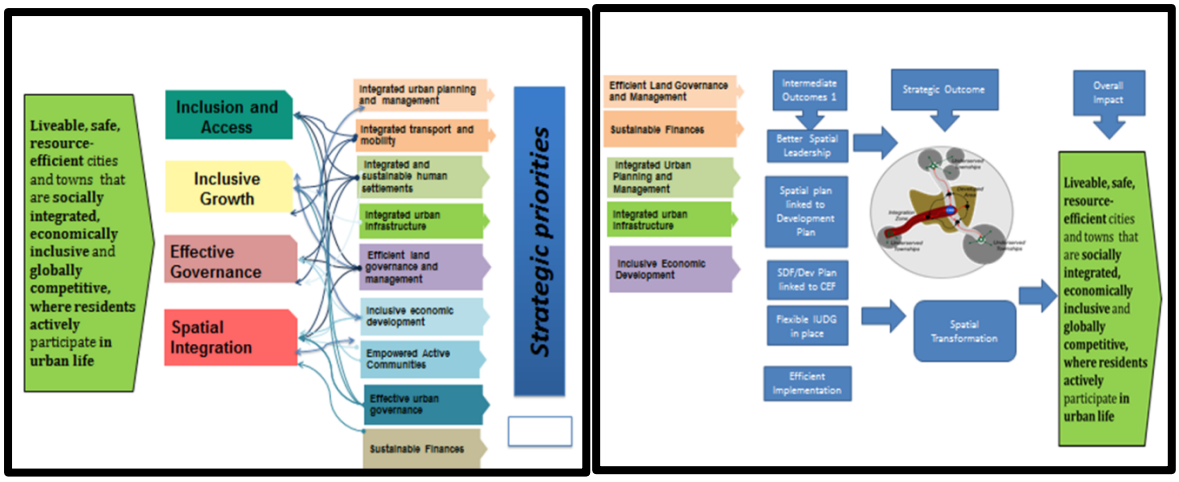
DEPARTMENT OF COOPERATIVE GOVERNANCE

Consolidated findings from Diagnostic Scan

The ICM Support Programme of the IUDF for the City of uMhlathuze

ICM Support Programme

4/26/2018



cooperative governance
Department:
Cooperative Governance
REPUBLIC OF SOUTH AFRICA

IUDF
INTEGRATED URBAN DEVELOPMENT FRAMEWORK

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ACRONYMS

CEF: Capital Expenditure Framework

CFO: Chief Financial Officer

CIDMS: Cities Infrastructure Delivery and Management System

COGTA: Department of Cooperative Governance and Traditional Affairs

COO: Chief Operations Officer

DoE: Department of Energy

DoT: Department of Transport

DPW: Department of Public Works

DWS: Department of Water and Sanitation

GIAMA: Government-wide Immovable Asset Management Act

ICM: Intermediate City Municipality

ICMP: Intermediate City Municipality Programme

IDIP: Infrastructure Delivery Improvement Programme

IDP: Integrated Development Plan

IDMS: Infrastructure Delivery and Management System

INCA: Infrastructure Finance Corporation Limited

ISO: International Standards Organisation

IUDG: Integrated Urban Development Grant

IUDF: Integrated Urban Development Framework

LUMS: Land Use Management System

MFMA: Municipal Finance Management Act

MPAP: Municipal Priority Action Plan

mSCOA: Municipal Standard Chart of Accounts

MUSSA: Municipal Services Strategic Assessment

NT: National Treasury

PMU: Project management unit

PPE: Property, plant and equipment

PPP: Public private partnership

RMS: Road management system

SABS: South African Bureau of Standards

SANS: South Africa National Standard

SCM: Supply chain management

SDF: Spatial Development Framework

SIPDM: Standard for Infrastructure Procurement and Delivery Management

SOPs: Standard operating procedures

SPLUMA: Spatial Planning and Land Use Management Act

UDB: Urban Development Boundary

WSA: Water Services Act, Water Services Authority

WSDP: Water Services Development Plan

WSP: Water Services Provider

WTW: Water treatment works

WWTW: Waste-water treatment works

1. Introduction and context

The IUDF is the government's policy position on how to guide and manage urban areas in the face of increasing urbanisation and a need to respond to the legacy of the apartheid city form[1]. It responds to the international Sustainable Development Goals (SDGs) and the National Development Plan (NDP). It provides a vision for cities to become more compact, better connected and coordinated through the goals of spatial integration, inclusion and access, inclusive growth and effective governance (DCOG, 2016, p. 8). These goals will be achieved through nine (9) policy levers which are based on the following premise[2]:

> *that (1) integrated urban planning forms the basis for achieving integrated urban development, which follows a specific sequence of urban policy actions: (2) integrated transport that informs (3) targeted investments into integrated human settlements, underpinned by (4) integrated infrastructure network systems and (5) efficient land governance, which all together can trigger (6) economic diversification and inclusion, and (7) empowered communities all of the above will demand effective (8) governance and (9) financial reform to enable and sustain these policy actions* (DCOG, 2016, p. 8).

What is apparent is that cities need to focus on more integrated approaches to spatial planning, infrastructure and finances and that existing instruments (e.g. SDF, financial planning and budgeting, asset management, capital project planning) may need to be reviewed and amended to make them suitable and new instruments (e.g. a Capital Expenditure Framework or a Long Term Financial Plan) may be required in other instances.

A support programme designed specifically for intermediate city municipalities (ICMs)[3] has been developed to apply the IUDF approach to ICMs. The ICM Support Programme takes the IUDF theory of change and sequences and prioritises the 9 levers that will be most impactful in achieving the strategic outcome of spatial transformation. These are lever (1) – integrated urban planning and management; Lever (4) integrated urban infrastructure; Lever (5) – efficient land governance and management; Lever (6) – inclusive economic development and Lever (9) – sustainable finances. It proposes that spatial transformation can be achieved through improved spatial leadership (governance), spatial planning that is integrated to the overall development objectives of the city and is linked to capital infrastructure planning and financing and that implementation is efficiently carried out (DCOG, 2016, p. 22). It is spatial transformation that will enable ICMs to achieve the overall goal or impact of the IUDF.

