

## TRAINING MODULE 4: INFRASTRUCTURE-LED GROWTH THROUGH SPATIALLY TARGETED PUBLIC INVESTMENT

### Slide 1

The objective of this module is to strengthen the role of metropolitan municipalities in promoting infrastructure-led growth through spatial targeting public infrastructure investment. The intention is for metros to guide infrastructure investment so as to have a stronger hand guiding private sector and household investment to realise government's desired built environment outcomes of a more compact, productive, and sustainable city.

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### Slide 2

Large South African cities face significant urban development challenges (such as service reliability, housing location and affordability, access and mobility, food insecurity, climate change resilience) that constrain faster and more inclusive economic growth. The persistence and entrenchment of apartheid urban spatial development patterns that are fragmented, sprawling and spatially inverted is a major inhibitor to growth and urban efficiency. This unproductive, exclusionary and unsustainable urban form transfers significant costs to the economy, the fiscus and poor households. To address challenges of weak growth and fast-paced urban development within a constrained fiscal environment, stronger and more inclusive economic growth is required. Urban centres are pivotal in driving such growth, yet the full benefits of urban spaces are not being realised. Co-ordinated public-sector planning, regulatory and investment approaches within a spatial targeted planning framework are essential to attracting and leveraging private sector and household investment in spaces that will contribute to a more efficient, equitable, sustainable and just spatial urban form.

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### Slide 3

#### Urban Development Priorities for Metros

The National Development Plan (NDP) together with the Integrated Urban Development Framework (IUDF) frame a new approach to public sector planning and delivery programmes, focusing public resources on strategic and measurable outcomes and positioning the public sector as a leading partner for growth and development. Metropolitan municipalities are recognised as the drivers of this new approach. National Treasury maintains that metropolitan municipalities face three major urban development priorities, namely:

- urban integration to realise the urban dividend;
- expanded investment in core infrastructure;
- and greater access to private financing.

For the metros to respond to weak growth, fiscal constraints and urban development challenges, meaningful and practical partnerships across government and with the private sector are necessary.

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#### Slide 4

##### Public Sector Investment

Public sector investment is generated by municipalities, provinces and SOEs, with provinces and SOEs contributing the major share. Over time, it is intended that municipalities become less dependent on grants through growing their own revenue sources and borrowing capabilities. A project portfolio approach to achieve the optimal funding mix and sequencing of the public catalytic project pipeline is regarded as a necessary step in this direction.

Some metropolitan municipalities have made substantial strides in developing clear spatial logics to facilitate public and private investment decisions, and to ensure integrated planning and budgeting that is aligned to the city's development agenda as expressed in their Integrated Development Plans (IDPs). This is evident in improved alignment amongst metro IDPs and SDFs and provincial growth and development strategies. However, planning alignment must be broadened and strengthened, and be translated into budgeting and implementation alignment. This is especially necessary in the current context of fiscal consolidation.

The role of metropolitan municipalities and their planning instruments in effecting such alignment and co-ordination is recognised as pivotal. Many SOE, national and provincial plans are not formulated with local government, and in many instances are never, or not timeously, made available to local government. Weak inter-governmental co-ordination continues to undermine planning and budgeting alignment. Within different provinces the co-ordination challenges may be across the board with all, or just with some, sector departments and SOEs. Such challenges are evident in all stages of planning, implementation and management of urban development. The results are investment outcomes that diverge from spatial objectives and indicators, planning timeframes and intentions, and political and administrative decision-making. It is argued that these challenges need to be fixed if there is to be positive long-term impact and a better return on public investment.

To achieve the desired urban development outcomes, it is necessary for all spheres of government and SOEs to adopt a spatial lens to their budgeting and resource allocation processes that is aligned to the spatial and development strategies of metropolitan municipalities. A collaborative process of planning, resource allocation and the preparation and implementation of actual investment projects is required, described by National Treasury as an "Inter-governmental project pipeline." This is regarded as essential to provide clear signals to households and firms on the availability of infrastructure, public facilities and services, and thus the comparative locational advantages of different areas within cities.

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#### Slide 5

##### Supporting Change

National Treasury argues that there are three complementary mechanisms to achieve the primary goal of local government in making land development decisions to drive spatial transformation, namely:

- planning reforms for improved spatial targeting of infrastructure investment across the public sector by adopting the Infrastructure Delivery Management System (IDMS);
- budgeting reforms, and
- reporting reforms.

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## Slide 6

### Comparing Strong and Weak Metros

The 2017/18 **BEPP** Evaluation and the key informant interviews highlight the reality facing metros in their attempts to co-ordinate public infrastructure investment. Some metros are more successful than others. Factors enabling or inhibiting success by metros in this regard are both internal and external to the metro. Metros that perform weakly in influencing and guiding inter-governmental and SOE investment showed the following patterns:

- Failure to engage or consult other spheres of government or SOEs at any level of land-use planning and budgeting – project, precinct, area or metro-wide;
- Weak or non-existent inter-governmental coordination structures for both planning and implementation;
- An ability to articulate some or partial SOEs and sector department budgets and plans but a failure to influence such plans; and
- Inability to sequence sectoral investments e.g. social facilities in integrated human settlements developments.

