NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
STRATEGIC DEVELOPMENT REVIEW AND SCENARIOS
NOVEMBER 2014

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1. INTRODUCTION

Cities are critical for faster and more inclusive economic growth in South Africa, because they have a significant base of infrastructure assets, an active human capital base, substantial economic activity, and an established institutional platform. It is important to maintain a virtuous urban growth cycle, with an expanding the number of households paying for services and property taxes, to provide future revenue streams from current investments.

Nelson Mandela Bay Metropolitan Municipality (NMB) appears to have entered a low growth trap that is likely to weaken long term prospects for economic growth and poverty reduction, and threaten the fiscal sustainability of the municipality itself. Although the local economy has recovered from the global recession, economic performance remains weak, confidence appears to be low and joblessness and economic exclusion remain widespread. More fundamental shifts in the composition of the local economy also appear to be underway. Although the metro has made impressive strides in expanding access to housing and basic services, this very success threatens the fiscal viability of the metro over the long term as low payment levels and rising operating costs erode its capacity to fund the significant investments required in infrastructure extension, maintenance and replacement.

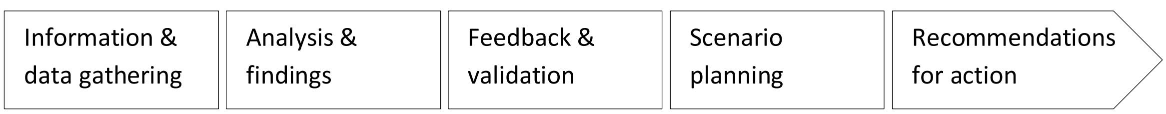
The long term vision of the metro is to position itself as “a globally competitive and preferred Metropole that works together with its people”. However severe institutional challenges appear to stand between this laudable goal and current realities. Despite commitment and significant capability, the municipality has been a weak and divided organisation. Municipal leaders face very significant choices in the short term that will have significant and lasting impacts on the lives of residents – particularly the poorest – and the economy of the city as a whole.

In August 2013 the Ministers of Finance and Cooperative Governance agreed on a package of short term support measures in August 2013, one of which was to accelerate the implementation of the City Support Programme (CSP) in NMB. The CSP subsequently engaged with the political and administrative leadership of the MBM metro on a strategic development review - a review of the development challenges and opportunities facing the metro; and the initiation of a strategic planning process which involved the development of a number of possible scenarios linked to important development choices which must be made.

Approach

The objective of this paper is to document the main results which have emerged during the period, and to facilitate an ongoing discussion among the leadership of the NMB metro on the strategic development challenges and choices faced by the city. This process of strategic review is outlined in the diagram below. The first two steps involved collecting and analysing information and data regarding the economic and development trajectory of the city and its metro government data. The analysis was based on existing analyses and material obtained from the NMBM, and through interviews conducted with political leaders and senior officials during November 2013 and January 2014.

The results of the analysis were presented to and discussed with political leaders and senior officials in a series of workshop engagements between February and May 2014. Once sufficient consensus was achieved on the challenges facing the metro, the scenario planning process (projecting likely outcomes of alternative development trajectories) was initiated. Specific recommendations to pursue a preferred development path were then developed.



The rest of this paper is accordingly structured into four main sections. **Section 2** records the key findings generated in the first two of the steps in the graphic above. In successive sub-sections it covers economic, development, fiscal and organisational progress and challenges. **Section 3** provides an outline of the nature, risks and benefits of strategy-making in the context of NMBM. **Section 4** deals with the scenario planning work undertaken by the senior management team, specifically outlining four possible futures facing NMBM. **Section 5** provides a number of recommendations to the NMBM which arise from this work.

2. REVIEW OF DEVELOPMENT CHALLENGES: AN EMERGING LOW-GROWTH TRAP?

2.1 Economic growth and challenges

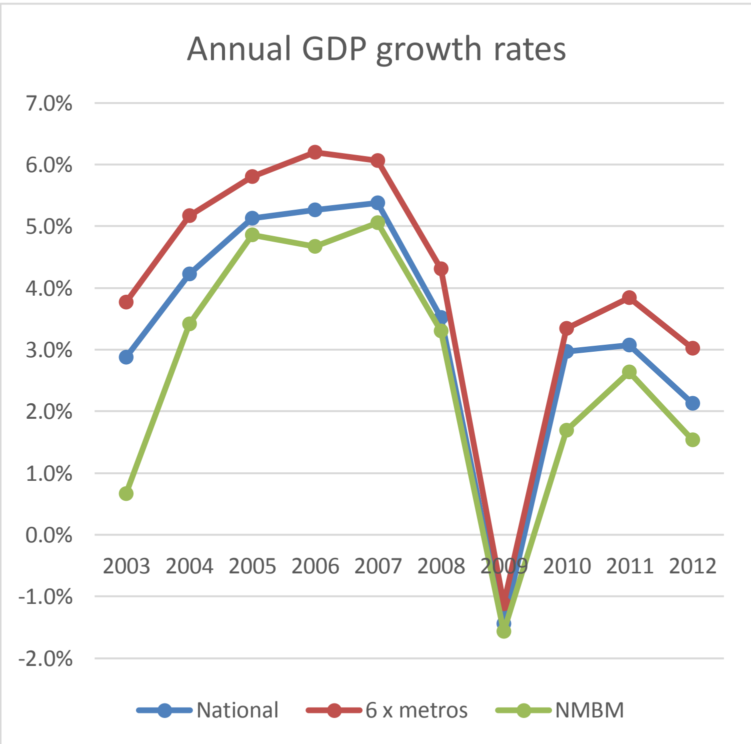
Nelson Mandela Bay is the sixth of South Africa's metros in terms of its population and its city economy. It has been the weakest performer of South Africa's largest metropolitan areas over the last decade. The aggregate gross value added (GVA) in the city was R54 billion in 2012, only 28% higher than the R43 billion of 2004 (2012 values).

CITY ECONOMY - GROSS VALUE ADDED (GVA) Constant 2012 values (R b)									
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Johannesburg	210	221	231	246	260	272	269	277	286
Cape Town	137	145	154	163	173	181	179	185	192
eThekwini	131	138	147	155	164	171	169	175	183
Tshwane	116	122	131	140	150	156	156	162	169
Ekurhuleni	80	85	89	94	100	104	101	105	110
Nelson Mandela Bay	43	44	47	49	51	53	52	53	54

Source: AHI-Global Insight (Regional eXplorer 574 (2.3h)

The economy of Nelson Mandela Bay has in fact performed worse than the country as a whole, while the metros on average have performed much better than the country as a whole. By 2012, the six largest metros had on average increased their city GVA by 30% since 2003. The national economy grew by 25.6% over the same period. But Nelson Mandela Bay managed to increase its city GVA by only 22.2%.

Comparisons of gross value added per capita provides an overall indication of city productivity. On this indicator, too, Nelson Mandela Bay has performed worse than average among its peers. While it improved its GVA per capita between 2007 and 2011, its performance has subsequently weakened.



To understand a little more about what lies behind these changes, it is necessary to examine the broad economic sectors that make up the city economy of Nelson Mandela Bay. The major sectors of the city economy are:

Per capita GVA for the six largest metros			
	2001	2007	2011
Cape Town	50,301	46,610	49,465
eThekwini	44,610	44,693	50,837
Ekurhuleni	36,691	34,505	33,035
Johannesburg	73,005	63,269	62,460
Nelson Mandela Bay	42,015	46,625	46,002
Tshwane	60,172	56,012	55,451
Metro average	51,132	48,619	49,542

Source: AHI-Global Insight Regional eXplorer 674 (2.5n); STATS-SA

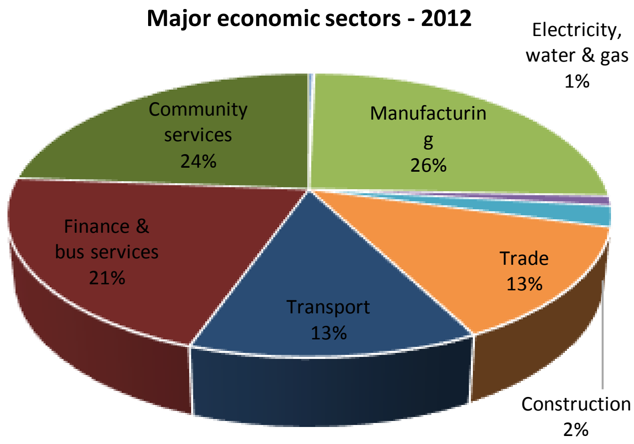
- Manufacturing (Food, beverages & tobacco products; textiles, clothing & leather goods; wood & wood products; fuel, petroleum, chemical & rubber products; other non-metallic mineral products; metal products, machinery and household appliances; electrical machinery , electronic, sound/vision, medical & other appliances; transport equipment; and furniture and other items); (26%)

- Community services (public administration and defense activities; education; health and social work; and other service activities); (24%). These are not directly productive sectors and rely upon the productivity of other sectors.

- Financial and business services (finance, insurance, real estate activities and other business activities); (21%)

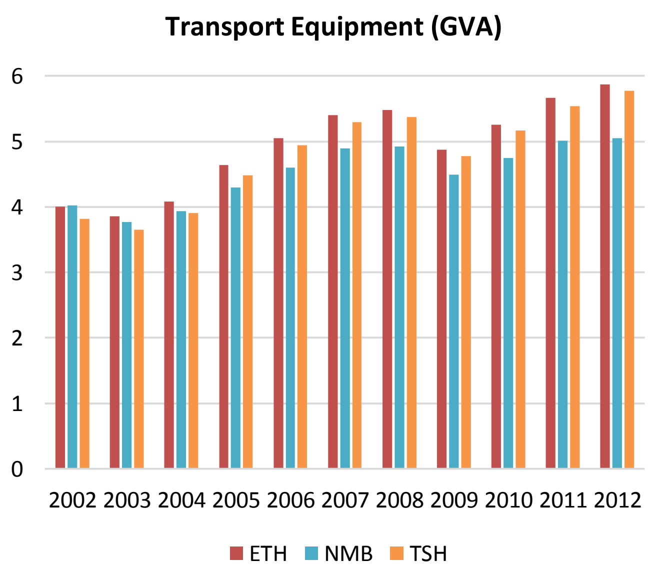
- Trade (wholesale and commission trade; retail trade and repairs of goods; sale and repairs of motor vehicles; sale of fuel; and hotels and restaurants); (13%) and

- Transport (land and water and air transport; transport supporting activities; and post and telecommunications) (also 13%).



Manufacturing is the traditional basis on the Nelson Mandela Bay city economy, but it has been growing relatively slowly over the last decade: only 24% between 2003 and 2012. In 2012 manufacturing was still the largest sector, though only just, as its share of the total has been gradually declining.

Construction grew very rapidly over the period between 2003 and 2012. Construction is a key input to other sectors, and does reflect growth in productive capacity and business confidence, but it remains a relatively small sector which cannot be relied upon for long term city economic development. Apart from this, the fastest growing sectors in the city economy were transport, trade, and community services.