The logical support areas that the ICM support programme has developed[4] therefore focuses on 3 broad areas: spatial planning and economic development; infrastructure and thirdly, governance and finance. Another way to think of the support areas is that they need to achieve the following activities: plan; build; fund; measure. The spatial planning aspects will fall under the "plan"

[1] The IUDF was approved by Cabinet in April 2016.
[2] This can be seen as the Theory of Change of the IUDF.
[3] See the Support Programme for Intermediate City Municipalities in South Africa Draft Jan 2018 (COGTA, 2018) which is in its final stages of design.
[4] While recognising local variation in an approach that has both top-down and bottom-up elements.

activities, the infrastructure and capital projects will be in the "build" category and the financing instruments such as the new grant will fall under the "fund" activities.

Each pilot municipality has given an undertaking[5] to participate in the ICM support programme and to receive Technical Assistance (TA). More specifically, the pilot municipalities are required to ensure political and management commitment to champion the development and implementation of the SDF as the long term spatial plan in terms of SPLUMA; to ensure the establishment of technical capacity to implement the spatial plan; to spend aligned capital budgets and strengthen financial accounting and reporting capacity; and to have a (prioritised multi-year capital programme (the Capital Expenditure Framework (CEF)) linked to spatial priorities in terms of the SDF in place by 1st July 2018 (in order to be eligible for the IUDG[6]).

Three experts were therefore contracted to provide TA support to the spatial planning system, the infrastructure planning, management and projects delivery and thirdly and for preparing Capital Expenditure Frameworks CEFs). To arrive at specific support areas within these sectors, the ICM support programme approach is to undertake a diagnostic scan. This 'rapid diagnostic' process will identify the key issues or findings and propose potential support activities to achieve the overall IUDF goals in the municipality. These findings and proposed support areas are then discussed with the municipal stakeholders and agreement sought on support areas. The agreed support area activities are then set out in a work plan or implementation plan.

Each of the three TA's undertook a diagnostic scan of their respective sectors in March 2018 and this report summarises the findings they observed along with the support areas they have suggested. The diagnostic scanning process is therefore the first step on the road to formulating meaningful, programmed support to the municipality.

This report presents the findings of the three diagnostic scans, each under their own section, and will form the basis for further engagement with municipal officials to agree the identified support areas.

2. Methodology

A generalised methodology was followed by all three diagnostic areas which could be summarised as:

- Scan of relevant desktop sources of information;
- Development of an analytical framework / structure for the diagnostic (these are different per sector);
- Meetings and discussions with key officials to confirm or identify status quo information desktop information;
- Document the findings;
- Suggest possible support areas based on the findings.

[5] This is as per the Council report approved by each pilot ICM in 2017.

[6] For this pilot municipality a full CEF is not required in terms of DORA to receive the IUDG or the MIG2 as it is being called for the pilots.

Importantly, a scanning methodology was used rather than a fully comprehensive analysis. Also, the analytical frameworks and approach used is innovative and must be seen as being ”tested “ through this process with the municipality.

3. Area 1: The spatial planning system

3.1 Introduction

Given the emphasis on spatial transformation in the IUDF, a scan of the spatial planning system was essential to determine the strategic spatial issues. This diagnostic scan was undertaken by conceptually defining a spatial planning system and its components as a way to order and structure the diagnostic scan.

3.2 Methodology

The spatial planning diagnostic scan followed the general methodology and can be summarised as:

1. desktop documents scanning;
2. development of analytical framework /concept for the spatial planning system components to be assessed;
3. focus group interviews with officials (mainly from planning department);
4. the application of the planning system components in interviews to arrive at findings; and
5. document the findings;
6. propose possible support areas.

The methodology proposed that the spatial planning system is comprised of[7]:

1. Planning policy (the SDF being key – but assesses several aspects. See table below)
2. Land use decision making
3. Built environment enforcement
4. Property Information
5. Monitoring and evaluation
6. (all the above seen in the context of) the planning system governance

The scan made findings on each of these components.

3.3 Description of the key findings

The table below summarises the key findings on the components of the spatial planning system that were assessed.

Table 1: Key Findings on the Spatial Planning System

No.	Component	Findings
1.	**Planning Policy** – including the SDF, linked to spatial	The municipality has an SDF that was compiled in 2017; Currently under review as part of the 2018/2019 planning and

[7] See Appendix 1 for an illustration of this conceptual framework.

No.	Component	Findings
	outcomes	budgeting process; SDF compiled by the municipality and not outsourced; The SDF addresses alignment with Global, National, Provincial and district planning legislation, policies and goals; Complied in terms of guidelines for SDF compilation; There is sufficient attention paid to how these find expression in the local context.
	1a. Development vision, outcomes and principles	The SDF defines a clear spatial vision and the pillars (levers) that will help to achieve this; Does not detail how the pillars will achieve spatial transformation – no clear spatial transformation outcome; Observed that some goals and interventions may be used interchangeably so need clarity on these; Will benefit from extracting the development outcomes and reframe the levers to realise the outcomes.
	1b. Spatial structure	The SDF defined a clear spatial structure with a hierarchy of nodes and corridors (page 157, section 11.2.4), infill and expansion areas as well as conservation areas. Interventions are defined; Gaps identified include that there may be the need to encourage 'fit for purpose' solutions for passenger movement (not just BRT) and that freight movement be considered beyond just to the port (e.g. between RB and Empangeni); The governance of Ingonyama Trust Board land appears to be a challenge to achieve defined spatial outcomes because it allocates land and confers land use rights without referencing municipal plans; The municipality is obligated to provide services to areas settled in this way; May need greater clarity in the treatment of *agricultural land* so that the impression is not created that it is a way to hold the land for future development and hence act as a disincentive to investment in agricultural productivity, even in high agricultural value areas.
	1c. Hierarchy of plans	There is encouraging evidence of detailed plans for most of the priority nodes (i.e. Richards Bay, Empangeni, Nseleni, etc.) and for areas where they are not yet compiled there is a clear programme of when such planning will be undertaken.
	1d. Cross sectoral integration	Should consider including a climate change strategy in the SDF and other planning policies which includes defined adaptation and mitigation actions; Encouraging that the SDF is addressing it in stages but there is a concern that the municipality risks being locked into unsustainable growth paths if the adaptation and mitigation interventions are not defined and hardwired into core municipal processes, decisions and investment choices, e.g. emissions interventions and other climate change actions could reduce the footprint of development, affect densities, energy mix and hence infrastructure mix; The opportunity to influence other policy and strategic documents and investments will be lost as they will continue without being shaped by any outcomes of a climate change strategy.
	1e. Evidence-based decision	The SDF base data is dated (2011 census)[8];

[8] Mention was made of the need for official documents such as the SDF to use census data to be able to access national grants and subsidies. Hence, more recent data (e.g. from building plan submissions) is not used for planning purposes.

