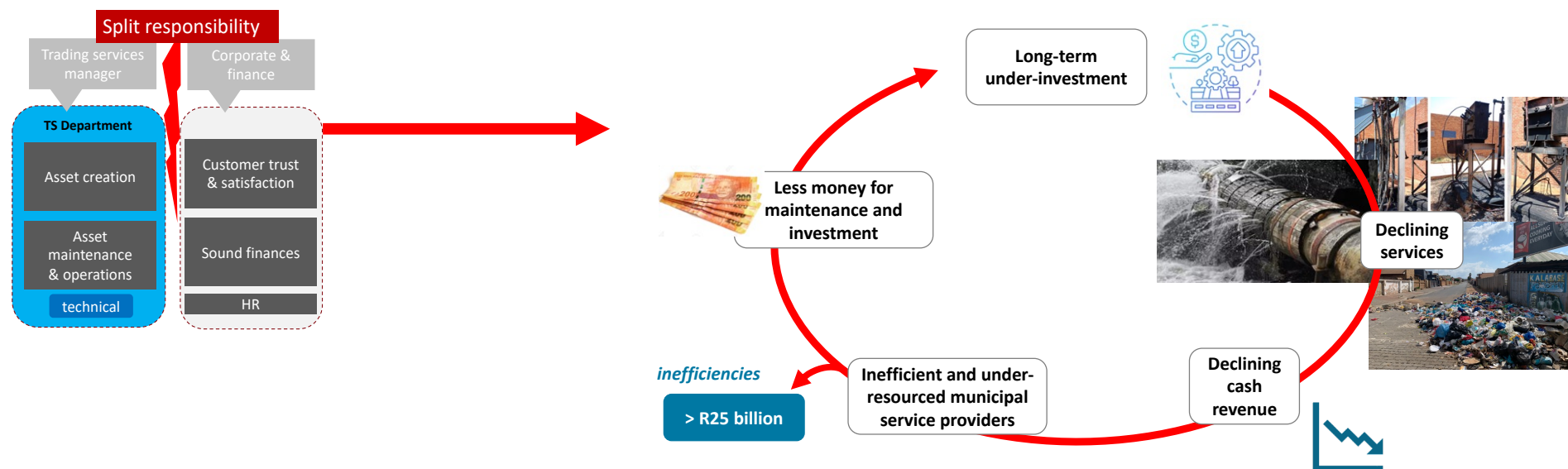
What happens in metros is important



- More than 60% of economy
- > 22million people
- Where most economic growth expected
- Supporting metros to turn around water services resulted in requests from CMs & CFOs to extend and strengthen turnaround support to other trading services



The municipal death spiral requires urgent intervention



Turning around the performance of trading services requires addressing

- **A structural problem** caused by a **split in accountability**, a lack of financial transparency and a lack of management accountability
- **Governance failures** that contribute to the loss of management skills, inefficiencies and leakages
- **Low cash revenues** caused by the above
- **Low investment** due to inappropriate allocation of grants, inefficient expenditure and inability to raise loan finance

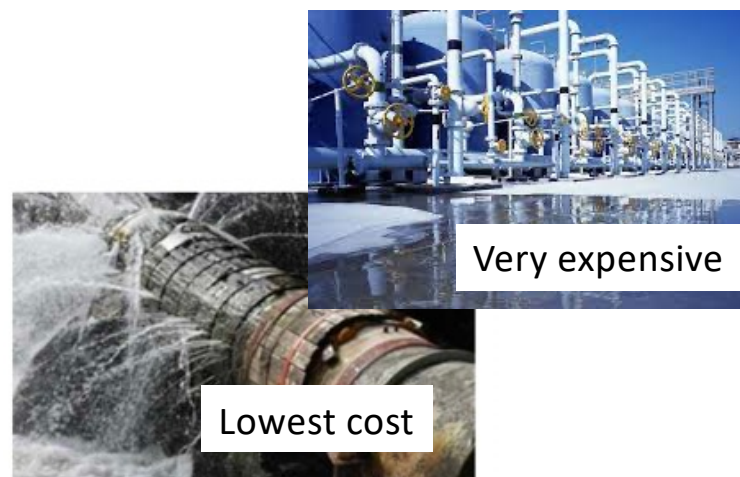
But more grants will not solve the problem ...