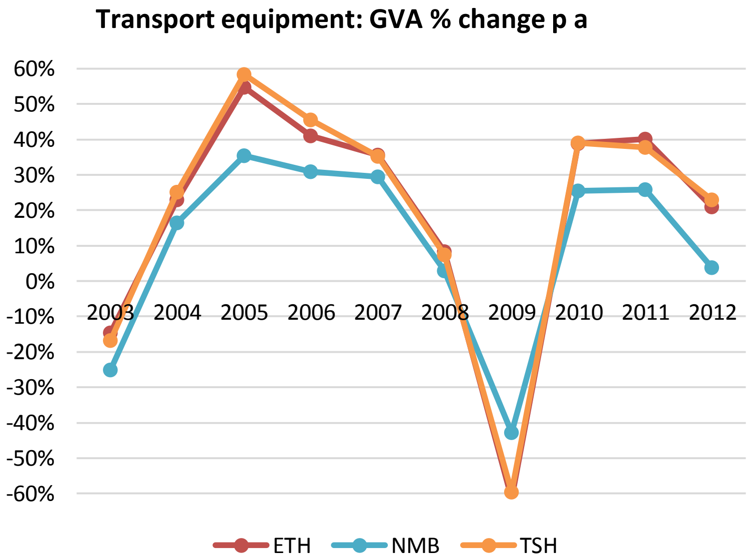


	Value added in 2003	Value added in 2012	Change in value added	% change in value added	Share of overall city value added in 2012
Agriculture	116	138	22	19%	0.2%
Mining	84	62	(22)	-27%	0.1%
Manufacturing	11,298	14,027	2,728	24%	25.4%
Electricity	549	621	71	13%	1.1%
Construction	799	1,304	505	63%	2.4%
Trade	5,539	7,210	1,671	30%	13.1%
Transport	5,461	7,235	1,774	32%	13.1%
Finance	9,135	11,541	2,406	26%	20.9%
Community services	10,002	13,096	3,094	31%	23.7%
Total industries	**42,983**	**55,233**	**12,249**	**28%**	**100.0%**

Source: AHI-Global Insight Regional eXplorer 674 (2.5n)

Again, to help understand what has been happening in manufacturing, it is worth looking at the history of the manufacturing subsectors. For Nelson Mandela Bay the key manufacturing subsectors are (a) transport equipment and (b) Fuel, petroleum, chemical and rubber products. In 2002 Nelson Mandela Bay had the largest transport equipment sector in South Africa, marginally larger than that of eThekwini, and 5% larger than Tshwane's transport equipment sector. By 2012 however Nelson Mandela Bay was distinctly in third place (adding 12.5% - 14% less value in the subsector than eThekwini and Tshwane respectively).

It is especially clear that the transport equipment manufacturing has grown faster in the rival cities than in Nelson Mandela Bay every year between 2003 and 2012, with the sole exception being the recession year of 2009, when the negative growth (i.e. decline) in the sector was less severe in Nelson Mandela Bay than in Tshwane or eThekwini.



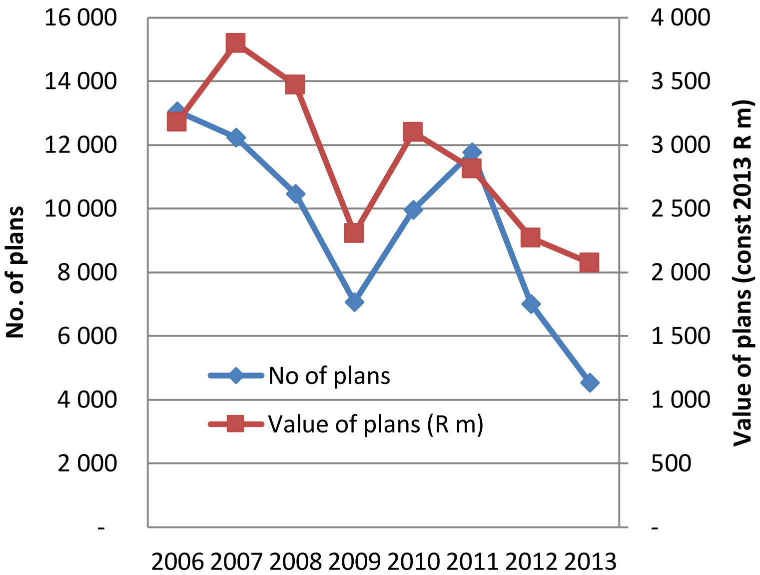
While this comparative lack of dynamism blunts the competitive edge of the city, it does also seem to indicate a degree of resilience in the sector to the economic downturn. For instance, it may indicate that local firms are more established and better able to weather economic cycles.

However, the gap between the two other cities and Nelson Mandela Bay has been increasing: where in earlier years growth rates in the sector were only a few percent lower in Nelson Mandela Bay than the others, after the international recession the other two cities the transport equipment sectors have grown 10% and 15% faster than in Nelson Mandela Bay.

It appears that manufacturing occupies a declining share of the economy and is itself declining in competitiveness. Its place is being taken by sectors such as finance and community services, which are not directly productive and rely on other sectors for their financial progress.

All in all however, the clearest signs warning economic decline come from the record of building plans submitted to the city government. This data also shows clearly the effect of the international financial crisis in 2009, when the both the number of plans submitted and their value fell to their lowest levels since 2006. It is especially alarming that neither indicator fully recovered after the crisis, and both have since fallen steadily. Both the number of building plans submitted and their value were by 2013 lower than seen at the depths of the recession. The number of building plans submitted in the 2013 financial year was 4,540, 36% lower than the 7,068 submitted in the year to June 2009. The value of the building plans submitted in 2013 was R2.074 billion, 10% below the level of 2009 (calculated in constant 2013 values).

Annual number and value of building plans submitted (const 2013 R m)



Source: NMBM Planning department records

How does the performance of the city economy relate to its population? Nelson Mandela Bay stands out among the six largest metros as being the city whose workforce[1] is the smallest fraction of its residents (40%). It also has the highest unemployment rate among the metros.

Employment and unemployment in 2011 (Stats SA)					
	Employed	**Un-employed**	**Workforce**	**Workforce as % of resident population**	**Unemploy-ment rate**
Johannesburg	1,696,520	564,970	2,261,490	51%	25%
Ekurhuleni	1,126,844	455,608	1,582,452	50%	29%
Tshwane	1,079,273	345,356	1,424,629	49%	24%
Cape Town	1,294,239	405,989	1,700,228	45%	24%
eThekwini	992,560	430,318	1,422,877	41%	30%
Nelson Mandela Bay	290,155	167,229	457,384	40%	37%

There were only 0.89 employed people per household in Nelson Mandela Bay, and as many as 0.52 unemployed people per household. Both of these are worst among all of all of NMBM's peers.

Comparative demographic data for the metros in 2011 (Stats SA)				
	Population	**Households**	**Employed per household**	**Unemployed per household**
Cape Town	3,740,026	1,068,573	1.21	0.38
Johannesburg	4,434,827	1,434,856	1.18	0.39
Tshwane	2,921,488	911,536	1.18	0.38
Ekurhuleni	3,178,470	1,015,465	1.11	0.45
eThekwini	3,442,361	956,713	1.04	0.45
Nelson Mandela Bay	1,152,115	324,292	**0.89**	**0.52**

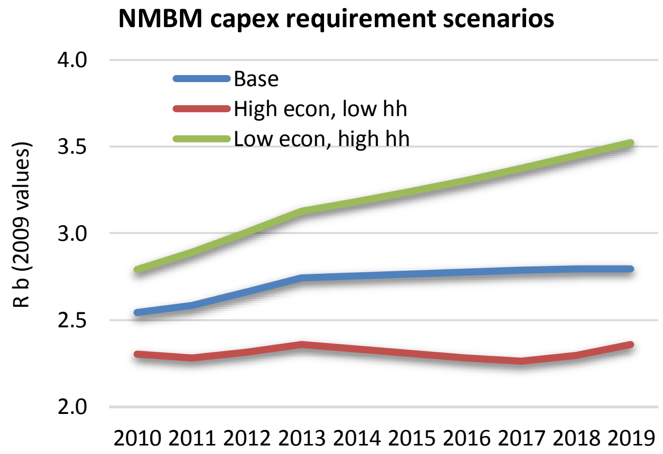
The data in this section highlights the economic challenges facing Nelson Mandela Bay as a city:

- The city economy has since 2003 grown more slowly than the average for metros and even than the country as a whole;

[1] The `workforce' is the number of employed plus the number of unemployed. Discouraged work seekers are therefore are therefore not included in this definition of the workforce.

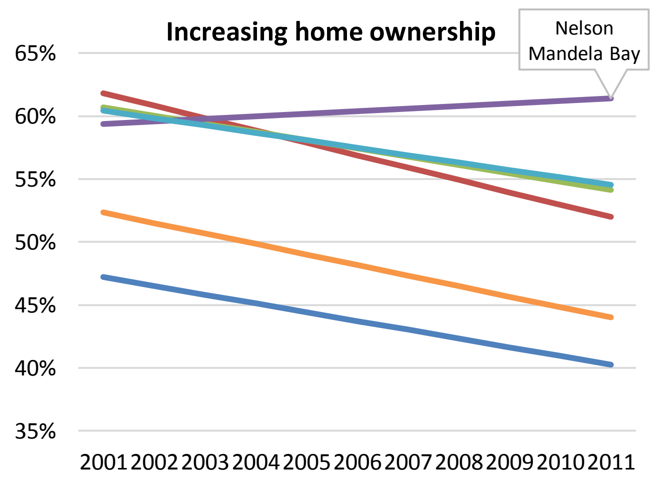
- City economic performance has been particularly weak since 2010;GVA per capita improved somewhat to 2007 (though it remained below the average for metros) and has subsequently worsened again;
- It's productive economic sectors are being replaced by less directly productive sectors;
- Even its key manufacturing subsector, transport equipment, is losing ground to other metros; and
- The city workforce is relatively smaller, and there are comparatively fewer employed people and more unemployed people per household, than in other metros.

2.2 Development progress and challenges

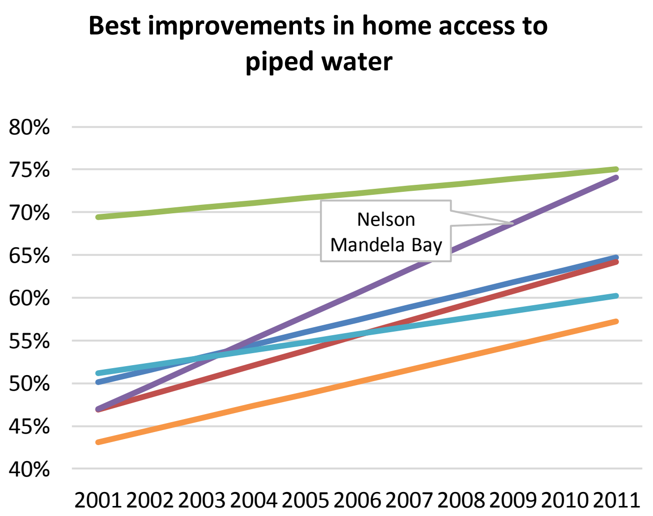


NMB metro has been effective in delivering its social package to the poor, especially in respect of housing and free basic services. Data from Stats-SA confirms that has the highest percentage access to formal housing and piped water among the metros.

This success has provided a massive asset wealth enhancement to new homeowners. However, it appears that this is not being used for economic participation. Furthermore, unlike the other metros, population growth in NMBM continues to accelerate (admittedly off a low base). The successful delivery of social packages to the poor will not be sustainable without economic growth and development, since it is precisely economic growth and development which will provide the NMBM with the growing revenues it needs to finance its growing social packages. Labour-intensive, shared growth is the essential ingredient for future municipal revenues.