No.	Component	Findings
	making	The data is not sufficiently disaggregated / detailed to track demographic changes or to devise appropriate interventions; More recent 2016 community survey data is used but also not available at sub-place level to allow more accurate planning; Aerial photography used to track land use changes is based on changes observed between 2006 -2013 which is five years' ago; This affects the municipality's ability to correctly analyse and interpret demographic, economic and development patterns; Economic data is insufficient – e.g. labour-absorptive economic activity and its location across the municipality to target interventions for this.
	1f. Tools and mechanisms to realise spatial outcomes	Encouraging that some of these are in place e.g. Urban Development Boundary (UDB) and Land Alienation Policy; The UDB instrument could be more refined and any possible ambiguity removed[9]; The municipality has considered infrastructure provision in areas where the state is the lead investor. A gap exists where this approach could be extended to those areas where there is proven private sector interest and the nature of development is consistent with municipal principles (inclusive, compact, mixed use, etc.); Fast-tracked approvals in areas targeted for support growth could be considered.
2.	**Land use decision making** – need a strong system with checks and balances to make informed land use decision consistent with outcomes in policies	There is a single land use scheme; It is being reviewed and updated to, *inter alia*, include new areas (e.g. Ntambanana); It does provide some simplified processes in Schedule 5 and reduced costs to encourage compliance; The minimum plot size regulation is not an appropriate land use control across the municipality; There is a bulk services contributions policy for electricity; It is absent for roads, water, sanitation and public open spaces or places where it will be waived to encourage development in certain areas; A view on offsets should also be included e.g. where an applicant provides the bulk infrastructure on behalf of the municipality.
3.	**Built environment enforcement** – needs to be robust but also review bylaws to remain relevant and where contraventions, need actions to be swift, effective and consistent.	Not consistently applied across the municipality and the Ingonyama Trust areas pose a challenge to enforcement; The municipality is in the process of compiling various level plans – up to isigodi plans[10], to guide land uses in these area which is encouraging; But intervention is require at National and Provincial sphere to curtail traditional authorities from permitting uses that are contrary to planning schemes and the attainment of compact and integrated settlements.
4.	**Property information** – need accurate base data to ensure decisions are based aon objective evidence.	this aspect was not explored in detail in the scan; it needs appreciation of the important role information and data plays – from policy informant through to creating value in real estate;

[9] The SDF is ambivalent on the use of the UDB as a tool to contain sprawl and create more compact urban form. It is indicated that the municipality has opted NOT to use this tool (page 152) yet indicates that the UDB for the municipality is those areas where urban service standards are to be applied, notably former TLC areas (map 31). This ambivalence/contradiction creates an environment where one of the more effective tools against urban sprawl is not utilized and the TLC/ R293 towns may in fact be subjected to unchecked sprawl.

[10] These plans are compiled in close collaboration with communities and traditional authorities.

No.	Component	Findings
	Also need data to craft informed policies and to ensure that the outcomes of good spatial policy can translate into robust revenue collection systems	Should have a central repository of property information; Such repository should include the cadastre, land use rights, ownership, valuations and services for each property in the municipal area; Such a resource is a useful tool for trends analysis as over time (inform spatial vision and longer term planning for all sectors), it can be used to track the history of each property.
5.	**Monitoring and evaluation** – a good spatial planning system should have a M&E component to measure and track performance against outcomes and act as an early warning system.	The SDF makes some reference to development outcomes; These are not quantified and no built environment measures are defined in the SDF; Should perhaps include these in the current SDF revision process to enable the municipality to not only track and evidence the impact of their policies, investments, etc., but to also act as an early warning system to enable course correction; Are some measurement frameworks that the municipality could choose from, e.g. National Treasury's City Support Programme (CSP) has built environment indicators. The municipality should have a regime to measure what it has committed to attain.
6.	**Planning System Governance** – includes all aspects of municipal institutional structures for supporting a sound planning system	Appears that the SDF has primacy as a decision making instrument – does guide the capital infrastructure planning and it has political support; IDP /Budget annual process of participation could single out the SDF more explicitly; The growth projections in the SDF (which is then used for infrastructure planning) appear to not be informed by a clear vision of form, nature and extent of development; The 3 population growth scenarios are useful but could disaggregate information into housing typologies, affordability and ideal locations - and this will determine infrastructure investment; There is limited economic assessment in the SDF - not explicit on the current and future location, extent and type of economic drivers for the municipal area; Clarity is needed on which plans take precedence when there are contradictions brought about by different compilation dates of plans and they are done at different levels; This governance regime should be set out in the SDF and clearly understood by municipal officials.

3.4 Proposed areas of TA support

The diagnostic scan of the spatial planning system observed and identified a range of issues and gaps, summarised in the section above. The purpose of the scan and the methodology employed is to arrive at possible support areas for the ICM Support Programme to the ICM municipalities. Being a scan rather than an in-depth analysis, the support identified are also at a high level and will need to be discussed further with the relevant officials at the municipality. That process will verify the suggested areas of support and hone in on more detailed support needs.

The proposed support areas have been identified (more or less) under the components of the planning system but some are broader and span more than one aspect of the planning system. They include:

3.4.1 Planning policy

This includes interventions relating to the SDF, the spatial structure, hierarchy of plans and planning instruments.

a. Traditional land

The municipality has gone to great lengths to work with traditional authorities in the governance of land in these areas. They have defined and consulted on guidelines for land allocation (page 55) and have differentiated land use application processes to ease compliance.
However, traditional authorities continue to allocate land for uses that are inconsistent with planning frameworks.

This is an area of work that requires provincial and national intervention[11] – otherwise the settlement patterns that emerge out of this will continue to undermine the spatial and development outcomes that the municipality wants to achieve. It also affects services planning and provision and revenue.

b. Transnet

This SOE is a key player in the municipal area, both in terms of planned investments in and around the port but also as it owns significant tracts of non-core land. The municipality may need support in engaging positively and productively with Transnet[12].

c. Spatially referenced Capex

The municipality indicated that they had previously produced a spatially referenced capital budget but that this is not the norm. The annual production of this ought to be encouraged and supported to ensure that the municipality has a visual representation of where it is investing its resources and can determine the extent to which such investment is aligned with defined spatial transformation outcomes. This will be important for the preparation of a fully compliant Capital Expenditure Framework next year.

d. Incentives to drive the spatial outcomes

The municipality could further enhance the attainment of outcomes by expanding the suite of incentives that they have available. This discipline is already in place within the municipality as evidenced by the work done with traditional authorities. Some incentives that could be considered include:

i. **Regulatory easing:** in those areas where development frameworks have been undertaken – consider doing the change in use applications internally, that way property owners needn't have this hurdle if their development proposals are in line with the development frameworks.
ii. **Bulk contributions policy:** in the revision of this, carefully consider the locations and types of developments where the municipality will waive the payment of contributions.

