

Strategy to Address Municipal Performance Failures / The approach going forward

- A Sustainability Perspective

NCOP Provincial Week – 16 to 20 September 2019
National Treasury



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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

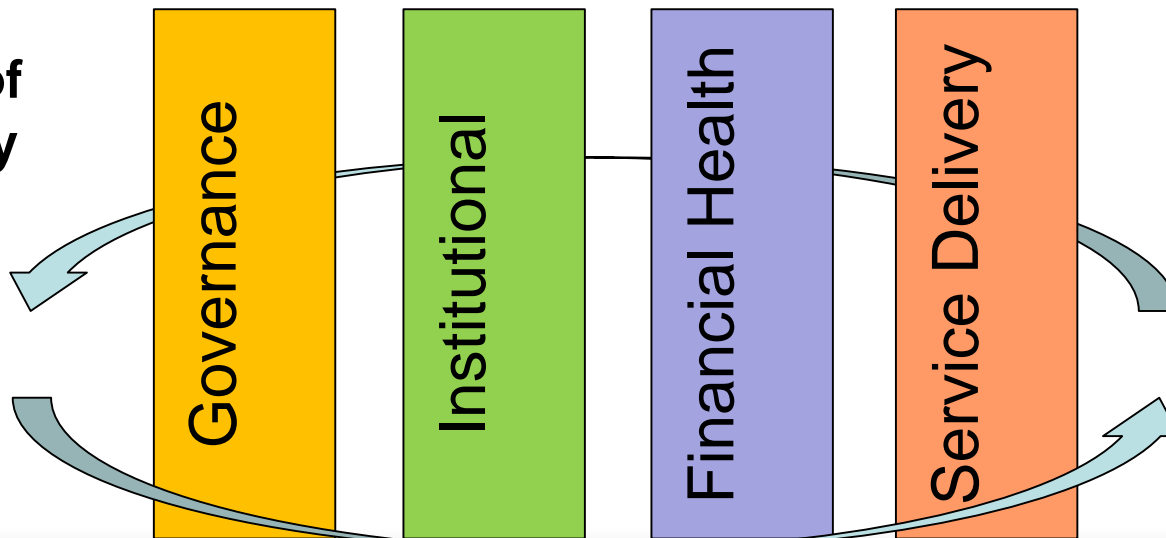
Nature of the problem

- Substantive evidence on local government performance has shown a consistent decline in the recent years
- This is despite an increase over the same period in capacity building and support, grant allocations, enabling legislation and regulations
- The reality is we are no longer faced with a problem in LG but rather a ***A whole system of problems that must be “fixed” – problems within problems***
- The challenge is that past interventions to “fix” the problems in LG have not yielded sustainable results
- Some of our big cities – our presumed drivers of economic growth have failed dismally and repeatedly so
- It is clear that our “system of problems” cannot be solved only through more support, allocating more resources or simply reorganising ourselves to ensure more synergy in our efforts
- Within our system of problems there is a political problem – one that requires a political solution.....political problems are the most pressing yet the most difficult to solve, and will not be resolved by only applying administrative/technical solutions

The lenses through which the sustainability of LG should be assessed

- The lenses through which the sustainability of LG should be assessed have been classified into 4 main pillars
- Within each of these pillars, there are several different problems
- None of the pillars are mutually exclusive – they are inter-dependent in practice
- However, certain problems precede others and the resolution of those problems will facilitate the resolution of other problems
- The relationship between the different pillars is critical for successful sustainability
- Governance, Institutional Capacity are prerequisites for Financial Health and Service Delivery