1. Grants are limited due to government's financial position and the economy.
2. Existing grants offer poor value for money.
3. Putting more money into the system without fixing the underlying causes is like pouring money into a leaking bucket.
4. The existing **R60 billion in grants** must be made to work much harder.

Changes are needed in in the way things are done ...

Effective
Change
Management

together with wise and efficient investment choices



What are trading services?

1. Trading services are services for which **consumption-related service charges** are levied
 - electricity, water, sanitation, and solid waste management.
2. Tariffs should be determined and managed with the **intention to make a surplus** (profit) on the delivery of the services.
3. The **surplus** (after full costs) is required to provide
 - firstly, for **capital investments and other business improvements** required for long-term viability; and
 - secondly, for **contributions to the property rates account**.
4. **Public and community services**, on the other hand, are those which must and **do rely upon property rates revenues**.
 - health, community, housing, development, governance, administrative, planning, security, etc

(All grants are supplementary to metro own revenue sources)

Municipal governance and administration

Executive and council
Finance and administration
Internal audit

Community and public safety

Community and social services
Sport and recreation
Public safety
Housing
Health

Economic and environmental services

Planning and development
Road transport
Environmental protection

Trading services

Energy sources
Water management
Waste water management
Waste management

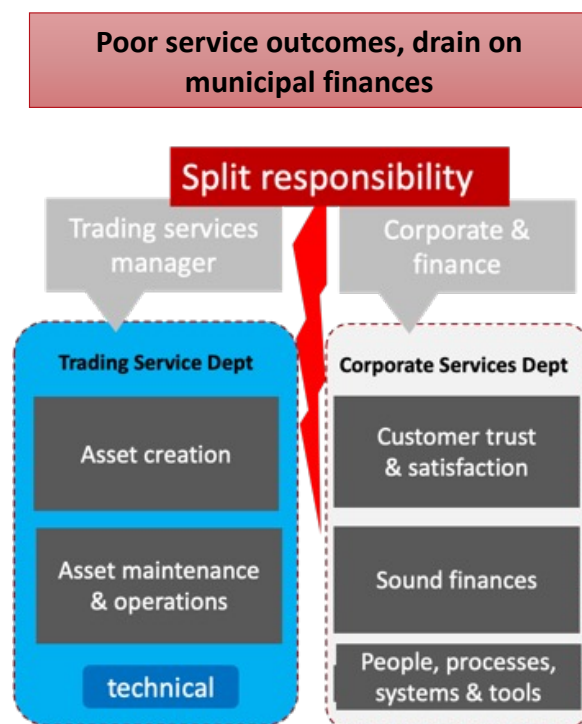
Other

Total Expenditure - Functional

Surplus/(Deficit)

Large, infrastructure-intensive operations must be managed in an integrated utility approach

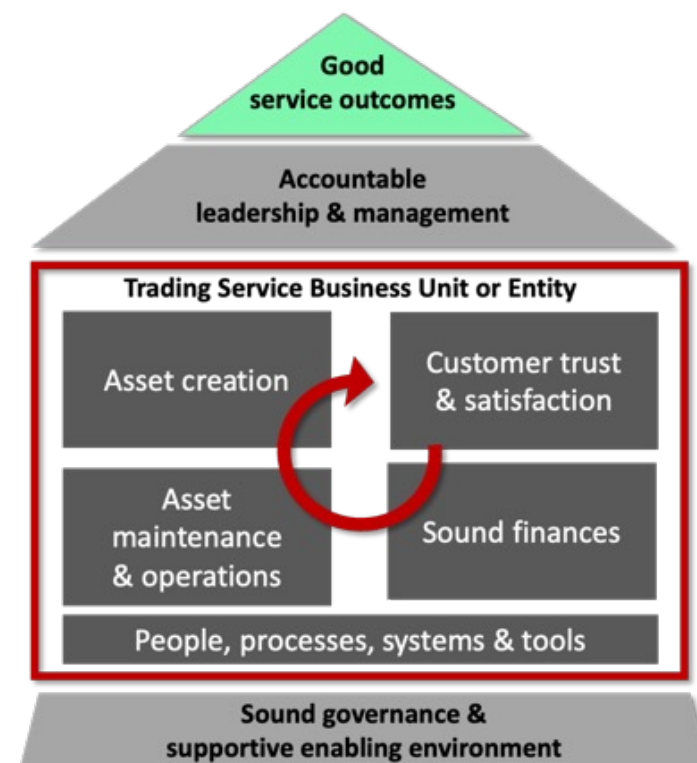
Current approach



Turning around trading services requires addressing:

1. **A structural problem** causing a **split in accountability**, a lack of financial transparency and management accountability
2. **Governance failures** that erode management skills, and drive inefficiencies and leakages
3. **Low cash revenues** caused by the above
4. **Low investment** due to inappropriate allocation of grants, inefficient expenditure and inability to raise loan finance

Improved services through an accountable and integrated approach

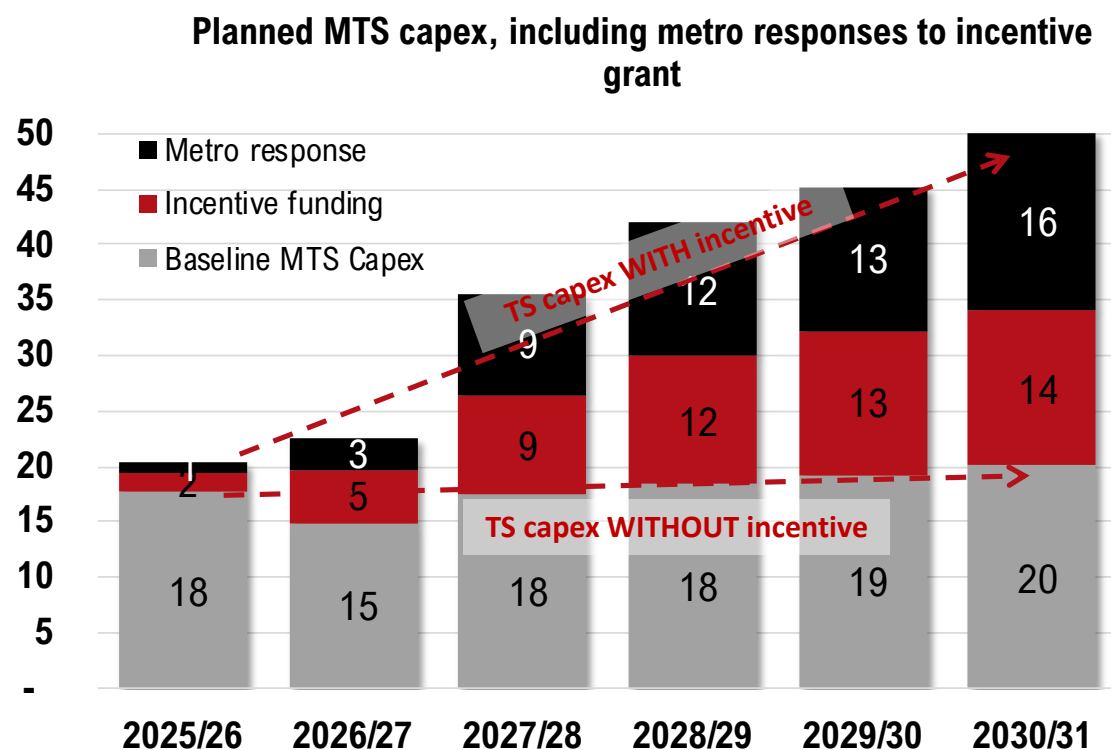


What is the Metro Trading Services Reform?

A flagship local government reform, under Phase 2 of Operation Vulindlela

- **Purpose:** Reform aims to restore and sustain electricity, water, sanitation, and waste services in metros through institutional and financial reforms.
- **Problem:** Years of underinvestment have eroded service delivery, strained municipal finances, and reduced economic growth potential.
- **Response:** A 6-year, **R54 billion performance-linked incentive grant with technical assistance**, to:
 - Strengthen accountability and financial transparency
 - **Unlock R108 billion in total infrastructure investment**, leveraging improved revenue and borrowing capacity
 - Improve service reliability, quality and sustainability
 - Enable spatial transformation, economic inclusion and growth
- **Eligibility for metro access to incentive:**
 - **To enter the reform**, Metros Council's must adopt Performance Improvement Action Plans and commit to 8 minimum accountability commitments.
 - **To access the incentive allocation**, Metros must achieve performance targets in Performance Improvement Action Plans. Performance is assessment annually through independent verification.
 - **Participation is excluded by:** Disclaimed or adverse audit outcomes and failure to maintain 8 minimum commitments.
- **Reform currently targeted at metros.** Intention to extend reform to other categories of municipalities based on metro roll out.