[11] It is also an issue common in other ICMs and so through the ICM support programme, this would be a wider, higher level intervention.
[12] For example to discuss making their land available for housing development in Aquadene.

iii. **Rates and taxes:** a similar logic and approach as for bulk contributions.
iv. **Development facilitation:** this entails cross sectoral teams that work with key stakeholders on applications/ development proposals that resonate with municipal plans. The municipality has a number of priority interventions that seek to implement the SDF (Section 12.4: Implementation plan – 44 in total). The deployment of development facilitation capacity will also help in prioritizing the priorities.
v. **Provision of infrastructure:** the municipality indicated that it was already doing this – a key consideration is that this should be done just ahead of demand and with a fair degree of certainty that there will be take-up. It should also ideally be in brownfields rather than greenfields developments.
vi. **Land use rights:** the municipality appears to be "density shy" and stipulates minimum plot sizes even in core urban areas. This could be reconsidered and where infrastructure exists, density bonuses can be used, especially in well located areas that also provide affordable/inclusive residential stock.

3.4.2 Land use decision making and enforcement

Based on the findings, the municipality should have a clear bulk infrastructure (development charges) policy across all key infrastructure sectors that the municipality must provide to developments. Support could be offered in this area by the ICM support programme.

3.4.3 Built environment enforcement

The preparation of plans in the Ingonyama Trust areas will go a long way towards ensuring a basis for traditional leaders to allocate land in a way that is aligned to objectives of the municipality and to subsequently manage such areas. Support may be needed to assist in the preparation of plans for areas under pressure currently.

3.4.4 Property Information

The municipality could benefit from support that avails recent and aggregated demographic and economic data. The last aerial photography for the municipal area was in 2013 and the municipality requires more recent aerial photography for at least the urban areas. With data and more recent aerial photography they could compile a Growth Management Strategy to drive where growth will happen, enabling precinct level planning to be sufficiently detailed and to project housing need, job proximity and infrastructure demand. Consideration should be given to obtaining the services of CSIR, HSRC and STATSSA to assist ICMs in this regard and support the municipalities in building some of this capability in-house.

3.4.5 Monitoring and evaluation

This is an omission in the current SDF. The municipality should be supported to ensure that the 2018/19 SDF revision incorporates some indicators and builds internal processes to collect data to be able to populate these over time. Lessons learnt from the sister programme (the CSP) for metropolitan areas on indicators can be applied in this support.

In summary, the municipality appears to have a sound planning system. There are however areas of refinement and support that could greatly enhance the good work done to-date.

4. Area 2: Infrastructure asset management and procurement and delivery management systems

4.1 Introduction

This specific area of support was identified for ICM's in order to address efficient implementation of capital projects. Of importance is the shift towards programmatic grant funding through the IUDG (rather than MIG project-based funding) and the need to have reliable systems in place that will allow ICMs to qualify for IUDG grants, to subsequently manage the grant and to continue to meet the criteria for ongoing qualification.

The purpose of the diagnostic assessment was to understand the City of uMhlathuze's capacity to spend their capital budgets, assess supply chain management processes, contract management and the systems and capacity in place to ensure planned, integrated infrastructure delivery.

4.2 Infrastructure Asset Management Methodology

The methodology can be summarized as:

- desktop documents scanning;
- development of infrastructure sector-compliant assessment criteria/indicators;
- focus group interviews with officials as well as other key interviews;
- the application of the criteria in interviews to arrive at findings; and
- documenting the findings
- proposing possible support areas

The desktop scan for this sectoral area included a review of all the applicable laws, norms and standards relating to infrastructure (focus on key sectors of water and sanitation, roads and storm water and electricity) and policy documents to distil out the common, key principles that underlie all approaches to infrastructure. A full set of 32 criteria or indicators were then proposed as the diagnostic framework – 10 were derived from general principles, norms and standards with the remainder derived from the water, sanitation, roads, storm water and electricity sectors.

Focus group interviews with officials from the City of uMhlathuze, as well as interviews with other stakeholders such as the Department of Water and Sanitation were undertaken to discuss the infrastructure sector in terms of the 32 criteria or indicators.

The intention was to assess whether the city's institutional capacity is 'sufficient' for generally successful implementation of the new IUDG, rather than to assess full and complete compliance with nationally-set best practice[13]. The goal was to identify key gaps requiring attention or support. Minor aspects of non-compliance or the use of different approaches to nationally-recommended approaches which would not substantially impact on the city's capacity to implement the IUDG and meet the goals of the IUDF were not prioritised in the diagnostic process.

[13] This approach also allowed flexibility as some national norms and standards are being reviewed so an approach that rather assessed the city's management practices in terms of basic management principles inherent in the 32 indicators and that would lead to generally successful IUDG implementation and achieve the outcomes of the IUDF was seen as more suitable.

The findings were compiled into a composite report for the two pilot ICMs and the relevant sections are contained in this report for the City of uMhlathuze.

4.3 Description of the findings

The high level assessment and findings is summarised for the City of uMhlathuze below in table format for easy reference, followed by a table of the checklist against the 32 indicators.