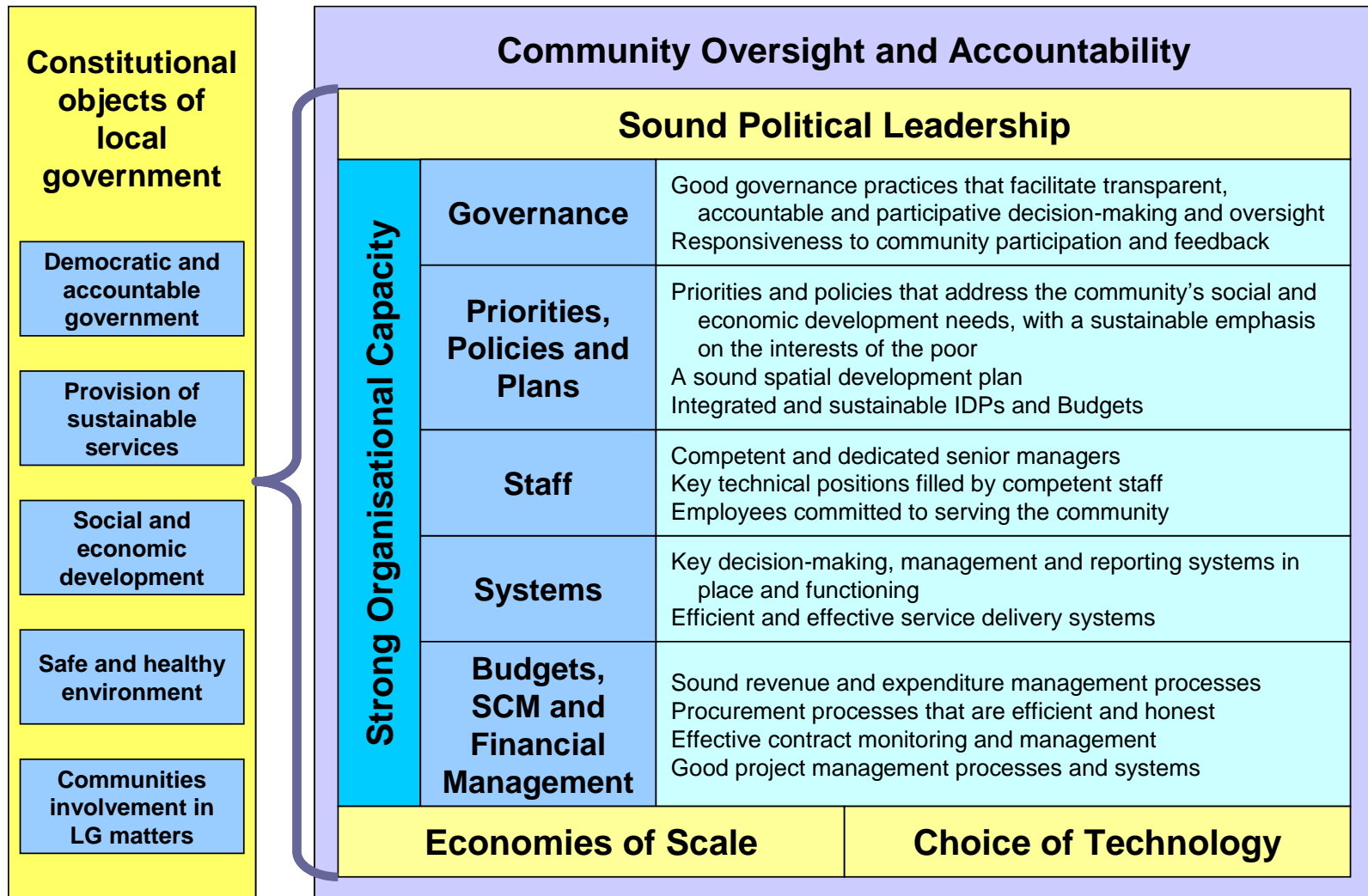
Four Pillars of Sustainability