Metros that were performing strongly in terms of influencing the plans and budgets of some sector departments and SOEs demonstrated:

- Strategic municipal leadership: best practice was evident in metros where both the political and administrative leadership provide oversight to the **BEPP** process and drive collaborative change;
  - Stakeholder engagement: institutionalised and formalised consultations with SOEs and relevant sector departments take place;
  - Functional IGR structures: IGR structures facilitate planning and implementation alignment at strategic, programme and/or project levels. In some municipalities multi-stakeholder **BEPP** forums are convened within the offices of Municipal Managers or Chief Operating Officers; and
  - Project level alignment: strong intergovernmental planning and budgeting coordination and alignment, especially transport and housing, was taking place at project levels.
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## Slide 7

## Instruments and Innovations

In some of these metros, it is evident that success was greater in certain sectors, such as public transport, than in others. Several metros showed greater success in influencing provincial budgets than national and SOE budgets. Key instruments that were used by successful metros to co-ordinate public sector infrastructure investment are:

1. Approaching National Treasury to provide support in ensuring planning and budgeting alignment with certain SOEs, such as PRASA.
2. Focused sector engagements, for example in energy, that ensure project level planning co-ordination. ESKOM is regarded as a more co-operative SOE in that its plans are demand-driven.
3. Entering into formal project-level agreements, such as signing MoUs with SOEs.
4. Development of planning models, for example for social facility provision, with clear spatial logic; and
5. The spatial referencing of all infrastructure investment projects within the metro.

Successful metros also showed evidence of broadening their co-ordination of planning and investment beyond the public sector, through:

1. Public Private Partnerships (PPPs) to stimulate investment and improve urban management at local area and precinct scale;
2. Aligning and restructuring their economic development incentives with spatial targeting imperatives;
3. Removing appropriate regulatory constraints to development to reduce time and financial risks;
4. Releasing land into the market and boost private sector investment;
5. Leveraging research through partnerships with relevant tertiary institutions to drive innovation and robust planning in service delivery and infrastructure investment; and
6. Proactively engaging a broad range of potential investors, including DFIs and donors.

## Slide 8

## Lessons Learnt

*Lessons for the metros pertain to strengthening leadership and governance; spatial planning and project preparation; the Inter-Governmental Project Pipe-Line; and, implementation and urban management.*

**Leadership and Governance:**

- Strategic and integrated political and administrative leadership is required within the metro to drive spatial transformation through co-ordinated infrastructure investment. This should be informed by a long-term City development and spatial strategy;
- Strategic and project-level **BEPP** structures are necessary to foster transversal alignment within the metro.
- Adequate capacity for the **BEPP** function within the Metro is required and the location of the function is important e.g. the Mayor's office.
- Metros must take responsibility to engage and then hold sector departments and SoEs to account for their commitments.
- The quality of programme and project managers is key to being able to deliver the development agenda of the City.

### Spatial Planning and Project Preparation

- The Constitutional and legal obligation on all spheres of government and SOEs to consult each other regarding plans and investment can be used by the metro to support its inter-governmental co-ordination role. •
- All spheres of government are obliged to prepare SDFs to inform their plans and investment. The role of municipalities as the primary decisionmakers regarding land development must be respected by other spheres of government and SOEs. •
- The **BEPP** should be informed by a strong metro SDF based on integrated sector data and articulate the real challenges facing the cities. •
- The metro should structure multi-faceted precinct and project plans that reflect the required roles and responsibilities and investment of other stakeholders. Precinct planning alignment to be strengthened.

### Inter-governmental Project Pipeline

- The **BEPP** should act as the primary implementation and resource leverage tool for the metro. Intergovernmental planning and budgeting alignment processes and structures should be utilised to give effect to this, e.g. utilise the newly established Urban Investment Co-ordination Forum and its technical subcommittees. •
- The metro should focus on critical departments to get the engagement process right e.g. DPW, DSD, Energy, Transport, Human Settlements, Health, Education etc. •
- Metros should also focus on building provincial relationships as some tend to focus all their energy on relationships at national level. •
- Metros should understand and influence SoE corporate planning and budgeting processes through engaging NT, SOE Executive Authorities and the relevant heads of departments. Metros should develop capacity to engage SoEs and the focus should be on generating win-win relationships. •
- Metros should recognise that formal IGR co-ordination structures do not always deliver and that informal relationships within the spirit of the legislation may be more effective to secure inter-governmental co-operation. •
- Any formal IGR agreements, such as an Implementation Protocol, entered by a metro should have a clear purpose. •
- The metro should utilise legislated escalation mechanisms if IGR stalls at any point. •
- Metros should broaden their inter-governmental pipeline to include all public sector and SOE commitments that are aligned to the spatial targeting perspective of the metro. •

- Metros should develop an Inter-Governmental Pipeline Investment Strategy that will ensure a more proactive approach by the metropolitan municipality and to utilise existing IGR co-ordinating forums and arrangements to drive the strategy.