Table 2: Summary Findings on Infrastructure Asset Management

No.	Indicator	Findings
1.	Organisational Culture	This is positive and officials appear to continually strive to improve compliance and are open to receiving support in areas of weakness
2.	Expenditure against the capital budget	Good performance in spending almost all the capital budget (93% last fin yr) and infrastructure grants (close to 100%)
3.	Funding of Infrastructure	Found responsible financial practices for funding infrastructure and asset management: good funding mix – grants = 28% and 53% own funds and importantly the remainder from borrowing; informed by longer term planning; prudent amounts to fund new and renewal of assets (10% of asset value); has a capital replacement reserve fund. National Treasury commended it on its good credit rating, high collection rate and economical salaries and wage bill.
4.	Auditor General Audit results	Good record of clean audits. Clean audits imply sound supply chain management processes for infrastructure, compliance with regulatory frameworks and good management.
5.	Access to basic level of services	This has improved over time and now 98,2% of hh have access to water and sanitation (2016) and access to sanitation has improved along with full access (99,9%)to electricity
6.	Asset Management and Project Management	An asset management policy of the municipality is being prepared. The PMU capacity has improved in the past 2 years but still some vacancies. Do project manage the capital projects through SOPs and steering committees but recognise some shortcomings.
7.	Maintenance	Budgets well for maintenance despite no Asset Management Policy presently. Does have maintenance plans for key infrastructure. Does monitor and assess condition of infrastructure. Maintenance plans for routine maintenance for 3 key sector and implemented internally and by contractors. Asset register does inform some life-cycle planning of infrastructure.
8.	Internal Audit	Management does take internal audit finding seriously. Found audits of infrastructure asset management and found it improved. Audit of project management led to improvements in contracts (performance management) and setting up SOPs. Are open to testing application of the CIDMS approach as a test case for ICMs
9.	Water and Sanitation	Overall this sector has performed well. It maintains water quality in terms of standard monitoring procedures, including testing water quality at WTW and WWTW[14].

[14] City of uMhlathuze has a WSA that is well capacitated and includes scientific services to monitor water quality in the WTW and WWTW. It meets the SANS 241 standard and has adopted the ISO 17026 QMS for testing laboratories. It has Drinking Water and Wastewater Incident and Failure Response protocols. It has implemented a Water Safety Plan and Wastewater Risk Abatement Plan (DWS requirement). The Water Safety plan includes the SOP. They have partnered with CSIR to improve online Water Quality Monitoring Systems (WQMS) and they also have a telemetry network to monitor key infrastructure installations.

No.	Indicator	Findings
		Has reduced water losses through pipe replacement, meters installation for example. Had blue and green drop status when it was reported by DWS. Have found the MUSSA process of DWS useful but they do not produce a specific MUSSA – specific improvement plan. They have noted their tariffs may need revision as the normal rate is low.
10.	Electricity	Service performing well – no backlogs in its area of supply. Collections contribute significantly to revenue; there is a 20 year Master plan in place and an electricity maintenance plan.
11.	Roads	Has a Roads Management System to plan preventative maintenance capital projects
12.	Infrastructure planning	Each infrastructure sector embarks on sound planning and management meetings discuss prioritisation across the sectors. There is no formal process as such for prioritisation across sectors although projects are interrogated by the budget office before going to senior management and checking for alignment with the SDF
13.	Portfolio and programme management	Top management meetings are used to prioritise across sectors in terms of overall organisational objectives across the wider infrastructure portfolio.
14.	Multi-year approach to project delivery	A 3-year planning, procurement and implementation cycle is implemented. Room for improvement noted in particular earlier planning. They allow for over-commitment in the capital budget to achieve good levels of expenditure of the budget. They also appoint contractors on a longer term basis to allow for faster as-and-when appointments to improve expenditure of capital budgets.
15.	Delivery Management Strategy	No formal delivery management strategy but have registered PPPs with National Treasury. This indicates that options of delivery are being explored and implemented.
16.	Infrastructure SCM	These run well and take about 5 months from submission to award of tender. No irregular expenditure found by the AG. Have a Contract Management Unit. Only have a draft Infrastructure SCM policy. Not yet implementing the SIPDM but intends to.
17.	Service standards and customer care	Has service standards in place – service standard Charter. Avenues for citizens to complain or make requests. Did do a customer satisfaction survey (2017) where findings indicate that the municipality is doing well in terms of delivery of infrastructure but there is room for improvement.
18.	Organisational Design	A city-wider organisational work study to be undertaken to identify the type and quantity of skills required (vs the current organogram). Annual skills audits revealed a need to train PSC members on project management.

The 32 Diagnostic Indicators Checklist

In terms of the 32 diagnostic indicators derived from the methodology, the checklist for the City is shown below:

Table 3: Checklist of performance against 32 diagnostic indicators

No	Item	City of uMhlathuze

No	Item	City of uMhlathuze
1	Infrastructure asset management policy	No, initial draft only
2	3-year infrastructure capital expenditure plan	Yes
3	Monitoring and reporting against infrastructure plan	Yes
4	Large capital investment decisions based on projected life-cycle costs of infrastructure rather than just initial cost	Yes
5	Risk-based approach to asset management is in place	Yes
6	Infrastructure asset register is in place and is up to date	Yes, to a large extent
7	Information on infrastructure asset register is used to inform asset management planning	Yes
8	Condition assessments are carried out periodically	Yes
9	System(s) to prioritise repairs, based on risk	Yes
10	System for handling of complaints and responding to requests from citizens and stakeholders, including standards for reasonable response times; and monitoring and reporting on responsiveness	Yes
11	Financial and economic appraisals of major capital investment proposals	Business plans done, but could be more thorough
12	Multi-year approach to the planning and implementation of infrastructure projects	Yes
13	Cash-flow projections maintained for projects	Yes
14	Commitment register(s)	Yes
15	Flexibility to change annual project cash-flow projections during the year	Yes
16	Project pipeline	Partially, by sector
17	Life-cycle asset management planning	Yes
18	Maintenance plans – preventative maintenance of a capital nature	Yes
19	Maintenance plans – repetitive operational maintenance	Yes
20	System of prioritization for reactive repairs based on risk	Yes
21	Management monitors implementation of maintenance plans	Yes
22	Infrastructure SCM policy (part of SIPDM)	No
23	Infrastructure procurement strategy (part of SIPDM)	No
24	Decision-gates for large capital projects (part of SIPDM)	No
25	Governance arrangements for management of capital projects	Yes
26	WSDP	Yes – in process
27	Water Safety Plan	Yes
28	Wastewater Risk Abatement Plan	Yes
29	Municipal Priority Action Plan to address issues from DWS MUSSA assessment and DWS Reliability Plan	No
30	Water Treatment Works and Wastewater Treatments Works are classified, and process controllers have required qualifications in accordance with the classification	Yes
31	Roads Management System	Yes
32	Portfolio, programme and project management	Yes

Summary of Findings

The diagnostic scan indicates that infrastructure asset management is generally sound in the City of uMhlathuze, and that there is a low risk of weak asset management preventing the goals of the IUDG being achieved in the City. However, several areas for further improvement were identified and are noted in the section below.