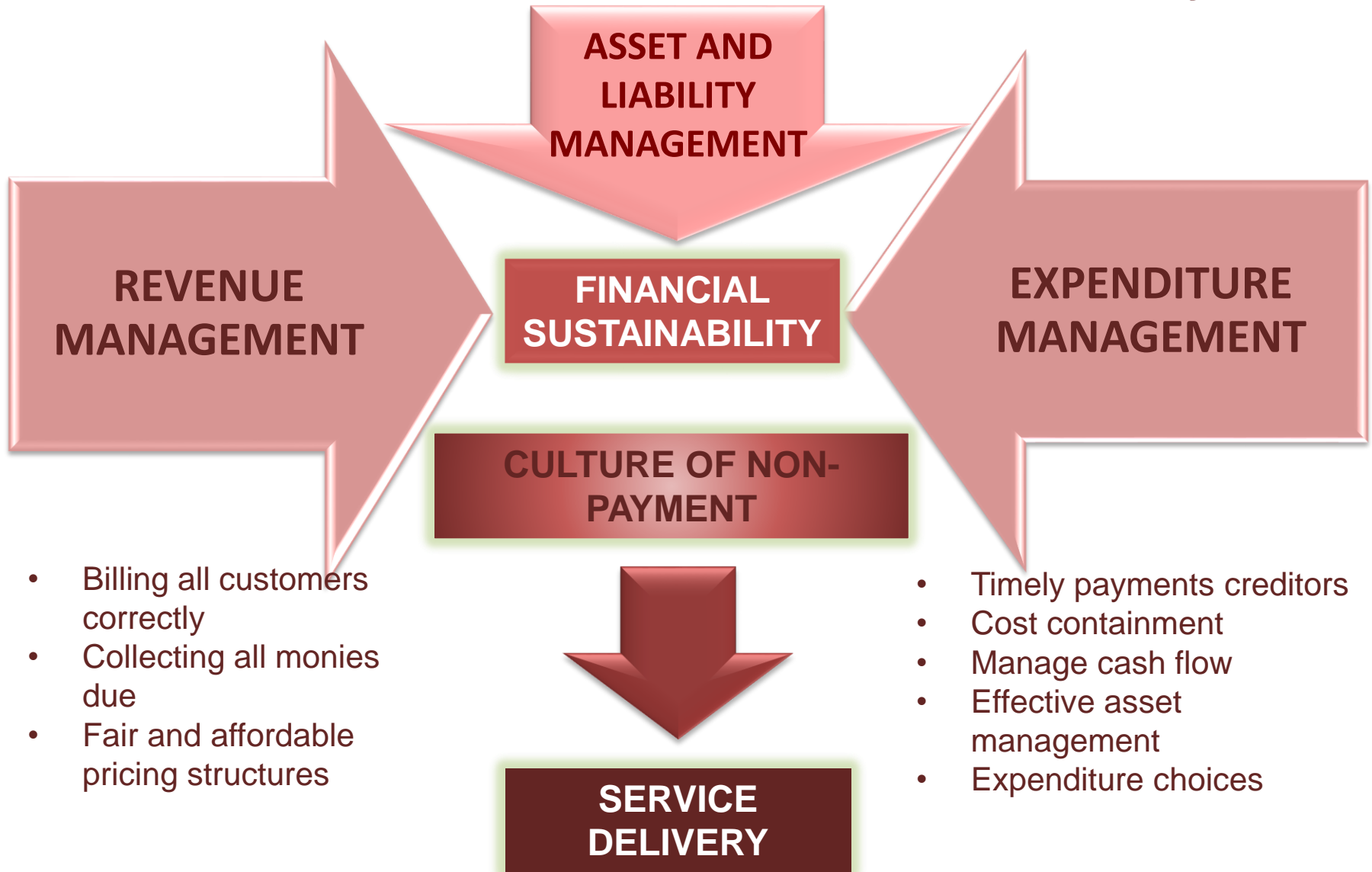
What are some of the key challenges?