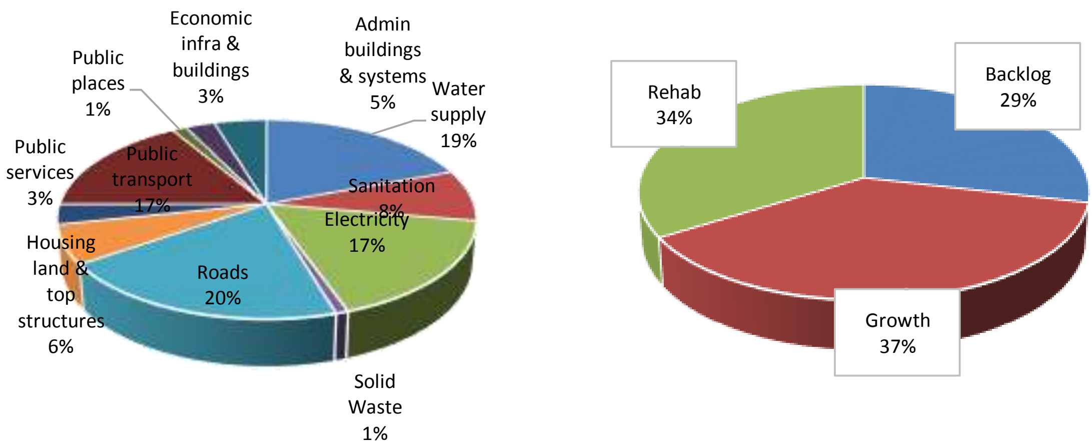


If the city economy grows fast and the number of households grows relatively slowly, the city economy will be able to finance the social packages relatively easily. By contrast, if the city economy grows slowly, and the number of households grows fast, the city economy will not be in a position to finance the infrastructure and services required. This latter situation is the developmental dimension of the `low growth trap'.



Investigations done for the NMBM suggested that its infrastructure investments requirements over the next decade amounted to approximately R26.6 billion, made up as illustrated in the diagram. Roads, water supply, electricity, land and top structures for housing, public transport, and sanitation infrastructure made up the bulk of what will be required.

This necessary investment seems no longer primarily about overcoming the apartheid backlog, although that remains significant: instead it necessary investment is mainly to provide for expected growth in households and the economy, and for refurbishing existing infrastructure which is nearing the end if its useable life.



But the amount of infrastructure required depends on the growth of the population and of the economy. The following table sets out the 10 year infrastructure needs depending on different scenarios for growth of the households and of the economy

	A	B	C
GDP growth rates	High (6.4%)	Base (4.3%)	Low (2.1%)
Household growth rates	Low (0.8%)	Base (1.7%)	High (2.6%)
Ten year capex need (2011 R b)	26,390	26,652	30,375
Annual capex need (2011 R b)	2,639	2,665	3,037
Deviation from base case (%)	(-1%)	(0%)	(+14%)

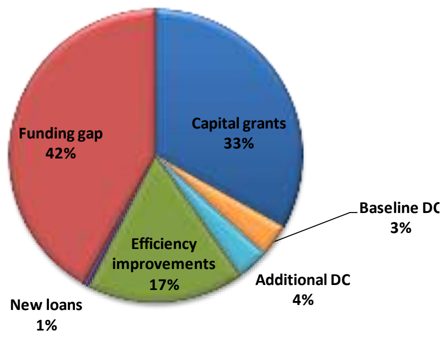
A low economic growth and high household growth scenario (case C) will require 14% more infrastructure spending than the base case (Case B).

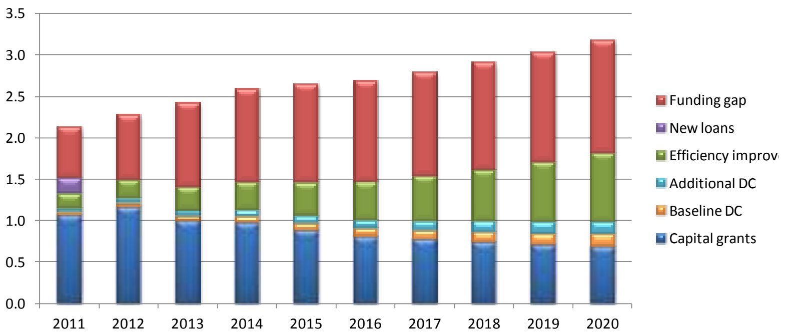
Can NMBM afford to finance this capital investment programme, which ever scenario plays out? Any funding gap can be at least partially closed by improving administrative performance such as reducing its under-billing, improving its collection rates, increasing its tariffs in excess of inflation rates, and enhancing its expenditure efficiency. The funding gap could be reduced by further borrowing (although then interest will need to be paid), and making more use of developer contributions.

The table below suggests parameters for feasible and optimistic levels of administrative effort (from a base year of 2009) on these matters on the part of NMBM.

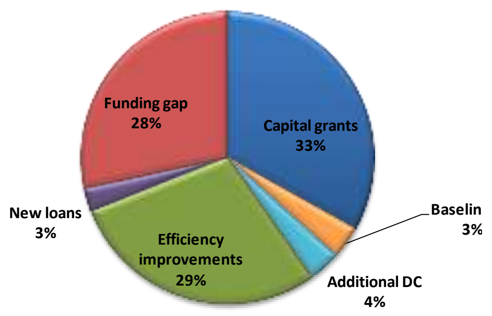
Item	Description	Feasible	Optimistic
Reduced under-billing	Incremental to prior year improvement %:	0.1%	0.2%
Current collection rate	Current collection rate	91.0%	91.0%
Improved collection rates	New collection rate %:	95.0%	97.0%
Tariff increases in excess of inflation	Incremental to prior year improvement %:	0.1%	0.2%
Expenditure efficiencies	Incremental to prior year improvement %:	0.1%	0.2%
Increased use of developer contrib	Incremental to current baseline %:	100.0%	100.0%
Extent of gearing adjustment	% of maximum potential debt taken out	100.0%	100.0%

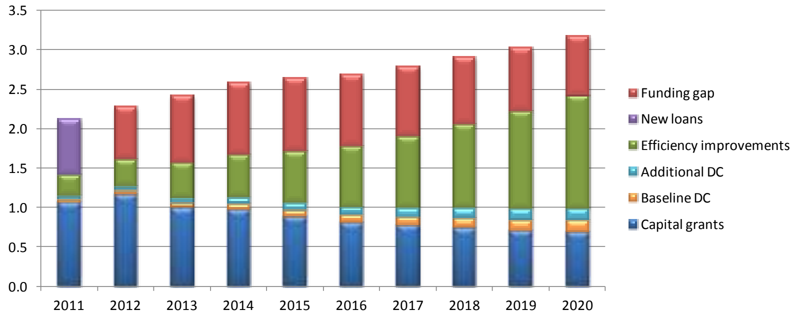
In the feasible case, NMBM could afford to finance only 58% of the capital expenditure required, and would remain with a 42% funding gap.



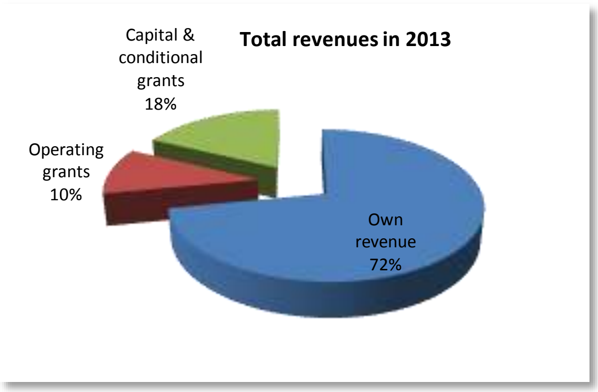


In the optimistic case, NMBM could afford to finance only 72% of the capital expenditure required, and would remain with a 28% funding gap.

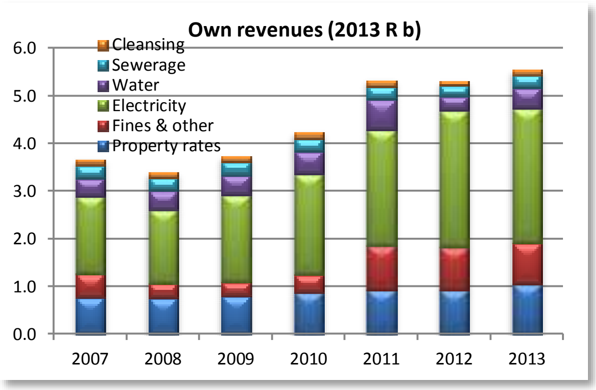




2.3 The challenges of fiscal capacity

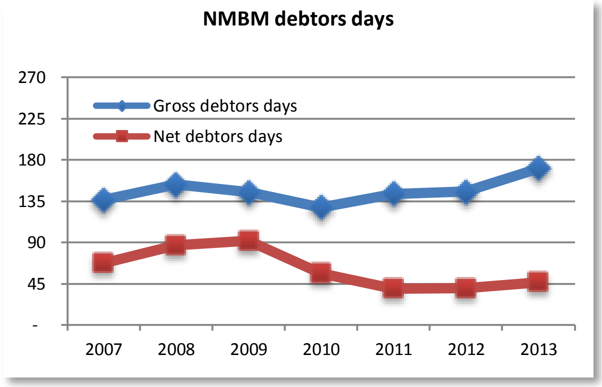


The economic, demographic and governance trends and contradictions of the city are all visible in fiscal history of the Nelson Mandela Bay metro. A number of indicators reveal that the fiscal position of NMBM has weakened over the last eight years. Whereas in 2004 the metro raised 94% of its operating revenues and 87% of total revenues from its own sources, in 2012 it could only fund 86% of its operating revenues and 72% of its total revenues itself.

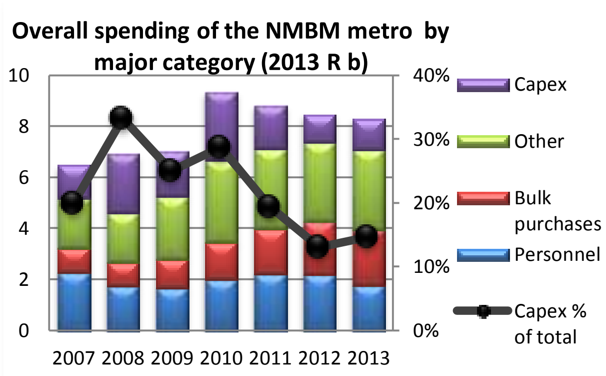


Furthermore own revenues have become increasingly reliant upon electricity billings, which now account for 51% of own revenues (up from 39% in 2004). The current dispute with large energy users over electricity charges highlights the increasing fragility of this situation.

NMBM is also increasingly unable to collect its billings. The total amount owing to the municipality amounted to 171 days-worth of own revenues (nearly half a years-worth of billing). This was far higher than the 107 days-worth of amounts owing in 2004[2].

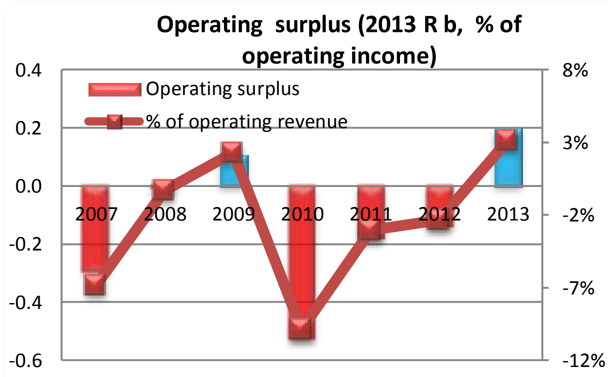


On the expenditure side, the city government has faced sharply rising input costs, particularly for bulk supplies of electricity and water; and the costs of its employees. These trends have applied to all city governments. However, Nelson Mandela Bay also stands out from its peers on its employee-related spending. In 2011 it had 5.69 city employees per 1,000 city residents and its average staff cost) was higher than all other city governments except Tshwane. Cape Town could be argues to be better able to afford its high staff costs, given its much larger city economy; and Tshwane has a lower staff ratio. By comparison Nelson Mandela Bay appears to have the worst of both worlds.