4.4 Proposed areas of TA support

Based on the findings of the diagnostic scan of the infrastructure asset management and procurement and delivery management, the following 12 areas of potential support are suggested for discussion with the municipality:

1. Assistance in developing an Asset Management Policy (Table 2 - item 1);
2. Process to prioritise across sectors to improve infrastructure planning, in particular the 3-year capital expenditure plan (Table 2 – item 2)
3. Assist with an audit of compliance with the CIDMS approach and prepare improvement plans to address gaps (Table2– item 8)
4. Financial and economic appraisals of major capital investment proposals could be improved so that business plans are more thorough (Table 2 – item 1)
5. Ensure a project pipeline through supporting the Capital Expenditure Framework (CEF)
6. Maintenance Plans – repetitive operational maintenance: Could assist in reviewing the SOPs and technical standards of the internal maintenance units and support for implementation of improved SOPs with a view to improving their efficiency and effectiveness (Table 2 – item 7)
7. Development of an Infrastructure Supply Chain Management policy in terms of the SIPDM (Table2– item 16)
8. Development and implementation of an infrastructure procurement strategy in terms of helping with the implementation of the SIPDM (Table 2 – item 16)
9. Identifying decision-gates for large capital projects (part of SIPDM)
10. Preparation of the DWA's MUSSA improvement plan should be put in place and monitored by management (Table 2 – item 9)
11. Municipal Priority Action Plan to address issues from DWS MUSSA assessment and DWS Reliability Plan which will include developing more cost-reflective water tariffs given that the 'normal' tariff is not cost effective (Table 2 – item 9)
12. Portfolio, programme and project management capacity in the PMU will need attention to the filling of vacant project manager positions (Table 2 – item 6)

5. Area 3: The Capital Expenditure Framework readiness

5.1 Introduction

The diagnostic report on readiness to prepare a Capital Expenditure Framework as required by the Spatial Planning and Land Use Management Act, 16 of 2013 (SPLUMA) (Clause 21(n)) is the first step towards developing and implementing the preparation of CEFs. It is intended to scan the readiness of the municipality to prepare a CEF. The following steps will see a standardized CEF being supported in ICMs. Importantly, the new IUDG has qualifying criteria related to having a CEF in place.

As part of this TA support, a firmer description of a CEF was developed because SPLUMA itself does not define or describe a CEF. This report uses the following description:

> "*A capital expenditure framework is a comprehensive, high-level, long-term infrastructure plan that flows from a spatial development framework. The capital expenditure framework estimates the level of affordable capital investment by the municipality over the long term. Affordable capital investment is determined by comparing an estimate of capital investment needs to an estimate of available capital finance sources. The affordable capital investment should be disaggregated by sector; by target user (poor households, non-poor households and non-residential users); by investment driver (informal settlement upgrading, other new infrastructure and renewal) and in space.*"

Following on the description, more detail on the overall model of a CEF and its component parts was developed. With a more robust understanding of a CEF, the criteria that a municipality needs in place to be able to prepare a CEF formed the basis of the status quo.

5.2 Methodology

Like the infrastructure asset management methodology in the previous section, the TA needed to develop a "framework" within which to direct the nature of the diagnostic scan and then apply the scan.

The methodology can be summarized as:

- desktop documents scanning;
- development of the "model" for a Capital Expenditure Framework[15];
- development of diagnostic criteria for components of the "model" CEF;
- interviews with officials and organisations;
- the application of the diagnostic criteria in interviews to arrive at findings;
- documenting the findings;
- proposing possible support areas.

The desktop scan for this sectoral area included a review of IUDF documents, infrastructure investment reports[16] and municipal planning documents (e.g. the IDP, SDF, infrastructure Master Plans) to determine the level of strategic alignment and the level of integration and coordination. The engagements and interviews served to add to, to verify and to expand the desktop findings. The methodology is a broad scan with participation of the City in order to build understanding and 'ownership' going forward.

The findings were compiled into a composite report for the two pilot ICMs, the relevant sections of which is contained in this report for the municipality.

[15] See Appendix 2 for the concept diagram of the components of the CEF.

[16] For example, the (DCOG, 2018) (DCOG, 2018) National Strategic Framework for Comprehensive Municipal Infrastructure Management in South Africa 10 February 2018 prepared by Department of Provincial and Local Government in collaboration of various National Departments and the SALGA guide to municipal infrastructure investment and the CIDB Toolkit to name a couple.

5.3 Description of the findings

The findings are structured as per the identified components of the proposed "model" of the CEF in table format for ease of reference. They include:

1. Strategic alignment;
2. Spatial Growth Analysis (Growth Strategy) , including socio-economic and economic growth analysis;
3. Technical analysis;
4. Financial analysis;
5. Prioritisation;
6. Capital Expenditure Framework.

Importantly, these components ensure that spatial planning (SDF), capital project needs and the capital budgets are all considered in a strategic way to prioritise needs within the available affordability envelope (budget) of the municipality. The diagnostic scan assessed these criteria or components. The high level findings are summarised in the table below:

Table 4: Findings from the Diagnostic Scan on readiness for the CEF

No.	Criterion	Intention of criterion	Key Findings
1.	Strategic alignment	To assess how well the municipality's policies (and legal frameworks) result in improved alignment, especially with the IUDG goals. To assess spatial integration at a high level (inclusion and access) and whether growth is spatially qualified in priority areas in the SDF.	The SDF complies with SPLUMA development principles and includes priority areas; Inclusion and access but is less strong on allocating growth to spatially defined priority areas; There appears to be strategic alignment between the political imperatives; The SDF is competent;
2.	Spatial Growth Analysis (Growth Strategy)	It is the quantification of the SDF (demographic, socio-economic and economic growth). It shows the anticipated growth and translates it into a land budget per land use. It links space (location) to numbers as per the SDF.	Currently no cohesive plan setting out the long term growth demands (say 10 years) for the municipality per priority development areas and which is underpinned by credible supporting data.
	2a.Socio - Economic Growth analysis		housing demand is covered Master plans all use different data (off different years too) and projections; There is a need for a common base to do planning across all sectors.
	2b.Economic Growth analysis		Do have a high level Economic Road Map; This could be applied per priority development area.
3.	Technical analysis	To assess infrastructure Master planning and asset management of each sector. To see if long-term capacity and asset maintenance requirements are met to determine replacement,	Are sector plans (Master Plans) for water, sanitation, roads and storm water and electricity; These only have a 5 year horizon; Are prepared at different times, making consolidation difficult; Do not address new areas that have been