- Increased number of dysfunctional municipalities
- Failures in political leadership and accountability according to the recent AG report:
 - Bloated municipal organisational structures strains the municipal budgets - “not fit for purpose”
 - Acting senior positions remain vacant for extended periods of time
- Culture of non payment - Court cases - Eskom where municipalities failed to honour payments:
 - Over the past months number of court cases were filed implicating several depts in their applications
 - Lack of comprehensive government strategy to approach court cases whereas it is clear that applicants are strategizing by initiating cases in different fora and learning from each others mistakes:
 - A further risk is that if the decision by the court favours the applicant
 - risk if response to these cases are not coordinated and collaborated, government will be exposed
- Misalignment of legislation:
 - The overlap between the MSA and MFMA has blurred the functional responsibilities for LG performance monitoring and oversight that is shared among national and provincial treasuries and COGTAs
- Ineffectiveness of interventions by provinces and national government – application of intervention framework remain problematic
 - *Almost all interventions occurred too late, and ended early*
 - Provinces & national govt. have not fully exploited legal framework i.e. application of s139 (4) and (5) of the MFMA
 - *Administrators (often unqualified) deployed without dissolution of council*

Key elements of a functional, well-performing municipality



Factors that underpin sustainability



We have an adequate Local Government Budget and Financial Management Landscape

- Enacted the MFMA – March 2003
- Issues a suite of Regulations – nine to date
- Extensive set of guidelines developed and issued to assist municipalities
- MFMA Circulars – 95 issued to date
- MFMA Helpline
- Development and implementation of a budgeting system for LG
- Development and implementation of a LG reporting system that serves as a ‘early warning system’
- Development and implementation of a LG grant monitoring and management system
- Rollout of the Financial Management Capability Maturity Model (FMCMM)
- Routine publication of municipal performance which serves in various forums
- Research and development of a Uniform System Solution for LG
 - Issued the Integrated Financial Management Transversal Tender on the 04 March 2016
 - Issued MFMA Circular No.80 on Municipal Financial Systems and Business Processes on the 08 March 2016
- Implementation of Standard Chart of Accounts (*mSCOA*) for local government
 - 1 July 2017

What have we done to date to address the challenges in Local Government

- Developed a strategy to address municipal performance failures and obtained Budget Council endorsement during 2009, reaffirmed in 2014 and updated in 2019
- Introduced province specific strategies in 2014 to address LG performance failures and at the 2015 TCF and BC Lekgotlas, it was resolved that:
 - The key “game changers” required to address municipal performance failures in the next period are funded budgets, revenue management, mSCOA, asset management, SCM and audit outcomes
 - Aligned our capacity support programme with the game changers
- Quarterly Joint MFMA Meetings
- The institutionalisation of annual municipal budget and benchmark engagements:
 - Conduct budget and benchmark assessment engagements for the 17 non-delegated municipalities by NT and all delegated municipalities by PTs
 - Verification of annual MTREF budget and audit outcome figures
- Municipal financial management monitoring and oversight:
 - Conduct Mid-year Budget and Performance assessments for the 17 non-delegated municipalities by NT and all delegated municipalities by PTs and report on findings
 - Quarterly verification of Section 71 submissions before publication
- Extensive support programmes – MFIP I, MFIP II and MFIP III

Despite all these efforts and 16 years of MFMA implementation, why do we still have a growing number of dysfunctional municipalities?