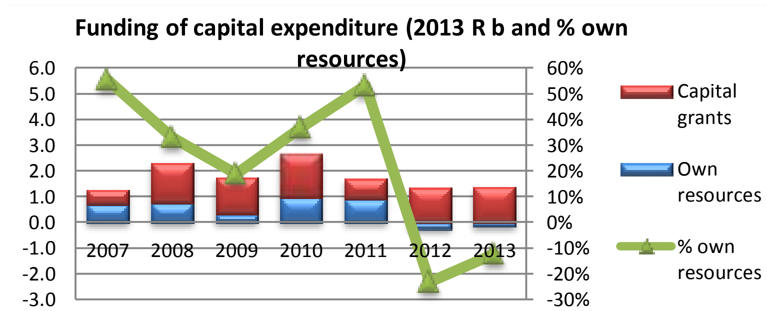


	No of city employees per 1000 residents	Employee related spending per city employee
Johannesburg	5.47	284,795
Cape Town	5.67	312,104
eThekwini	5.40	283,352
Tshwane	4.70	330,222
Ekurhuleni	5.64	268,467
Nelson Mandela Bay	**5.69**	**314,654**

The overall operating position of the city reflects an ongoing struggle to finish the financial year in surplus. City governments in South Africa generally require an operating surplus of 15% of operating income if they are to be in a position to adequately finance their capital expenditure requirements. By contrast, Nelson Mandela Bay Metro has only managed to achieve a surplus in two of the last eight fiscal years, the best performance being only 4% in 2013.



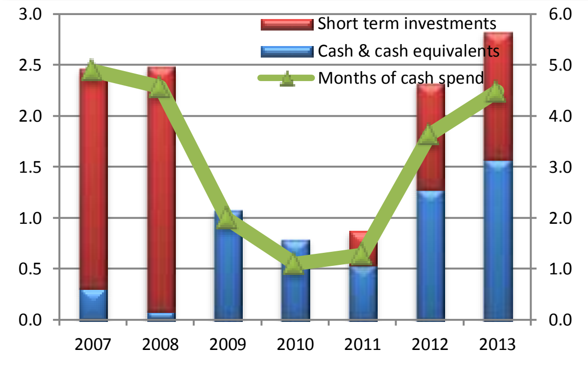
Indeed, the Nelson Mandela Bay metro has sharply reduced its capital expenditure over the years. Capital spending peaked at 35% of overall spending in 2008, and even in 2010 was over 30% of overall spending. However in recent years capex has fallen to around 15% of overall spending. The metro has also become increasingly reliant upon capital grants for its capital expenditure.



[2] The trend in net debtors (debtors after providing for doubtful debts) reflects a commendable and ongoing fiscal discipline by the city government.

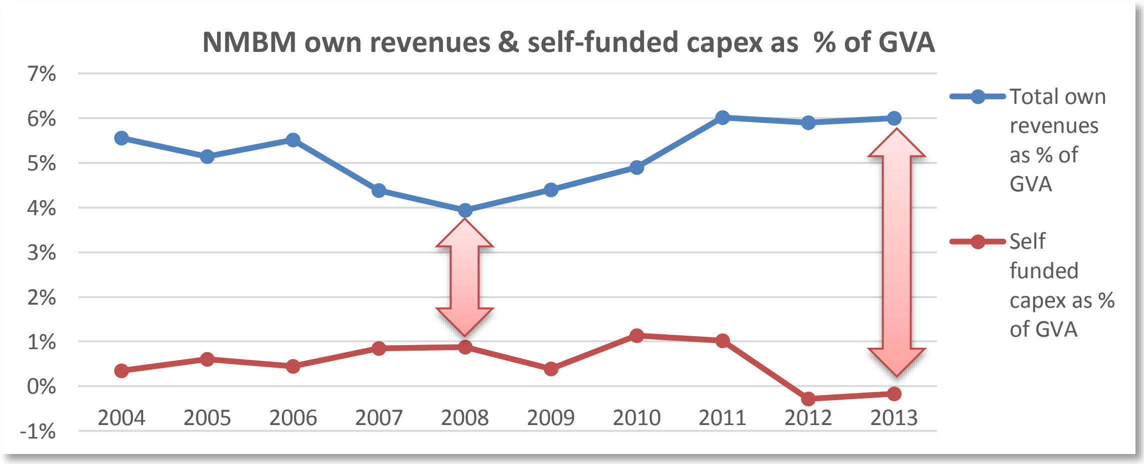
While it has long depended upon capital grants (reflecting its failure to generate operating surpluses sufficient to finance its own capex) in the last two financial years its capital grants have exceeded its capital expenditure.

The year-end cash position of the municipality has recovered from the very low levels to which it fell in 2010 and 2011. However this cannot be understood to suggest that the financial crisis facing the metro has passed. In particular there is reason to believe that the apparent cash surpluses are not available for general spending as they should properly be used to cover the depreciation of city assets.



One further dimension of the fiscal trajectory of the metro deserves to be noted. Nelson Mandela Bay is since 2011 billing approximately 6% of the value of local economic value added each year. This represents the resources that the city government has been taking out of the local economy. The ratio is much higher than in 2008, when after several years during which the local economy was growing faster that total billings, the ratio reached fell as low as 4%.

Self-funded capital spending (representing the resources which the city government has re-invested in the city economy) has fallen from a peak of just over 1% in 2010, to negative figures in 2012 and 2013. The widening gap between the resources extracted from the city economy and those re-invested in the city economy emphasises the burden that the city government has become. The NMB metro has not been propelling the local economy but instead acting as a drag on economic growth.



All in all, the data presented in this section suggest that in recent years:

- Operating cost structures have risen, particularly due to high overhead costs associated with bulk purchases and personnel.
- the city has been unable to generate the operating surpluses it requires to finance its capital expenditure needs, and has therefore become increasingly reliant upon capital grants;
- its actual capital spending has fallen sharply, to even below the level of its capital grants;
- its own revenues are increasingly reliant upon electricity charges, which are increasingly unaffordable to its customers;
- the primary incidence of higher charges in on smaller consumers
- gross debtors are rising faster than its overall billing.

The fiscal trajectory of the Nelson Mandela Bay is therefore also clearly unsustainable.

2.4 Organisational health

This section looks at the organisational health of the metro through four lenses: vision and strategy, governance and accountability, people management, and organisational climate.

Vision and strategy

While the city has an IDP, a SDBIP and a draft Built Environment Performance Plan (BEPP), there is not yet a clear medium to long-term view of where NMBMM would like to be and what strategic choices it will take to get there. While there are a number of goals and objectives (the language of intention) it is not always clear how or whether these will be implemented. This highlights a disjuncture between intention and practice.

Developing such a vision could be a useful rallying point to build alliances between the different role-players and factions within the area. Much like the concept of Khulani Corridor, there is a need to build corridors of agreement between the different role-players.

Governance and accountability

A number of issues have emerged under this heading, including:

- Political instability as a result of divided leadership.
- A blurring of the political-administrative interface.
- Inability to convene council.
- Lack of compliance with legal frameworks.
- Failure to act on internal audit findings, audit findings and forensic reports.
- Poor relationships with business (Mayor's business forum) and citizens (ward committees, (service delivery protests)
- Perceptions of corruption
- Problems relating to delegations
- Senior management instability

These issues are reinforced and illustrated by a deteriorating audit opinion. Over the past five years, performance, according to the AG, has been deteriorating. In 2007/8 the city received an unqualified audit report with no findings, 2008/9 to 2010/11 the opinion was unqualified with findings and in 2011/12 and 2012/13 the opinion was qualified with findings.

The deterioration is especially stark given the long history of unqualified audit reports achieved by NMBM, and especially since all other large metros achieved unqualified audits in 2012/13. The trend and comparison with other metros is presented graphically below:

TREND IN METRO AUDIT OPINIONS 2008 - 2013

Municipality Name	2008	2009	2010	2011	2012	2013
Johannesburg MM	Qualified	Unqualified	Qualified	Qualified	Qualified	Unqualified
Cape Town MM	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
eThekwini MM	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Tshwane MM	Qualified	Unqualified	Qualified	Unqualified	Unqualified	Unqualified
Ekurhuleni MM	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified
Nelson Mandela Bay MM	Unqualified	Unqualified	Unqualified	Unqualified	Qualified	Qualified

KEY:

1	Unqualified	Financially unqualified, with or without findings
2	Qualified	Qualified opinion
3	Adverse	Adverse opinion
4	Disclaimed	Unable to reach an opinion
5	Outstanding	Not finalised

The 2011/12 Consolidated General Report on the Audit Outcomes of Local Government indicate that NMBM performance required "intervention" in most audited areas of leadership, financial and performance management and governance. It was also the only metro to have deteriorated in all three areas of unauthorized, irregular and fruitless and wasteful expenditure.

For 12/13 year, the main reason for a qualified audit on the financial statements related to irregular expenditure. Numerous emphases of matter were raised relating to the financial statements and legal and regulatory requirements. These highlighted non-compliance with legal frameworks and poor performance in a number of areas. Of concern are the underlying behaviours and ethics which appears to be driving this including awards to service providers and family who are also in the employ of the metro and the non-declaration of such interests, lack of internal controls, and poor response to the recommendations of internal audit and the audit committee. Leadership sets the tone in an organization and the AG's findings on leadership are of particular concern, as reflected below.

Leadership

41. Leadership did not fulfil its oversight responsibilities with regards to the implementation and monitoring of internal controls. Failure to instil basic disciplines and provide a strong leadership tone to ensure sound financial management and compliance with laws and regulations has resulted in inaccurate and incomplete financial reporting as well as the contraventions of laws and regulations.
42. There was a lack of permanent and committed leadership within the municipality which, together with the political and administrative instability, filtered through to the key functional areas of the administration. More than 80% of senior management positions were vacant during the year, 45% of which were for a period of longer than 12 months. The continued absence of permanent senior officials to lead and guide the municipality compromises sound financial management and accountability.
43. A clear pattern of the political and administrative leadership's slow response to the audit messages and root causes is evident by the repeat findings in respect of irregular expenditure and non-compliance with laws and regulations.

People Management

People management performance can be understood the areas such as:

- Staff turnover
- Staff competence – this and turnover impact on the ability of the NMBM to deliver services and respond to development.
- Vacancies
- Appointment process
- Staff morale

In 2010/11 (MDB capacity assessment), a number of interesting things stand out:

- NMB had 88% of posts filled compared to an average of 75% for metros.
- 11% of staff left during the financial year (9% on average for the other metros)
- The main reason why staff left was retirement – 37% (18%) followed by end of contract period – 28% (48%). Resignations were at 18% which is the same as the average for metros.
- 42% of S57 posts were vacant for more than three months of the year (12%).
- 33% of S57 left during the financial year (8%).

- No registered professional engineers in water services (compared to average of 9 for cities)

The main area of concern relates to S57 positions – and this was certainly got worse since the 10/11 with rapid turnover of acting incumbents in these positions. Such changes and instability in senior management destabilizes the organization, severely demotivates those acting in the positions and compromises their ability to act objectively worry about short-term issues rather than taking a more medium to long-term view).

Organisational climate
Through the key informant interviews it became clear that:

- There is very low morale within the administration.
- People do not feel that their work is valued from a professional perspective.
- People feel despondent and overwhelmed.
- There is a culture of fear and consequently a need to "just keep my head down".

This climate is not conducive to bringing out the best in staff and consequently there is a real risk that those who have options will leave the metro for greener pastures.

Overall themes
Through looking at organizational health through the four perspectives identified, a number of themes emerge:

- **Analysis paralysis.** Over-articulation of the problem (NT, CoGTA, PT, Moody's – all saying the same thing) and despair at the inability to change it. This does not happen through intention, it happens through action and the challenge here is to move beyond using the past to define the future rather than informing it.
- **Instability.** The municipality as an institution has been severely eroded over the past years. The political leadership needs to decide whether it wants to appoint an administrative leadership cadre that is able to steer the administration out of the current situation into one where professionalism is valued and nurtured.
- **Divisions and silos.** A constellation of departments and interests, not an effective organization able to deliver. Lack of integration - between people, between factions, between departments, between politicians and officials. There is a need to build bridges and alliances.
- **Shadows.** "The shadow is the figure". It would appear that interests are being played out the space of the metro as an organization that do not always serve the best interests of the metro. For example, factional political interests are hindering the ability of the metro to plan and deliver. While such shadows are always prevalent in organisations, it is when they become the figure – in other words when they become the main force – that the organization starts to buckle under the strain and consequently the ability to deliver is compromised.