Institutional reform is the foundation to accessing incentive finance and leveraging investment in infrastructure



- The **incentive grant** is designed to **leverage increased metro investment** in trading services infrastructure
- Each **R1 incentive** must raise **R1 additional metro investment**, leveraging **R108bn total capex**

- New **R54bn performance-based incentive grant** (5 years) is introduced **reform trading services** management & funding

- **Metro trading services capex is stagnating, with rising reliance on grants.**
- Metros expected to self-fund via own revenue/borrowing, but **self-funding now only ~50% of capex and falling.**
- Grants (USDG) cover ~25% of capex and rising.

Metro participation dependent on meeting minimum planning and performance requirements

To enter the reform:

- A fully participating metro prepares 3 x Trading Services Reform Strategies – for water services, electricity & solid waste (A, A1, A2 & A3)
- Must be Council approved and integrated into statutory planning documents and municipal budget

To access the incentive:

- A3: Performance Improvement Action Plan (A3-PIAP) is **the core contract**
 - 3 results areas: accountability, financial, & operational performance
 - ±30 performance indicators
 - 8 minimum accountability commitments
- Performance independently verified annually

Exclusions:

- Metros with **adverse or disclaimed** audit outcomes.
- Failure to **uphold 8 minimum reform commitments**.

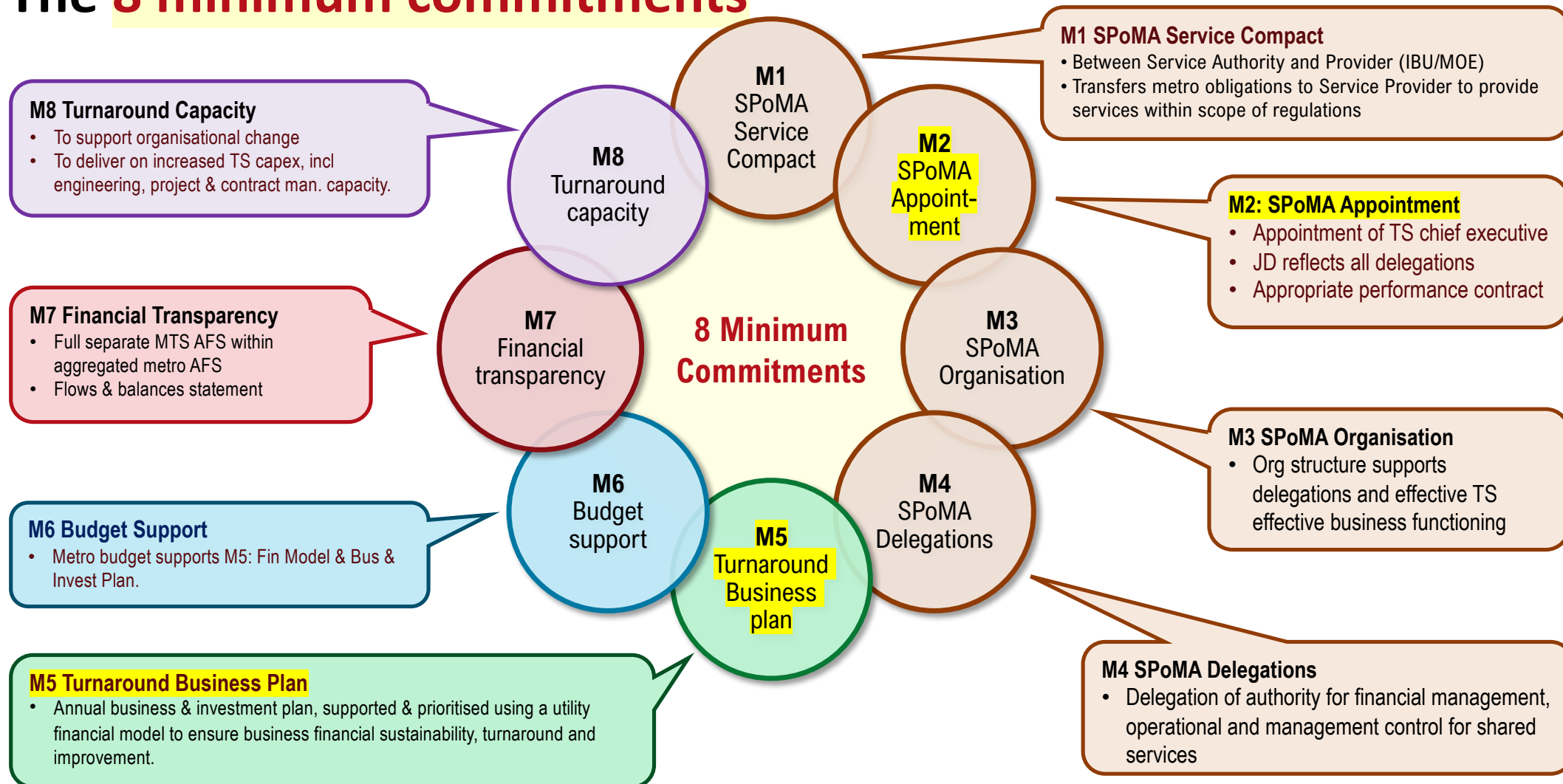


This is different.

- **Minimum commitments.** Need to be in place & maintained. Binary.
- **Plan first.** Commit to targets. Mobilise skills & capacity.
- **Independent assessment.**
- **Payment for performance.**
- **Leverage.** One of one leverage.

The 8 minimum commitments

(SPoMA = Single Point of Management Accountability)



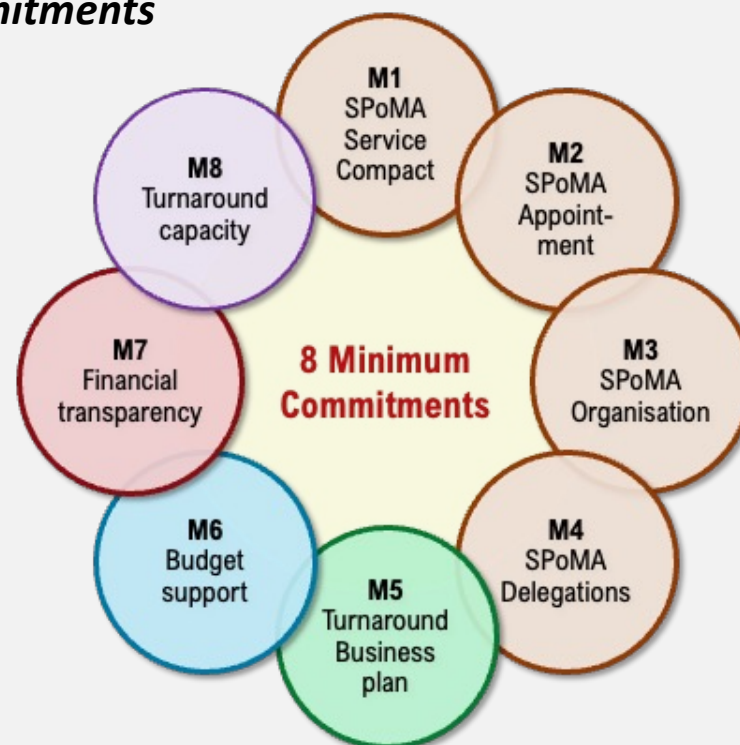
What We're Asking Mayors to Do

Sustain the momentum

- **Champion the reform** in your Council and administration.
- **Approve and oversee implementation** of the Performance Improvement Action Plan.
 - By June 2025*, metro Councils commit to achieve 8 minimum accountability commitments.
 - By June 2026*, metro Councils achieve minimum commitments.
 - 2026 onwards, metros maintain minimum commitments and achieve financial and operational performance targets.
- **Engage communities and stakeholders** on the benefits of reform.

* Cohort 1. Cohort 2 is one year later.

By June 2026, achieve & maintain 8 minimum commitments



Unlocking a New Era of Metro Service Delivery

Reform is an opportunity

- A tool to demonstrate metro leadership and delivery.
- A platform to rebuild public trust in local government.
- A vehicle to mobilise significant investment for service infrastructure.
- **With your leadership, this reform can transform metro service delivery and financial sustainability.**