

Strengthening governance in intergovernmental fiscal transfers for effective local service delivery

Executive Summary

The intergovernmental fiscal framework continues to provide substantial financial support to municipalities through equitable share allocations and conditional grants. Yet persistent service delivery backlogs, infrastructure failures, repeated underspending and weak municipal financial outcomes suggest that the core problem is not simply the level of resources transferred, but the institutional governance and accountability systems through which resources are planned, transferred, monitored and supported.

The ongoing review of the 1998 White Paper on local government provides a timely opportunity to address these systemic weaknesses. Its reform directions — including differentiated municipal models, restructuring the two-tier system, climate resilience integration and strengthened coordination centres — are highly relevant. However, these reforms require stronger implementation directions, enforceable institutional arrangements and alignment with the Financial and Fiscal Commission's recommendations to ensure they translate into measurable service delivery improvements.

PUBLISHED 2027 Division of Revenue cycle
FOCUS AREA Local government fiscal governance
RELATED 1998 White Paper review · MFMA s71 ·
Constitution s154

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a constitutional institution that makes recommendations to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government.

Through focused research, the Commission provides proactive, expert and independent advice on the intergovernmental fiscal relations system, using evidence-based policy analysis to ensure the realisation of constitutional values.

The Commission reports directly to Parliament and the provincial legislatures. Government must respond to the Commission's recommendations at the tabling of the annual national budget each February.

Commissioners are appointed by the President: the Chairperson and Deputy Chairperson, three provincial representatives, two representatives of organised local government, and two other persons.

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Background

The 1998 White Paper on Local Government established the foundation for developmental local government, positioning municipalities as the primary institutions responsible for basic services, local development and democratic governance. It assumed that municipalities would progressively build capacity to manage complex service delivery and fiscal responsibilities through cooperative governance and intergovernmental support. However, this assumption has proven increasingly unrealistic.

Municipalities differ significantly in their revenue bases, institutional arrangements, infrastructure, governance and service delivery demands. Rural and smaller municipalities remain highly dependent on transfers, while larger metros rely more heavily on own revenue. These gaps weaken the effectiveness of fiscal transfers as instruments of developmental local government.

Three legal anchors for this brief

1998

White Paper on Local Government

Establishes developmental local government and cooperative, non-enforceable coordination.

S71

Municipal Finance Management Act

National Treasury's monthly monitoring tool for municipal financial performance.

S154

Constitution of South Africa

Obliges national and provincial spheres to proactively support municipal capacity.

Research findings

1998 White Paper on local government

The 1998 White Paper on Local Government introduced the idea of developmental local government, identifying municipalities as the primary level responsible for addressing basic service needs and fostering social and economic growth. The White Paper imagined municipalities as dynamic agents of development functioning within a framework of cooperative governance, supported by national and provincial spheres. This vision depended, in part, on effective coordination of intergovernmental fiscal transfers to ensure municipalities received adequate and reliable resources to fulfil their constitutional duties.

The policy framework assumed that coordination across spheres would be achieved through cooperation, consultation and shared support rather than enforceable institutional mechanisms. Strong emphasis is placed on shared objectives and aligned planning, but it provides limited detail on how to address governance failures, misalignment or capacity failures.

Why this distinction matters

The White Paper's cooperative model relies on goodwill between spheres of government. Section 71 and Section 154 show that monitoring exists, but enforcement does not — this is the governance gap this brief addresses.

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Ongoing review of the 1998 White Paper on Local Government

It is important to recognise that the 1998 White Paper on local government is currently under review, reflecting government's broader acknowledgement that the local government system has undergone significant changes since its adoption. The discussion document guiding this review highlights a range of persistent and emerging challenges, including service delivery backlogs, financial distress in municipalities, weak institutional capacity and fragmentation in intergovernmental coordination. The review process explicitly recognises that while the 1998 White Paper provided a strong normative and theoretical framework for developmental local government, it did not fully anticipate the increasing complexity of the intergovernmental fiscal system.