The following table sets out a typology of organisational effectiveness. The NMBM leadership could usefully use this typology to classify its understanding of the effectiveness of the metro as an organisation.

Level 4	An organisation that has excellent capability, is fully compliant and is performing above expectations. There is evidence of learning and benchmarking against global good practice which confirms progress towards world class. (source: TAU)
Level 3	An organisation that has sufficient capability, is fully compliant and its performance is adequate in terms of management practices. It has identified its capability gaps and is well placed to address them. (source: TAU)

Level 2	An organisation that has improving capability, is partially compliant or improving its compliance, but is performing below expectations in terms of its management practices. There are no clear plans to improve its performance and support action is required. (source: TAU)
Level 1a	An organisation that has insufficient capability, is largely non-compliant and is performing poorly in terms of its management practices. It is not well placed to address these weaknesses in the short to medium term and needs additional action and support to improve performance for effective delivery. It is not able to work towards any particular mandate (formal or other) because it lacks sufficient cohesion as an organisation. It is not really an organisation at all, but rather a collection of individuals, equipment and resources behaving and combining in unpredictable ways. (source: TAU and PARI)
Level 1b	A "captured" organisation that works to achieve a purpose other than its formal mandate, one, moreover, that is likely to be at odds with its formal mandate and is frequently illegal. (source: TAU and PARI)

2.5 Conclusions

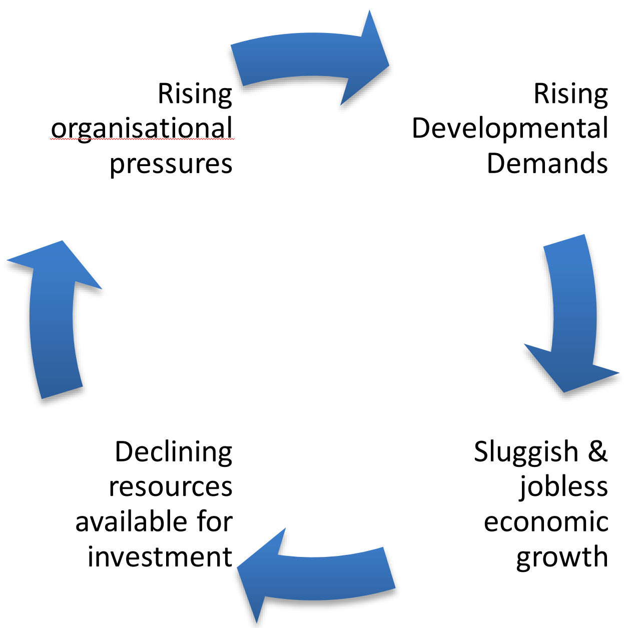
It can be concluded that the Nelson Mandela Bay Metro faces a number of key development contractions and challenges, whose negative effects are already evident. These are the following:

- Successful delivery of social packages locks in a long-term rising fiscal cost. This can only be sustainable if the tax base grows fast enough to support it. But the growth of the city economic has historically been too slow and is slowing further. There is thus a contradiction between successes in basic service delivery and declining economic performance.

- Recent proposed developments continue the trend of extensive rather than intensive urbanisation. Planned routes for the bus rapid transit system do not serve densely populated areas or even areas planned for densification. This is likely to permanently burden the city government with high subsidy requirements and poor coverage of public transport services. IT also implies ongoing urban ineffectiveness and inability to reap the full economic development benefits of urbanisation.

- Institutional and governance challenges, including in respect of vision and strategy, governance and accountability, organizational climate and people management.

Together these development challenges and contradictions do indeed amount to a low-growth trap.



3. HOW CAN NMB EXIT THE LOW GROWTH TRAP?

"Public strategy is the systematic use of public resources and powers, by public agencies, to achieve public goals." Geoff Mulgan: `The Art of Public Strategy: Mobilizing Power and Knowledge for the Common Good', (2008)

3.1 Strategy making

If anyone has the power to break out of this low growth trap, it is the leadership of the NMBM. The decisions taken and strategies adopted by this leadership will profoundly affect the development trajectory of the city. It is therefore extremely important that these decisions and strategies do systematically address the challenges of the low growth trap.

Strategy-making is not always either possible or relevant. It is easier when the environment is stable and predictable, and is much harder when (for example) the ruling party has a small electoral majority or internal factional conflicts, when political and administrative leaders have short job tenures (including acting appointments), and when the organisational culture is short-term (e.g. focused on tomorrows news coverage).

Furthermore most organisations are not able to successfully reverse long term declines, due to the objective context, to limited capacity, and/or their inability to make key choices.

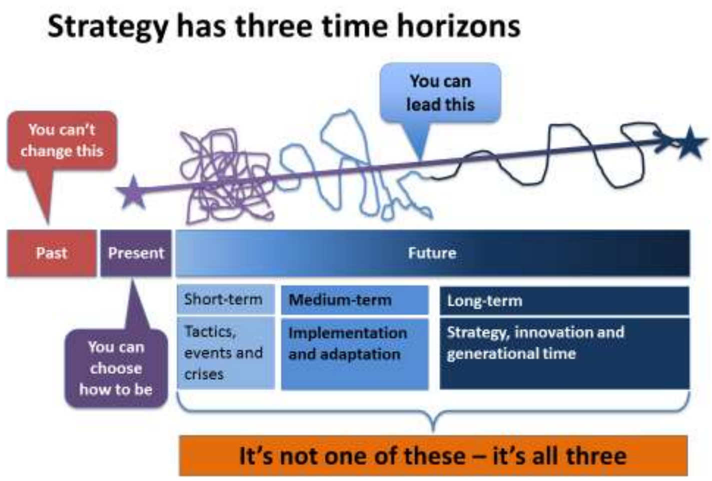
However many organisations have successfully implemented turnaround and other strategies.

Successful strategies require three key elements to be managed together: plans, organization and partnerships.

(a) **Plans**. The strategy should provide clarity on what will be achieved and how that will happen. It cannot achieve everything that anyone suggests, but instead will involve making clear choices.

The strategy will be implemented through plans, and these will simultaneously need to be implemented over three time horizons:

- Short-term – day to day crises and issues
- Medium-term – existing policies and programmes where performance and successful implementation are paramount
- Longer-term horizon – where new policies and strategic innovations become ever more critical to survival and success



Competent and responsible organisations that are ready for the future manage to keep their values and principles in sight while focusing simultaneously on all three different horizons of decision-making.

(b) **Organisation**: a successful strategy will be implemented by effective teams and a capable organization. It is therefore important to build your organisation to deliver your strategy

The organization is the second key to a successful strategy. Successful strategies have the power to inspire change and well-directed action throughout an organization. Organisational climate and culture are important to delivery and are strongly determined by leadership. Ultimately, it is the organisation – made up of people, working in teams - that delivers the political mandate and strategy of a municipality.

Climate (how people feel at work) and culture (how they behave at work) are directly related to productivity and delivery. In private companies, a 1% improvement in service climate, can yield a 2% increase in revenue, and workplace climate can account for 20-30% of performance.

In addition, leaders and the leadership team set the tone for and determine the character of the organisation. The primary determinant of workplace climate is leadership: 50-70% of how employees perceive their workplace climate can be traced to the actions of the leader. “More than anyone else, the boss creates the conditions that directly determine people’s ability to work well” (Goleman, Boyatzis, McKee 2001).

When an individual experiences personal motivators (to serve the community for example) as aligned with those of the organisation in which s/he works, with this fostered by good leadership at all levels, then her/his energy and motivation will bring results / delivery (Goleman, Boyatzis and McKee 2001).

Leaders should therefore energise and inspire their teams. Emotionally intelligent leaders understand the responsibility of positional power, and do not criticise and ‘put down’ their followers. They manage their behaviour and engage resonantly to energise and inspire followers to work (Boyatzis and McKee 2005).

Building a capable administration and a productive organisational culture is a leadership choice.

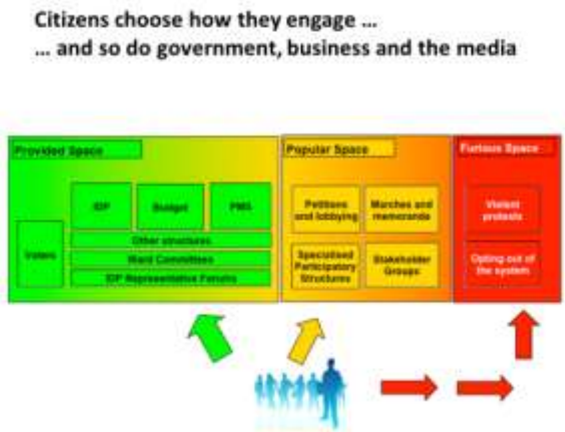
(c) **Partnerships**: a successful strategy requires meaningful partnerships with citizens, business, government and the media. Partners are key to the delivery of strategy, and it is generally impossible to effectively govern without partnerships.

Citizen partnerships are created through alliances and effective communication that focus on substance, rather than through formal processes that focus predominantly on procedure. Citizens chose how they engage.

Similarly, business may not be on strike so much as not being engaged with effectively.

The challenge (and the opportunity) is to create bridges.

Strategy making starts with an acknowledgement of the starting position of the city and its metro Council.



- Decide if you have an appetite to move to the "centre"
- Take steps – develop your strategy, nurture your organisation and build and sustain partnerships
- **The integration zone**
- Outcomes of the Feb Workshop

This analysis suggests four major strategic imperatives:

(a) The NMBM should urgently seek to address the economic decline of the city and build a platform for inclusive economic growth. This is possibly the most important focus area.

(b) The NMBM should urgently review its current capital programmes to align its investments in transport and in human settlements, to ensure that it does not continue to build long term fiscal risks into its spatial structure.

(c) The NMBM should work systematically and energetically to rebuild partnerships with communities and with the business sector, to support a strategy for inclusive growth and development

(d) The NMBM should work systematically and energetically to stabilise the administration, and build a culture of trust and collaboration especially among senior political and administrative leadership.

4. DEVELOPMENT SCENARIOS FOR NMB

Scenario planning is a strategic planning method that is used to make flexible long-term plans. Scenarios are distinct, plausible and specially constructed stories about what the future might look like. Their aim is not to pinpoint future events but rather to highlight large-scale forces the will influence the future. (Mintzberg, Ahlstrand and Lampel, 2009:62) They help to steer a course between the false certainty of a single forecast and the confused paralysis that often strikes in troubled times. In situations of conflict, they are also useful in assisting opposing parties to find room for agreement (Mulgan, 2009:83) and assist in identifying policy choices. Other benefits of using scenario planning include their ability to:

- Challenge conventional wisdom and "stress-test" existing strategies
- Expand our thinking on the range of possible outcomes: the future does not equal the past!
- Uncover inevitable or near-inevitable futures: through understanding the drivers of change or "predetermined outcomes" (e.g. those that arise from demographic change, economic principles, unsustainable trends or predictable events beyond the normal planning horizon)
- Monitor and manage uncertainty
- Protect against "group-think" and enable much deeper, more innovative thinking.

While the scenarios are useful in themselves, it is also the process of scenario building that adds value as is so well illustrated with the Mont Fleur example (see text box). They assist in building organizational capacity and improving stakeholder dialogue and trust. These issues are very present in NMBM today and therefore this method has a high degree of relevance as a useful tool in positioning the metro to recover from the turbulence of the past few years.