No.	Criterion	Intention of criterion	Key Findings
		refurbishment and upgrading.	incorporated into the municipality; Projects are planned within the MTREF rather than over a 10 year period[17]; The Water and Sanitation Plans (most recent plans) shows very good alignment with the SDF and they have used the same population figures as the SDF and the IDP. Difficult to obtain a consolidated long-term view across all sectors that is strategic and related to priority development areas.
4.	Financial analysis	To assist in investment modelling; To help set the affordability envelope of the municipality; To support viable long term financial planning To support sustainable borrowing to fund infrastructure.	Mostly done on the MTREF 3- year cycle; No comprehensive formal long range financial planning; Difficult to project future revenue (including grant income) over a longer period; Borrowing capacity tends to be assessed on past performance rather than a longer term infrastructure investment view; INCA is supporting the City to prepare a Long Term Financial Plan[18] and this will go some way towards filling these gaps; Need to link financial planning to spatial planning and the location of investment in infrastructure.
5.	Prioritisation	To balance needs with available resources to address strategic objectives; Need a consolidated data base on infrastructure projects (project pipeline); Need to know the infrastructure backlogs, renewal and growth needs Need to be able to do this across sectors. .	The institutional arrangements[19] for budgeting do present opportunities for prioritising projects; There is no formal, institutionalised process of prioritisation that strategically prioritises programmes and projects; Each department budgets for their sector based on 3 year indicative as per the MTREF, which the Budget Office provides; It is not clear how these indicatives are arrived at; Each department tries to balance service delivery challenges from the IDP process and bulk capacity and asset management requirements flowing from their respective Master Plans; The Budget Unit engagement process with each department creates awareness of other departments' needs; The Budget Office to consolidate all the requirements to present to the Technical

[17] The 10 year horizon is mostly found where there are human settlement plans.

[18] INCA was appointed by National Treasury GTAC to do a long term financial plan and the process begins with the preparation of an Independent Financial Assessment, followed by the long term plan.

[19] The institutional arrangements for budgeting for and prioritising infrastructure projects include the Finance Department and Budget Unit assisting all departments to do budgets. The Budget Office engages each of the sector departments on the draft budget they prepare and revisions are made. The Budget office then consolidates all requirements and presents it to the Technical Budget Committee (Municipal Manager and all Heads of Departments). The Technical Budget Committee presents the budget to the Political Budget Committee.

No.	Criterion	Intention of criterion	Key Findings
			Budget Committee (TBC); The TBC (MM chairs) balances service delivery demands from the IDP with the need to ensure functionality of existing assets and providing adequate capacity for future demand (growth); This prioritisation process is not guided by formal strategic process and the criteria for prioritisation do not seem to be clearly articulated; The Political Budget Committee also influences the priorities.
6.	Capital Expenditure Framework	This is the outcome where the infrastructure requirements will be spatially aligned and financially affordable to the municipality and to the beneficiaries.	New instrument introduced by SPLUMA, so not expected to be in place. Have an IDP and capital budgets that cover the three year MTREF period with project lists per sector and per Ward. Some sectors have slightly longer-term plans (and for big bulk infrastructure); Not yet have a consolidated (across all the sectors) long term infrastructure plan which is aligned with spatial planning and spatial growth. Difficult to do a costing of service standards (e.g. individual house water connections or standpipe per 200m walking distance in low income areas) for priority development areas as these aspects are not built into financial models to determine future impact and affordability

5.4 Proposed areas of TA support

Based on the findings of the diagnostic scan for capital expenditure framework readiness, the following areas of support have been suggested for each of the component areas listed above, for discussion with the municipality:

5.4.1 Strategic Alignment

Alignment between policies/political imperatives and the SDF is sound in the municipality and support may not be needed.

5.4.2 Spatial Growth Analysis

This is required to arrive at projections of demand and land budgets in each priority development areas. A simple model could be tested initially, using national available and existing planning data to provide context for the scale and profile of each programme. An example of a basic template has been developed for the municipality, if required.

5.4.3 Technical Analysis:

That the Planning Department be assisted to engage with all the sectors to jointly develop the development strategies and quantify plans for each of the priority development areas and then list the infrastructure requirements for the future. This should include a view on bulk services capacity requirements and service backlog requirements per priority development area. In the absence of any sophisticated methods or models, it may be necessary to settle on something basic initially that is informed by the Master Plans and the Asset Management Plans for each Programme in each Priority Development Area. A template has been developed to assist with this, if required. Importantly, it will help to shift towards a more program – approach for each priority development area in line with the capital expenditure framework and the IUDG requirements.

5.4.4 Financial Analysis:

It is important that the Technical Assessment aligns with the Financial Assessment in order to establish what is affordable in terms of capex availability but also to facilitate choices with regards to service standards applied and technology choices. It is also proposed that support be given to develop a long term financial plan with the assistance of National Treasury. Support must then be given to aligning the long term financial plan to the Technical Assessment with an emphasis on the spatial investment perspective.

5.4.5 Prioritisation:

It is proposed that support be provided to develop a structure prioritisation model for Capex[20]. A prioritisation process can be facilitated using a simple model where Capex can be prioritised between programmes based on a needs analysis and a technical assessment. A template has been prepared for this should the municipality require it. The analysis will help to prioritise between programmes and the upgrading/renewal/new capacity required in space.

5.4.6 Capital Expenditure Framework:

the municipality to identify and consolidate longer term infrastructure requirements beyond the 3 year MTREF based on the outcome of the prioritization process where the municipality balances priority development areas taking due cognizance of IDP processes, spatial transformation objectives and infrastructure management requirements. The longer-term requirements should be estimated on a growth and aging infrastructure point of view and these need to be aligned to the Long Term Financial Plan. In order to meet the IUDF goals , the future infrastructure investment requirements need to be balanced with the projected affordability of the municipality. Guidance can be provided from the Core Systems for Local Government Infrastructure Delivery, 2017, document prepared by National Treasury.

[20] A suggestion is that it is done along the lines described in the Infrastructure Delivery Management Toolkit and Core Systems for Local Government Infrastructure Delivery document.

7. Diagnostic Scan Conclusions

This report is a consolidation of three diagnostic scans undertaken as part of the ICM support programme. The three areas relate to spatial planning, infrastructure investment and capital projects planning that can link these two to financial planning and budgeting in a way that incorporates long term planning and strategic decision making. The emphasis on the 3 key areas of space, infrastructure and finance are integral to the IUDF and its goals of integrated development through spatial transformation.