National Treasury Section 71 reports

National Treasury's Section 71 reports, prepared in terms of the Municipal Finance Management Act, are significant tools for monitoring municipalities' monthly financial performance. The reports track revenue collection and expenditure trends, cash flow and conditional grant spending, and aim to provide early warning signals that enable corrective action. Review of these reports reveals essential insights into the operation of intergovernmental fiscal transfers and the nature of coordination challenges affecting local service delivery. The evidence suggests that Section 71 reporting is heavily compliance-oriented, focusing primarily on financial inputs and expenditure ratios. While this approach strengthens fiscal discipline and transparency, it provides limited insight into whether transferred resources translate into improved service delivery outcomes.

Section 154 of the Constitution of the Republic of South Africa

Section 154 requires national and provincial governments to support and strengthen municipalities' capacity to manage their own affairs, exercise their powers and perform their functions. This provision is an important element of the cooperative governance system and recognises that municipalities may face institutional, technical and financial constraints that require assistance from higher spheres of government. It establishes a constitutional obligation to proactive support, rather than reactive oversight.

"Fiscal transfers should not be viewed solely as financial allocations; they should be part of a broader support framework aimed at strengthening municipal capacity and service delivery performance."

— SECTION 154, CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA

Conclusion

The evidence from this review and institutional analysis demonstrates that the local government challenge is fundamentally one of institutional coordination, uneven capacity and weak operational alignment, rather than the absence of policy frameworks or fiscal resources. The ongoing review of the 1998 White Paper presents a critical reform window to modernise the local government system. By embedding differentiated support, enforceable coordination mechanisms and stronger execution pathways, government can strengthen the ability of fiscal transfers to deliver sustainable and equitable local services.

RESOURCES

Adequate and growing through equitable share and conditional grants.

COORDINATION

Cooperative by design, but not enforceable across spheres of government.

OUTCOMES

Compliance is tracked; service delivery improvement is not.

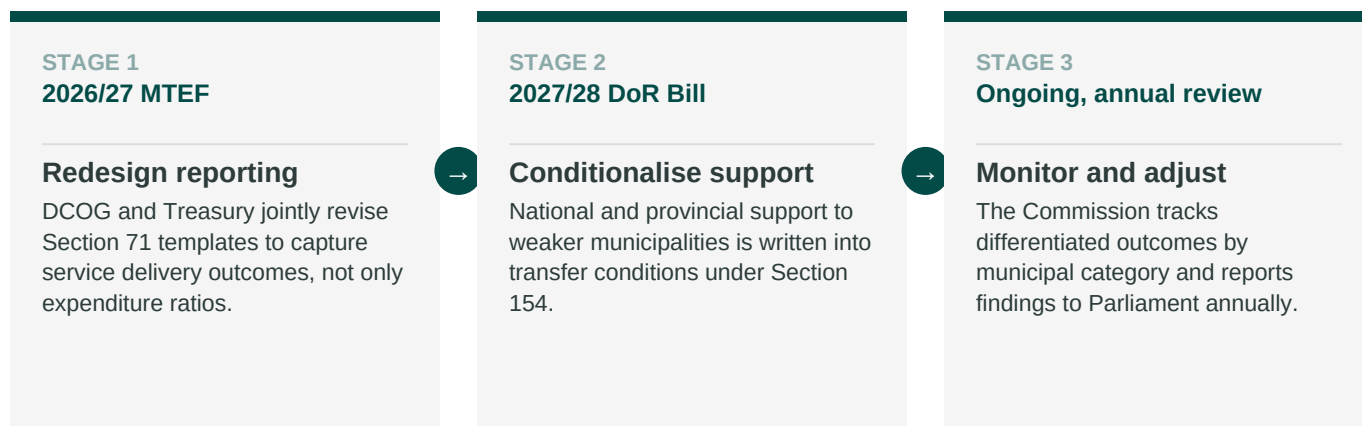
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The Commission recommends that:

- 1 The National Treasury, along with the Department of Cooperative Governance and Traditional Affairs, should enhance its monitoring tools — particularly Section 71 reports of the Municipal Finance Management Act — into active instruments of governance, coordination and support, rather than purely compliance-based reporting mechanisms.
- 2 In line with Section 154 of the Constitution, National Treasury should conditionalise specific national transfers on support from national and provincial government to local government in the Division of Revenue Bill, to strengthen capacity-building and differentiated support incentives — particularly for weaker and rural municipalities facing structural constraints.

Implementation pathway

Translating these recommendations into practice requires sequencing across three stages of the intergovernmental fiscal cycle.



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