Examples of Scenario Planning in South Africa

a) Mont Fleur Scenarios (1991). A diverse group from the then government and the liberation movements developed 4 scenarios exploring what SA could look like in 2002: Ostrich (non-representative state), Lame Duck (incapacitated government), Icarus (macro-economic populism), Flight of the flamingos (inclusive democracy and growth). Each scenario was developed into a brief story. These were discussed with more than 50 diverse groups, combined into a 14 page newspaper insert and summarized in a 30-minute video. The project produced substantive messages, built informal networks and understandings, and changed ways of thinking. It showed the informal, indirect scenario approach is an innovative and productive method for a society in conflict to approach the future.

b) Dinokeng Scenarios (2009). 35 leaders from different sectors of society developed 3 scenarios on possible futures for SA in 2020 – Walk Apart (a corrupt and ineffective state and a distrusting and self protective citizenry), Walk Behind (an interventionist and directive state and a dependent and compliant citizenry), and Walk Together (a collaborative and enabling state with an engaged and active citizenry). These were shared with various stakeholders followed by a national media and engagement campaign.

c) ISS Scenarios (2014) developed 3 scenarios for SA up to 2030. Bafana Bafana is a forecast of "more of the same". "Mandela Magic" is the story of a clear economic and development vision pursued across all sectors of society. "A Nation Divided" reflects a South Africa that steadily gathers speed downhill as factional politics and policy zigzagging open the door to populist policies.

4.1 Scenario Planning in NMB

A Task Team, appointed by the City Manager, developed four draft scenarios for NMB. The intention of the exercise was to develop relevant but dynamic "stories" on possible futures for the city. None of these scenarios are intended to be "right", but rather to stimulate discussion among the leadership on ways to reach a preferred future.

The Task Team examined what the city *could* look like in 2030 through four lenses: development demands, economic trends, fiscal position and organizational performance. The four scenarios are:

- Walking together for growth
- Bundu bashing/walking in the dark
- Walking in circles
- Walking backwards

4.1.1 Walking together for growth

By 2030, the metro is a dynamic, creative city of choice for residents and investors. Economic growth rates accelerate above the national average, supporting provincial and national economic growth. NMB is a highly competitive global leader in the automobile sector, using this to advantage to diversify its economic base through the active development of auto value chains, and targeted support to strategic sectors such as agro-processing, fisheries and light manufacturing. A growing SMME sector, supported by educational improvements, erodes unemployment and dependency ratios. Fixed direct investment by firms and households grows strongly from 2017, as the economy expands and space is required for production and residential accommodation.

City leadership is able to use this growth momentum to re-enter a virtuous fiscal cycle of revenue growth and infrastructure investment that support inclusive economic growth. The tax base of the municipality grows as poverty rates decline, providing both additional revenues and reducing expenditures on Free Basic Services. A dedicated focus on revenue administration ensures all residents pay their fair share. Effective expenditure control systems enable the metro to maximise staff productivity, with it being widely viewed as an example of best practice in labour intensive basic service delivery. Tender processes in the metro are widely regarded as fair and transparent and the metro restores an unqualified audit opinion by 2017. Fiscal discipline is instilled through the budget process, which is seldom adjusted from original estimates, and shows little variance from expenditure outcomes at the end of the year. These measures enable the city to significantly strengthen its fiscal position, ensuring it has a sustained cash coverage to finance operations, rising cash reserves to finance asset depreciation (and thus the maintenance of the city's growing asset base). The operating metro's operating surplus grows each year, allowing it to finance an aggressive capital investment programme. The municipality is rewarded with an excellent credit rating, based on its sustained operating surplus, commitment to fiscal discipline and long track record in service delivery. This allows it to dramatically lower its cost of borrowing.

The city leadership uses this expanding fiscal space to accelerate long-term infrastructure investment programmes that are essential to supporting a growing local economy. At the heart of this approach lies a corridor based spatial development strategy that desegregates the city and builds a more compact urban spatial form. Bulk services infrastructure is secured through an integrated programme of demand management, efficiency improvements that reduce technical and commercial losses, and strategic programmes to development renewable wind and solar energy sources. Bucket toilets are eradicated by 2016 and all residents have access to basic services. From 2017 the municipality is able to strategically shift its developmental focus towards densification and desegregation. The refocusing of housing programmes towards creating sustainable human settlements, enables the municipality to focus on ensuring all residents are able to participate in an integrated housing market, with an appropriate mix of housing typologies, greater availability of rental housing options, and the re-development of townships to provide far wider mix of housing types, tenure arrangements, and densities. Informal settlements do still exist, but all residents have access to basic infrastructure and social services, and have greater security of tenure. By 2020, housing waiting lists no longer exist, and the city offers various financing options that encourage households to save for and contribute to their own housing needs. These savings and investments in turn provide a key resource for households to participate in the local economy, often through participating in infrastructures services delivery programmes. Effective public transport systems allow all residents to move cheaply and quickly across the city supporting local economic activity as well as a vibrant cultural and political life.

The dynamism of the municipality itself underpins this inclusive growth. Visionary political leadership is able to take early measures to restore organisational morale and reduce internal conflicts. This allows the city leadership to re-establish an integrated, strategic planning system in the municipality. Rising population growth – previously a challenge for the metro – is transformed into an opportunity as the municipality responds with innovation to the challenges this brings as they arise. Rekindling of social partnerships enables the city to work towards a shared vision for 2030 through an integrated strategy.

Strongly positive perceptions of the municipality among stakeholders allow it to encourage robust debate that supports ongoing choices necessary for continued innovation, growth and development of the metro area.

Quantifying trends: Walking together for growth

Area		Indicator	Baseline	2017	2020	2030
Economic	Growth	GVA growth (%)	2.0%	4.0%	5.5%	8.5%
		Auto sector GVA growth (%)	3.9%	6.0%	9.0%	13.0%
	Inclusion	Annual value of buildings completed	2.535	3.0	6.0	9.0
		Unemployment	36.6%	31%	25%	15%
		Dependency	46%	43%	30%	20%
Financial	Surplus % debtors	Operating surplus	-0.7%	10%	15%	20%
		Gross debtors-days	171	120	90	60
	Investment	Cash reserves	4.5	4	4	4
		Dependence on capital grants	87.5%	80%	50%	25%
		Financing gaps	43%	40%	30%	20%
	Operating	% Maintenance spending	7.40%	9%	11%	13%
		ATTP subsidy growth	31%	4%	2%	1%
		Staff productivity	1.222	1.5	1.9	3.8
Developmental	Access	Bucket toilets	30 000	15 000	4 000	100
	Spatial	Residential densities	24	25	32	45
	Housing	Housing backlog	71 000	60 000	30 000	15 000
		Households in informal settlements	35 257	30 000	15 000	5 000
	Mobility	Public transport share	42%	50%	60%	75%
Organisational	Planning	Shared vision	No	Yes	Yes	Yes
		Integrated strategy	No	Yes	Yes	Yes
	Staff	Staff satisfaction	Low	Medium	High	High
		Staff Turnover (posts)	High	Medium	Medium	Low
	Partnerships	Stakeholder satisfaction	Low	Medium	High	High
	Integrity	Audit opinion	Qualified	Qualified	Unqualified	Unqualified
		Corruption perceptions	High	High	Medium	Low

4.1.2 Bundu bashing (Walking in the dark)

By 2030, NMB continues to be a liveable city that faces massive economic and development challenges. Economic growth remains sluggish, constrained largely by the slow pace of investment in infrastructure. Private fixed investment is deterred by ongoing concerns with quality of services, utility costs and the long-term ability of the municipality to manage infrastructure services effectively. Unemployment remains stubbornly high.

This was not always the case. From 2017, a surge of infrastructure investment by the municipality addressed the most pressing infrastructure constraints in water supply and sanitation. However, this came at enormous costs that placed a long-term burden on the balance sheet of the municipality. As project costs spiralled, the municipality was forced to raise water and sanitation tariffs at well above inflation for four consecutive years. Simultaneously, energy prices continued to grow rapidly, but asset maintenance suffered as money was diverted to finance the water and sanitation mega projects. Uncertainty on the security of water supply, and concerns over high utility costs, deterred private investment and eroded the municipal tax base. Tough fiscal austerity measures and credit control ensured that the municipality avoided reporting operating deficits, but its borrowing capacity was consumed by the mega-projects and the increasing burden of providing free basic services.

The pressure of delivering these mega-projects placed the municipal administration under enormous strain, eroding trust between officials and political leadership, creating tensions with the business community, and encouraging perceptions of corruption in project implementation. Organisational morale, while high at the outset, swiftly declined. The Auditor-General continued to qualify his opinion on the NMBM financial statements, largely due to concerns with Supply Chain Management (SCM). As a result, the SCM system became torturously slow, due to widespread fear of non-compliance with ever-expanding controls. National economic growth, which accelerated from 2020, benefitted the city, but it was ill placed to capture its full fiscal and developmental benefits. Informal settlements grew as population growth accelerated and public housing programmes could not be stepped up. New private "gated communities" were quickly approved by the council to cater for middle income housing demand, but these developments relied little on municipal utility services but demanded road investments for private car users. This resulted in little net benefit to the municipal tax base – and entrenched already high levels of racial and class segregation.

However, by 2025, the municipality has completed these projects and was able to take measures to restore its fiscal health. A new round of planning was conducted, identifying key economic development investment projects that argued to be essential to the future of the city. The new racetrack was, however, a big-ticket item that had few predictable revenue streams. By 2030, sustainable economic growth seemed unobtainable for the city.

Quantifying trends: Bundu Bashing

Area		Indicator	Baseline	2017	2020	2030
Economic	Growth	GVA growth (%)	2.0%	4.0%	5.5%	2.0%
		Auto sector GVA growth (%)	3.9%	6.0%	9.0%	3.9%
	Inclusion	Annual value of buildings completed	2.535	3.0	6.0	2.5
		Unemployment	36.6%	31%	25%	37%
		Dependency	46%	43%	30%	46%
Financial	Surplus % debtors	Operating surplus	-0.7%	10%	5%	-1%
		Gross debtors-days	171	120	150	171
	Investment	Cash reserves	4.5	4	1	2
		Dependence on capital grants	87.5%	80%	90%	88%
		Financing gaps	43%	40%	50%	43%
	Operating	% Maintenance spending	7.40%	9%	3%	2%
		ATTP subsidy growth	31%	4%	6%	8%
		Staff productivity	1.222	1.8	1.9	0.8
Developmental	Access	Bucket toilets	30 000	15 000	4 000	30 000
	Spatial	Residential densities	24	25	32	24
	Housing	Housing backlog	71 000	60 000	30 000	80 000
		Households in informal settlements	35 257	30 000	15 000	40 000
	Mobility	Public transport share	42%	50%	60%	42%
Organisational	Planning	Shared vision	No	Yes	Yes	No
		Integrated strategy	No	Yes	Yes	No
	Staff	Staff satisfaction	Low	Medium	High	Low
		Staff Turnover (posts)	High	Medium	Medium	High
	Partnerships	Stakeholder satisfaction	Low	Medium	High	Low
	Integrity	Audit opinion	Qualified	Qualified	Unqualified	Qualified
		Corruption perceptions	High	High	Medium	High

4.1.3 Walking in circles

By 2030 the metro finds itself in much the same position as it does today. Despite the best intentions and the delivery of a number of projects, it has not made much of a difference. It has never taken a long-term view of the future and has not been able to view the city as an integrated whole, but rather as a constellation of separate settlements competing for resources. This is mirrored in the organization where departments compete with each other rather than operating as an integrated team.

The economic trend is one of limited short-term growth followed by periods of decline and stagnation. The city's economic outlook is still dominated by the auto sector but the opportunities for expanding and deepening this value chain have not been realized. The metro is an interesting place for people that visit, but it is not a key destination of choice for national and international visitors. The unemployment rate remains constant with high dependency ratios.

The metro's fiscal position stabilizes to some extent but there are frequent periods when there is cause for alarm which are met with short-term measures to again stabilize the situation. The metro relies almost exclusively on grants for its capital programme and consequently is guided strongly by national and provincial dictates, rather than leading its own development trajectory. Consumer payment levels are of concern as is the increasing burden that the ATTP programme places on the overall budget. Whilst it is acknowledged that this is unsustainable, nothing is done about it.