From this scan it is clear that a sound spatial planning system with sound spatial governance (good decision making, good information and data, good procedures and appropriate policies and instruments) sets the foundations for realistic longer term planning across all sectors. It provides a basis to inform infrastructure investment in the right places at the right service levels and develop project pipelines that help achieve agreed outcomes. The proposed Capital Expenditure Framework is an instrument that is both strategic and integrative. It is integrative in that it plans what infrastructure is required where (spatial location), it compiles infrastructure into programmes rather than *ad hoc* projects and it must realistically determine the priorities within the affordability envelope of the municipality. It takes a long term view and must link to the 3 yea planning cycle.

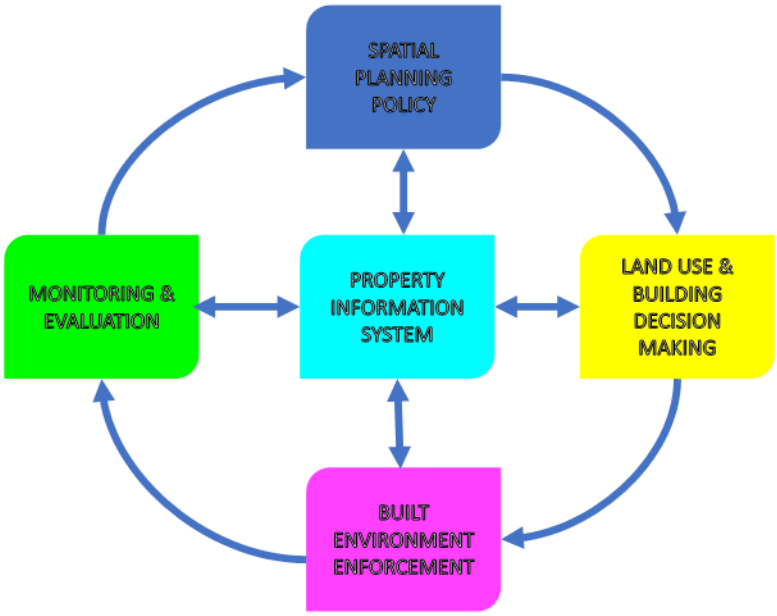
The City of uMhlathuze is an intermediate city that has undertaken responsible spatial planning, it has consistently obtained good financial ratings and AG reports, has raised infrastructure finance on the market and achieved high levels of revenue collection. So it has achieved well in the three strategic areas on the whole.

It is an area that is large geographically and comprises diverse areas, each of which makes particular spatial planning, infrastructure provision and financial demands on the administration. The findings of the diagnostic scan therefore highlights observations where there are gaps, where current procedures can be improved or where an aspect is absent.

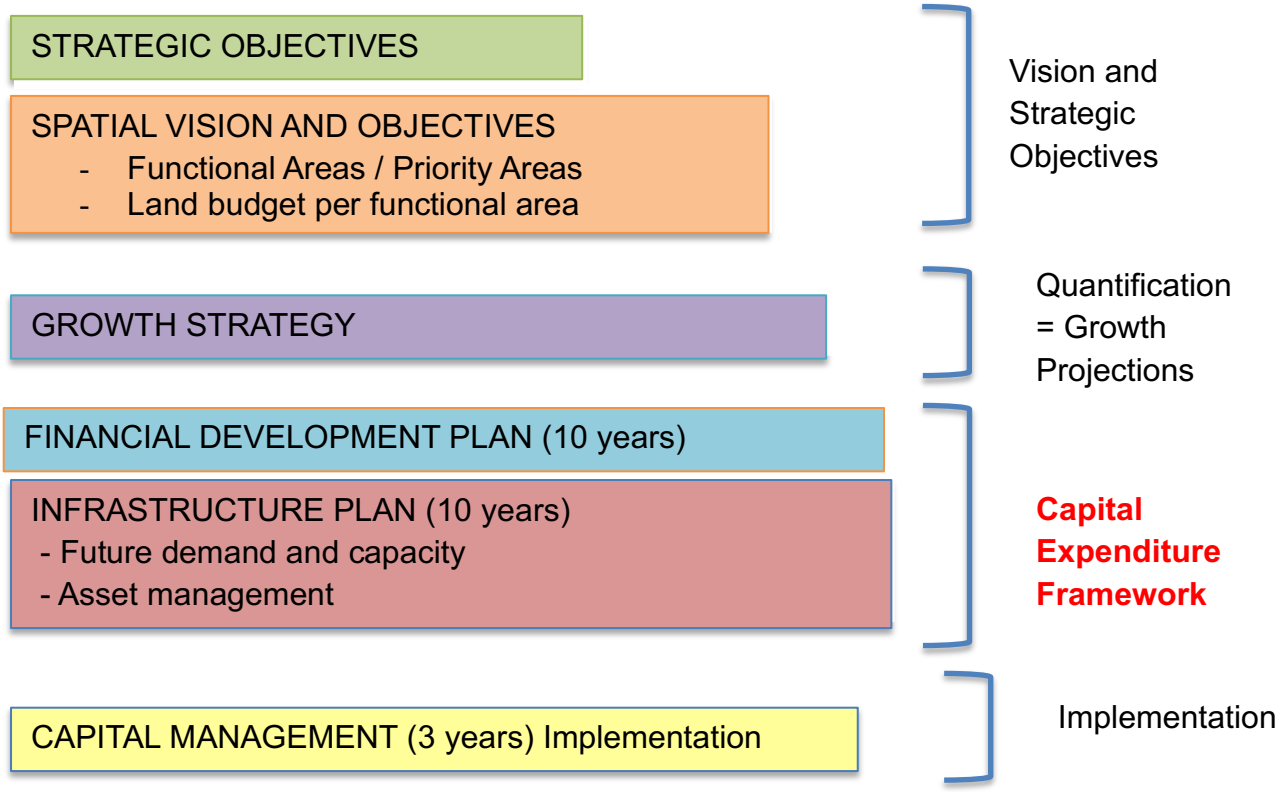
The proposed support areas that have been highlighted through the scan need to be work-shopped with the municipality and then agreed. From there, a programme of IUDF ICM support will be developed for presentation to the steering committee.

A concluding comment is that the City of uMhlathuze, as part of its responsibility as a pilot municipality, is working with the ICM support programme which is also evolving. This diagnostic scan process and methodology therefore new and untried and is being “tested” in the City. So we welcome comment from the City on the methodology, in addition to the findings presented in this report.

Appendix 1 – Conceptual Framework of the Spatial Planning System



Appendix 2 - Conceptual Model of the CEF and its components



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