### Implementation and Urban Management

- Ongoing stakeholder collaboration by a metro is essential during project implementation.
- Transversal intra-municipal and inter-governmental technical structures are required for the implementation of projects. •
- Metros should build on successes and pockets of innovation e.g. Ethekeeni Conurbia housing project. •
- Metros should explore public-private partnerships to stimulate investment and improve urban management. •
- Metro economic development incentives should be aligned with, and restructured to support, spatial targeting imperatives. •
- Metros should remove appropriate regulatory constraints to development to reduce time and financial risks, release land into the market and boost private sector investment.

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### Slide 9

### Lessons Learnt

*Lessons at a broader inter-governmental level address the need for ongoing public-sector reform in: planning; inter-governmental co-ordination; fiscal relations; and municipal support.*

**Planning reforms:** National Treasury should strengthen the **BEPP** instrument at national level through:

- Making the roles and responsibilities of sectors and SOEs explicit in the **BEPP** Guidelines;
- Developing a **BEPP** monitoring tool that holds all spheres and SOEs accountable for achieving desired built environment performance outcomes;
- Focusing the **BEPP** Guidelines less on demonstrating stakeholder consultation and more on the showing actual capital investment alignment across the public sector; and
- Spatially referencing public investment to municipal spatial development frameworks (SDFs) and other local plans.

**Further planning reforms are required, such as:**

- Addressing planning legislation alignment and responsibilities across departments.
- Introducing a spatial perspective at national and provincial government sector planning level. This may involve an amendment to the National Treasury Guidelines for preparing Medium Terms Strategic and Annual Performance Plans. This reform will require a differentiated approach to municipalities – metros, ICMs, local and district municipalities – and a spatial perspective linked to an Urban Network Strategy (UNS). This approach would require joint planning and reporting by sector

departments and municipalities and would make sector departments accountable for their contributions to spatial transformation at municipal level.

- Development of Regulations or Guidelines that compel provinces to go beyond disclosure / sharing of planning and budgeting information with the metros and to achieve effective joint planning that will crowd in public and private investment.
- The articulation, testing, design, validation and institutionalisation of spatial transformation outcomes for different municipalities.
- Inclusion of a cost-benefit analysis element into spatial planning.

### **Inter-Governmental Co-ordination Reforms**

- Offices of the Premier and Provincial Treasuries should play a stronger role in driving inter-sectoral and inter-governmental co-ordination.
- A broader inter-governmental response is necessary to support metros that appear to be caught in “low growth traps” that are constraining development.

### **Fiscal Reforms**

- NT should pursue enabling instruments for metros that allow: improved utilisation of the debt market; value capture (e.g. development charges); grant pledging; and metro incentives to prioritise capital funding in targeted spaces.
- NT should continue to use the grant reform process as a key lever for improving IGR and ensuring a spatial focus across government.
- NT should continue to reform the national budgeting process to facilitate spatial planning and investment alignment

### **Support reforms**

- On-the-ground support” being provided by the PGI and CSP be further reinforced by using all existing annual budget processes and mechanisms such as the Provincial Benchmarking sessions, TCFs, 10x10s, MTECs etc, and where applicable and if possible Annual Budget Circulars to Metros and Provinces should reinforce the requirement for joint planning

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## **Slide 10**

### **Concluding Remarks**

Whilst significant progress is evident in metros in the adoption of clear spatial targeting frameworks and alignment of internal planning and budgeting processes, and substantial progress has been made in some metros in proactively engaging and aligning the plans and budgets of sector departments and SOES with their own, the 2017 Metro BEPP Evaluation has highlighted areas where further work is required as discussed in the section above. Such work must take place both within the metros and within the broader inter-governmental arena. The broader economic and political context impacts directly on the ability of the metros to progress further, with some metros finding themselves economically constrained and becoming increasingly short-term priority focused, and others experiencing strategic shifts that are leading to uncertainty owing to political changes. The role of NT and the CSP team in assisting the metros to stay on track cannot be under-stated. The broader budgeting and planning reforms underway are welcomed as being responsive to the needs articulated by

the metros. The lessons highlighted above should inform ongoing reforms and work to create an enabling and supportive environment for metros to achieve the stated goal for a “partnership of prioritised, co-ordinated public and private catalytic interventions in space to emerge.” In this way, metros will be able to actively guide and facilitate infrastructure-led growth within their boundaries.