The metro urban area expands with low income housing being provided on the periphery on much the same model as it was in 2014. This housing delivery is focused on maximising the number of units delivered, but cannot keep pace with the growth in demand, leading to huge frustration amongst those on the waiting lists. NMB in 2030 still looks like a classic apartheid city, but on a bigger scale than it was at the advent of democracy. Residents still have to rely predominantly on minibus taxis for transport. There is a limited BRT service but this is not rolled-out as envisaged. Buckets are finally eradicated in 2020 and the Nooitgedacht scheme comes on line at the same time. This has been a frustrating experience for the metro, which has seen most energy diverted to managing related crises.

While there was an initial period of stability in 2014 and 2015, this was followed by periods of instability and relative stability. This is reflected in its audit opinion, which fluctuates between qualifications (and severe emphases of matter, generally related to SCM concerns. The metro never manages to develop a long-term strategy and instead battles to make sense of multiple and competing sector plans. Strategic planning is increasingly reduced to a bureaucratic exercise to satisfy compliance requirements. The metro battles to attract and retain the calibre of staff it requires and most staff just get through the day and the month to get their salaries. Business and civil society make ongoing attempts to connect with the metro but these are short lived and while structures are in place, these have no real power or influence. The metro continues to be perceived as being basically corrupt and self-serving.

Quantifying trends: Walking in circles

Area		Indicator	Baseline	2017	2020	2030
Economic	Growth	GVA growth (%)	2.0%	4.0%	2.0%	2.0%
		Auto sector GVA growth (%)	3.9%	6.0%	1.0%	3.9%
	Inclusion	Annual value of buildings completed	2.535	3.0	1.0	2.5
		Unemployment	36.6%	31%	34%	37%
		Dependency	46%	43%	44%	46%
Financial	Surplus % debtors	Operating surplus	-0.7%	10%	5%	-1%
		Gross debtors-days	171	120	150	171
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		Dependence on capital grants	87.5%	80%	85%	88%
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	Operating	% Maintenance spending	7.40%	7%	5%	2%
		ATTP subsidy growth	31%	4%	6%	8%
		Staff productivity	1.222	1.3	1.0	0.8
Developmental	Access	Bucket toilets	30 000	15 000	20 000	30 000
	Spatial	Residential densities	24	25	24	24
	Housing	Housing backlog	71 000	65 000	70 000	80 000
		Households in informal settlements	35 257	40 000	40 000	40 000
	Mobility	Public transport share	42%	40%	45%	42%
Organisational	Planning	Shared vision	No	No	No	No
		Integrated strategy	No	No	No	No
	Staff	Staff satisfaction	Low	Medium	Low	Low
		Staff Turnover (posts)	High	Medium	High	High
	Partnerships	Stakeholder satisfaction	Low	Medium	Low	Low
	Integrity	Audit opinion	Qualified	Qualified	Qualified	Qualified
		Corruption perceptions	High	High	High	High

4.1.4 Walking backwards

By 2030, the metro has collapsed. Economic growth has been predominantly negative and the economy has shrunk. Capital has moved to other more competitive cities. The auto sector has left going to more stable and competitive centres in Buffalo City, eThekwini and Tshwane. Tourism has plummeted and the city's economic mainstay is the government sector, retail and agriculture. A small elite remains with increasingly dramatic attempts to insulate itself from the sea of poverty in which the vast majority of residents live. Unemployment is chronically high with most residents relying on social grants and remittances.

The metro's financial position mirrors the economic situation. It battles to control its growing deficit and lurches from one crisis to the next. It relies solely on national government grants for its ad hoc capital expenditure programme. The metro's Assistance to the Poor programme is still in place, although not by design, but rather through its inability to send out accurate bills and collect payments.

The metro's bold approach to eradicating buckets and completing the Nooitgedacht scheme between 2015 and 2017 resulted in all attention being focused on these projects. Other infrastructure and service delivery suffers. Rehabilitation and maintenance was ignored and infrastructure steadily collapses between 2020 and 2030. Refuse is removed erratically. Water availability is now reduced to between four and eight hours per day. Frequent problems with the treatment works results in many effectively going back to the bucket system. Load shedding is a daily occurrence for electricity supply. The municipality has lost control of illegal connections and most residents no longer pay their municipal bills.

Housing projects are delivered when national funding is available and are located on the periphery at low density. This results in a constellation of low-income dormitory suburbs and a rapid growth in informal settlements. The allocation process is increasingly corrupt and there is widespread discontent amongst the many who still live in informal settlements and backyard shacks. Service delivery protests increase in frequency and intensity. These are met with increasing brutality from the police as they try and contain the situation.

The administration is in complete chaos with staff either rushing from one crisis to another or doing nothing at all. The Auditor-General disclaims issuing any opinion on the metro in 2020, after a period of offering only adverse opinions, related to extensive non-compliance, severe SCM deficiencies, and little progress in dealing with corruption allegations. This heightens political factionalism and mistrust between officials and politicians escalates with hostility often boiling over. Relations between union and management are toxic with frequent wildcat strikes. Social partners and the business community have frequently attempted to engage with the metro but to no avail. Staff with other options have long since left the institution. The media frequently publishes front page scandals. A series of interventions from national and provincial government does little to stabilize the situation.

Quantifying trends: Walking backwards

Area		Indicator	Baseline	2017	2020	2030
Economic	Growth	GVA growth (%)	2.0%	2.0%	0.0%	-2.0%
		Auto sector GVA growth (%)	3.9%	1.0%	0.0%	-4.0%
	Inclusion	Annual value of buildings completed	2.535	2.0	1.0	0.1
		Unemployment	36.6%	40%	50%	60%
		Dependency	46%	50%	60%	70%
Financial	Surplus % debtors	Operating surplus	-0.7%	0%	-10%	-20%
		Gross debtors-days	171	360	720	1080
	Investment	Cash reserves	4.5	2	0	-2
		Dependence on capital grants	87.5%	90%	95%	100%
		Financing gaps	43%	60%	80%	100%
	Operating	% Maintenance spending	7.40%	3%	2%	1%
		ATTP subsidy growth	31%	4%	8%	12%
		Staff productivity	1.222	1.0	0.5	0.2
Developmental	Access	Bucket toilets	30 000	35 000	40 000	50 000
	Spatial	Residential densities	24	24	24	24
	Housing	Housing backlog	71 000	80 000	100 000	150 000
		Households in informal settlements	35 257	40 000	50 000	60 000
	Mobility	Public transport share	42%	40%	35%	30%
Organisational	Planning	Shared vision	No	No	No	No
		Integrated strategy	No	No	No	No
	Staff	Staff satisfaction	Low	Low	Low	Low
		Staff Turnover (posts)	High	High	High	High
	Partnerships	Stakeholder satisfaction	Low	Low	Low	Low
	Integrity	Audit opinion	Qualified	Disclaimed	Disclaimed	Disclaimed
		Corruption perceptions	High	High	High	High

4.2 Risks and choices

If the metro wants to walk together on the growth path, it has the option to make a number of key strategic choices. It also has to be aware of a number of key risks that, if unaddressed, will ensure that it walks the path of the other three scenarios. These choices relate to planning, partnerships and administration.

At the level of **planning**, the metro needs to strengthen an integrated planning system based on LTDS and sequenced transversal and sector strategies. These plans must be built on a strong empirical base and utilize appropriate forecasting models. The monitoring and evaluation system becomes key in this regard. The metro must develop meaningful, robust and honest **partnerships** with its stakeholders. This requires reaching out in an authentic, collegial and genuine manner and inviting them to co-create a vision for the future. Through this, the required coalitions for development can be built.

Following the recent positive achievements in the **administration**, the metro must continue to strengthen its leadership team. This is particularly important at the political administrative interface where a united team needs to emerge.

The recent encouraging steps in restoring the metro's integrity are to be welcomed. This must continue and be followed through to completion. Through this, the reputation of the metro will be greatly improved.

A performance culture which encourages innovation, rigor and disciplined programme management must be modelled by leadership and permeated throughout the organization.

4.3 Conclusion

These four scenario's raise a number of strategic questions for the city leadership, including:

- Does the current NMB strategy implicitly or explicitly "bet" on the occurrence of one of these scenarios
- Would you change the NMB strategy if you knew for sure that another scenario was in fact going to happen (as opposed to the one assumed)?
- Do the scenarios challenge some commonly held assumptions in the metro; do they stimulate deep dialogue?
- Do the scenarios surface new risks that you need to protect against better or new opportunities that thus far were overlooked?
- Do the scenarios point you toward important early warning signals that you need to monitor?

5. RECOMMENDATIONS FOR ACTION

5.1 Introduction

Nelson Mandela Bay Metropolitan Municipality (NMB) appears to have entered a low growth trap that is likely to weaken long term prospects for economic growth and poverty reduction, and threaten the fiscal sustainability of the municipality itself. Although the local economy has recovered from the global recession, economic performance remains weak, confidence appears to be low and joblessness and economic exclusion remain widespread. More fundamental shifts in the composition of the local economy also appear to be underway. Although the metro has made impressive strides in expanding access to housing and basic services, this very success threatens the fiscal viability of the metro over the long term as low payment levels and rising operating costs erode its capacity to fund the significant investments required in infrastructure extension, maintenance and replacement.

It is important to maintain a virtuous urban growth cycle, in which an expanding number of households pay property taxes and for their services, so that city governments are able to derive revenue streams from their infrastructure investments. But this virtuous cycle faces challenges on a number of fronts. There appears to be a growing divergence between population and economic growth rates, and national economic growth requires an above-average contribution from urban economies. Furthermore current spatial patterns may slow economic growth, giving rise to (a) infrastructure (supply side) bottlenecks; (b) poverty and unemployment; (c) sprawl, with long travel times for poor; (d) rising social conflict (service delivery protests). Finally, all of this is compounded by weak governance. It is fiscally and socially unsustainable for urbanisation to continue to be based on exclusion.

The long term vision of the metro is to position itself as “a globally competitive and preferred Metropole that works together with its people”. However severe institutional challenges appear to stand between this laudable goal and current realities. Despite commitment and significant capability, the municipality has been a weak and divided organisation. Municipal leaders face very significant choices in the short term that will have significant and lasting impacts on the lives of residents – particularly the poorest – and the economy of the city as a whole.

It is therefore recommended that the NMB leadership develop and sustain a consistent and mutually re-enforcing set of initiatives and programmes (embracing financial, economic, developmental and organisational themes) to maintain a virtuous growth cycle which can meet the challenges facing Nelson Mandela Bay over the long term.

The city leadership has recognised these challenges, and has agreed that a shift the development trajectory of the metro is required. This shift has been summarised as “**walking together for growth**” and calls for bold, strategic and disciplined leadership so that, by 2030, the metro is a dynamic, creative city of choice for residents and investors. The City Manager has tasked a team of senior officials to develop concrete proposals and decisions that now need to be made to set the city on this path.

This section identifies the five key decisions that – from a technical perspective – are likely to be critical to the future of the city. The energetic and committed implementation of these decisions will put the city on a development trajectory: “walking together for growth”. These five decisions are:

I. <u>Establish a single organisational planning process</u>, with the Spatial Development Framework at its centre, and ensure that all sectoral plans conform to this single organisational planning process;

II. <u>Implement a more strategic budget process</u>, so that organisational choices are made within the available resources and financial sustainability is improved;

III. Refocus organisational activities around developmental rather than welfarist programmes;

IV. Rebuild organisational stability and integrity

V. Rebuild social partnerships

These five decisions are elaborated upon in the following sub-sections.

5.2 Decision 1: establish a single organisational planning process

The city must significantly strengthen strategic planning systems, to ensure they are consistent, mutually reinforcing and provide an effective guide to development. A lack of integration between major planning instruments, particularly with respect to human settlements, public transport and land use management continues to make a significantly negative contribution to the built environment outcomes experienced in the metro area.

In order to strengthen strategic planning the city leadership should establish a strategic planning centre for the organisation, with capacity to: (i) exercise strong technical oversight of sectoral planning within a framework established by the Spatial Development Framework; and (ii) undertake extensive monitoring, evaluation and data analysis to drive empirically based policy formulation

All real choices involve risks that are difficult to assess, challenge existing value systems in an organisation, and are extremely difficult. Some would say that if a choice is not risky, challenging and difficult then it is not actually the real choice at hand! But despite always being controversial, many choices are actually quite obvious.

The metro itself cannot control economic growth, so it must behave strategically with the powers it has and build the partnerships it needs the facilitate growth. Moreover, it must carefully choice what it seeks to do, as well as what it does not seek to do.

The single organisational planning process must have the Spatial Development Framework at its centre, because of the need to ***redefine the urban space economy for inclusive and sustainable growth***. The current low density, sprawling urban form of the metro area has long been identified as an obstacle to equitable, sustainable and efficient development. Yet current city development strategies have continued to perpetuate – and in some cases entrench – this urban form. This has imposed long term costs on the municipality, households and businesses that are emerging as a significant constraint to future growth a poverty reduction.

5.3 Decision 2: Implement a more strategic budget process

The existing budget process has many deficiencies: it has a very technical character, and there is no space for discussion of strategic and political imperatives and their budget implications. This reinforces a \`business as usual' approach by spending departments. Furthermore, consultation starts very late in the process and while the final budget may be technically sound (i.e. it could be approved by NT as a funded budget) it lacks credibility with the political leadership, community organisations, and parts of the business sector. Such a budget is undermined from the moment it is adopted, and does not achieve its main purposes, namely to ensure that the budget reflects strategic choices, and that spending stays within the budget.

However, a municipal budget should be (a) strategically and technically well-considered; (b) financially-constrained; (c) politically-determined; and (d) broadly consulted and supported.

A strategically well-considered budget will ensure that spending shifts away from low priority and unaffordable projects and programmes towards essential and high priority projects and programmes. It will not merely react to the latest pressures but forge a deliberate path in the chosen strategic direction. It will be policy-driven (i.e. it will respond to strategic choices that are clearly articulated), especially in relation to the built environment and economic growth.

A technically well-considered budget will provide for an operating surplus of at least 15%, to ensure that the metro can afford capital programmes on a reasonable scale.

A financially-constrained budget will be funded (cash inflows will be sufficient to cover cash outflows). This is likely to require mandatory savings across the organisation, reprioritisation of major programmes, accelerated generation of trading surpluses through service expansion (even to surrounding municipalities), and evaluations of returns on asset portfolios

A politically-determined budget should reflect - within the available resources - political and strategic priorities; and a broadly consulted and supported budget should be able to win broad agreement among community, business and other social sectors that the budget is appropriate and correct. Without these the city budget will not be able to resist pressures to be continually amended, and so will not be effectively implemented.

In order to reach achieve these standards, the budget process should fetures the following major components:

- Start with a `Budget Lekgotla' of the political and administrative executive. This is a key event (lasting at least a day) which allows all political and administrative role-players to consider political, strategic and financial imperatives and constraints at the start of the budget process. It also helps to build a common perspective of what can be achieved with the limited resources available to the NMBM. The key output should be the indicative budget figures (capital, operating expenditure, operating revenue) to which each department should work.

- The indicative figures provided to each department already amounts to a draft budget and can be used for the purposes of public consultation. The guidelines will also allow key components of an IDP revision to be prepared for consultation. Consultation processes should begin immediately (ie in November). The results of public consultation on the draft budget and the IDP components should be considered at the Second Budget Lekgotla.

- Departments should then prepare their detailed budgets informed by the overall discussions at the Budget Lekgotla and fitting within the indicative figures provided to them. Any proposal to exceed the indicative guideline will require a special motivation.

- The first draft IDP should be prepared in parallel with this process.

- Departments submit their detailed draft budgets to the Budget & Treasury Department well ahead of the second Budget Lekgotla, to allow time for these to be assessed in detail. The budget submissions and their assessments by Budget & Treasury should be considered at the second Budget Lekgotla.

- The Second Budget Lekgotla should again be a whole day event involving political and administrative leadership of the NMB metro. Its purpose is to finalise a draft Budget for submission to Council committees and to Council itself.

5.4 Decision 3: Refocus all activities around developmental programmes

The city leadership has made a strategic decision to ***refocus*** its attention, priority actions and activities **to support and facilitate more inclusive economic growth** in the metro.

The core strategic shift required in the approach of the city is from a **Welfarist** approach to a **Developmental** one. While the welfarist approach has expanded access to social package of housing and basic services, it has not enabled the local economy to grow in ways that can provide opportunities to the majority of residents. It has left the city caught in a welfarist dilemma: the more successful it is in providing a social package the less sustainable the municipality – and the social package - becomes over the long term.

A developmental approach is one where the city is able to enter a virtuous cycle of growth, where carefully selected infrastructure investment triggers increased economic activity and rising property prices. This, in turn, allows the city to collect growing service charge revenues from a rising number of non-poor households, and growing property tax revenues as prices rise. And this expands the ability of the city to invest in further infrastructure. Entering this virtous, developmental cycle requires city to interface more actively with land markets, both to enable increasing number of households to participate and benefit meaningfully from land market activity in the city, and to garner the revenue benefits.

Effective infrastructure programmes are the key to the city entering this virtuous cycle. The current investment portfolio represents **the only chance** the city has to get this right, both due to their scale and the absence of any additional sources of finance. It is thus essential that the city urgently seek to rebalance the social and economic dimensions of the portfolio to ensure that it will generate appropriate returns though expanding the revenue base of the city and re-establishing at least a basic operating surplus.

The city leadership has already identified the need to build a more compact and inclusive spatial framework for the city, based on transit oriented development corridors (or integration zones) that are outlined in its Spatial Development Framework and Built Environment Performance Plan. For this decision to be effective, it now needs to ensure that its sectoral development policies complement this approach through the following sets of actions:

a) **Reform land use management rights and practices** in order to encourage densification alone these corridors, and restrict development elsewhere in the city. Zoning (development rights) reforms have the potential to unlock significant land value across the city, and to provide a powerful guide to spatial development patterns

b) **Refocus the integrated public transport strategy on "sustainable multi-modal mobility".** This includes reviewing current Integrated Public Transport Network Plan and the associated BRT programme, reviewing institutional arrangements for transport management and investigating mechanisms to bring existing operators into a programme of modernisation and expansion of mobility. A significant series of public subsidies are currently provided in the metro area, in often non-complementary ways, while the fiscal risk to the metro of current strategies remains underdetermined. The metro mobility strategy requires an urgent and comprehensive assessment to determine its effectiveness and sustainability, as well as to establish far clearer links with land use management strategies that can deliver realistic increases in ridership over time

c) **Refocus the human settlements strategy on building inclusive and dynamic housing markets**. This includes repositioning the municipality from being a developer of housing developer to a market facilitator, wiuth an associated scaling down of peripheral housing development. This must be associated with the scaling up of brownfield development (regeneration and densification) programmes on well-located land, that can provide a range of housing typologies and tenure options for households. It should be accompanied by a simultaneous refocussing of policy attention to addressing issues of household creditworthiness and affordability, in order to enable households to participate freely in property markets and effectively leverage their property assets

d) **Prioritise a pipeline of catalytic urban development projects to unlock inclusive land markets.** Municipal infrastructure and housing investments have the potential to generate significant productive economic value in urban land markets. Unlocking this potential requires the city to:

   (i) *Ensure the availability of adequate bulk infrastructure services support growth.* Additional investments in bulk water service infrastructure, while required, should be carefully considered in relation to their spatial and fical impacts for the city, and should respond to preferred development scenarios. Significant economic and financial benefits may be derived from enhanced maintenance of existing systems, and expansion of household connections to networks, rather than solely the augmentation of supply and / or treatment facilities. Careful appraisal of investment proposals is required to ensure they are affordable for the city over the long term.

   (ii) *Pursue the new growth trajectory through catalytic development projects that pilot alternative housing typologies in strategic locations within the existing urban form*. Significant opportunities exist for the city to leverage its existing property assets and those of State Owned Enterprises to this effect, but will require clear governance guidelines and new approaches to land development.

5.5 Decision 4: Rebuilding organisational stability and integrity

The multiple organisational weaknesses that currently limit the effective capacity at NMBM require that the following specific actions be undertaken:

- Strengthen the strategic centre of the organisation (the offices of the CM, COO and CFO), locate all strategic planning and major operational planning in this centre, and ensure regular meetings of the entire top management of NMBM;

- Establish a correct and cooperative relationship between political and administrative structures that recognises the different responsibilities and accountabilities of political leaders and officials;

- Re-establish trust and the ability to work across silos though appropriate teambuilding activities;

- Radically enhance administrative productivity by leadership modelling of the necessary changes in behaviour, investing in staff seeking to institutionalise these changes; and improving the management of performance;

- Strengthen integrity systems and ensure that they respond to causes rather than symptoms; enhance transparency and predictability; and strengthen and protect the internal audit function

5.6 Decision 4: Rebuild social partnerships

The city leadership will need to work hard to create social consensus and build social capital, as it will not be possible to be effective unless some success has been achieved in this sphere.

There will need to be a sense of trust built around a `new deal' and a new social coalition. There will have to be a shared sense of the challenges being faced, and a shared commitment to facing those challenges.

Some essential initiatives in this sphere should be

- a Mayors programme with clear messaging and news and innovative channels of communication, particularly with the urban youth, unions and business sectors;

- Develop new means of community engagement, in consultation and oversight, in order to re-invigorate the relationship with communities. Test new mechanisms of community oversight of service delivery in selected areas: community scorecards, social audits. Re-examine (change and broaden?) the roles of ward committees.

- Develop new means of engaging social partners for development.

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Annexure: Metrics underlying scenarios

Economic metrics	Financial metrics	Developmental metrics	Organisational Metrics
Economic Growth - GVA growth rate - Fixed direct investment (value of buildings completed) - Diversified economy (non-auto sector growth, including tourism) - Depth of Auto value chains Inclusive growth - Unemployment rate - Education levels - Dependency ratio	Own revenue contribution - Growth in tax base (tax net) - Size of operating surplus / deficit (to fund capital investment) - Size of debtors book (payment levels) Capital expenditure - Extent to which depreciation of assets is backed by cash (rising reserves) - % dependence on capital grants - Cost of borrowing - Capital financing gap (shortfall relative to projected investment need – accumulates over time) Operating expenditure controls - Asset maintenance spending - Growth / decline in ATTP subsidies (decline release funds for other expenditures) - Staff productivity levels (VFM) - Operating budget variance (original unadjusted budget to actual outcome) - Cash coverage (liquidity / cash available for operations: best case 3 – 4 months, worst 1-2 days)	Bulk Services - % energy from renewable sources - % of technical losses (water and electricity) - Growth rate of bulk consumption (Demand management) Access to basic services - Number of bucket toilets Densification and desegregation - Number of greenfield RDP units developed on periphery - Residential density (du/ha) - Racial & class segregation in settlement patterns (note tension with politics of ward demarcation in short term) Affordable housing - Lower income housing mortgages (market participation) - RDP housing waiting lists - Households in Informal settlements not upgraded - Mix / split of typologies for (i) housing (single / semi / walkup); (ii) tenure (social rental / own); (iii) settlements (uniform vs mixed density) Mobility - Modal share of public transport - Availability of scheduled public transport services throughout day (cf commuter based) - Public transport costs as & of hh income (affordability)	Planning system - Shared vision with clear choices - Integrated strategy Organisational Morale - Labour relations (strike days) - Staff satisfaction - Staff turnover / retention Social partnerships - Stakeholder satisfaction index - Clear communication Organisational Integrity - Clean audit (unqualified) - Outstanding audit findings (internal / external) [number] - Perceptions of corruption