Proposed New Strategy – Integrated and Collaborative Approach

	Framework “Sustainability”			
	Governance	Service delivery		Financial Management
Collaboration Alignment Integration	Memorandum of Understanding *			
	CoGTA		National Treasury	
	Agreement on the “common list / approach”			
Legal	MSA, MPRA, Indigents Policy		MFMA, MBRR	
“in principle agreement”	Governance	Service delivery	Financial Management	
	Council Oversight & Administration	Infrastructure – losses, replacement / refurbishment	Budgeting	
Overlaps	“Fit for purpose” organisational structure	Revenue		Expenditure
Initiatives	B2B	Simplified Revenue	Integrated Approach	Cost Containment
Tools	AG’s Report, Gap Analysis, B2B, Base line assessments, FMCMM, etc.			
Enablers	DCoGs revenue service providers, etc.		Game Changers (MFIP III), MFRS	
Resources	MSIG, MISA, etc.		MFIP, FMG, Skills development grant (all capacity support grants), etc	
Contributions to joint plan	MPRA & rates policy, Indigent policy, Revenue		MFIP, MFRS	
DCoG & NT PRESENTATIONS: PERSPECTIVE OF THEIR CONTRIBUTION TO THE JOINT INTEGRATED/INTERVENTION PLAN	Governance, MPRA, Indigent policy, Revenue		Game Changers, MFRS	
	Joint integration / Intervention Plan			

*** The MOU between NT and COGTA needs to be concluded. A collaborative approach will significantly improve support / intervention efforts in Local Government.**

Proposed Strategy – Strategic Focus Areas - Governance

	Political	Administrative	Policy
Governance			
Short-term	<ul style="list-style-type: none"> Political consequence management - <ul style="list-style-type: none"> example must be set to create a deterrent against unethical and immoral behavior Removal of “threats” to maintain and retain experienced staff 	<ul style="list-style-type: none"> Enforcement of roles and responsibilities of all stakeholders Improve internal & external comms. Enforce tabling of SoLGF and other reports in Legislatures 	
Medium-term to Long Term	<ul style="list-style-type: none"> Commitment to strengthen Rule of Law: <ul style="list-style-type: none"> no re-appts. in LG of councilors/officials found guilty of misconduct (any form) Revising Code of Conduct for Councilors Possible – random attendance of MECs in Council Meetings 	<ul style="list-style-type: none"> Compulsory orientation programme for Councilors and senior officials Review of all policies and legislation to avoid duplication / establish synergies 	<ul style="list-style-type: none"> Possible removal of autonomy from dysfunctional municipalities (incl. dissolution) Re-examine the demarcation of municipal boundaries Future of District Municipalities to be discussed

Proposed Strategy – Strategic Focus Areas - Institutional

	Political	Administrative	Policy
<i>Institutional</i>			
Short-term		<ul style="list-style-type: none"> • Wage cost and organizational reviews – are municipalities org structure “fit for purpose” • Study into possible standardisation of the organizational structure – per cat / type • Resuscitation of MM and CFO fora – influence agendas 	Norms and standards must be set for organizational structures to be fix for purpose
Medium-term to Long Term		<ul style="list-style-type: none"> • Review municipal entities (Cost / benefit analysis) • Professionalisation of LG to build, maintain and retain talent • Compile a database of Municipal Professionals 	<ul style="list-style-type: none"> • Future of District Municipalities to be discussed and resolved

Proposed Strategy – Strategic Focus Areas – Financial Health

	Political	Administrative	Policy
<i>Financial</i>			
Short-term	<ul style="list-style-type: none"> Political consequence management for financial misconduct Reinforce policy of no bail-outs for poor performance 	<ul style="list-style-type: none"> Strengthen enforcement for funded budget and game changers Utilisation of EW systems with immediate effect Common list / approach of municipalities in financial distress Institutionalised engagements with municipalities with minutes of discussions Conclude revised Step by Step intervention guide Clarification of Roles and Responsibilities 	<ul style="list-style-type: none"> Resolution of NERSA issues – timing of approval of tariffs which have a negative effect on municipal budgeting
Medium-term to Long Term	<ul style="list-style-type: none"> Recovery of funds where cases have been concluded Possible – attachment of personal assets 	<ul style="list-style-type: none"> Reduce levels of outstanding debtors and creditors Sustainability municipal of finances 	<ul style="list-style-type: none"> Study into “unviable” municipalities with firm policy proposals to be concluded

Envisaged impact to the local government sphere

Quality local government information informing national policy debates

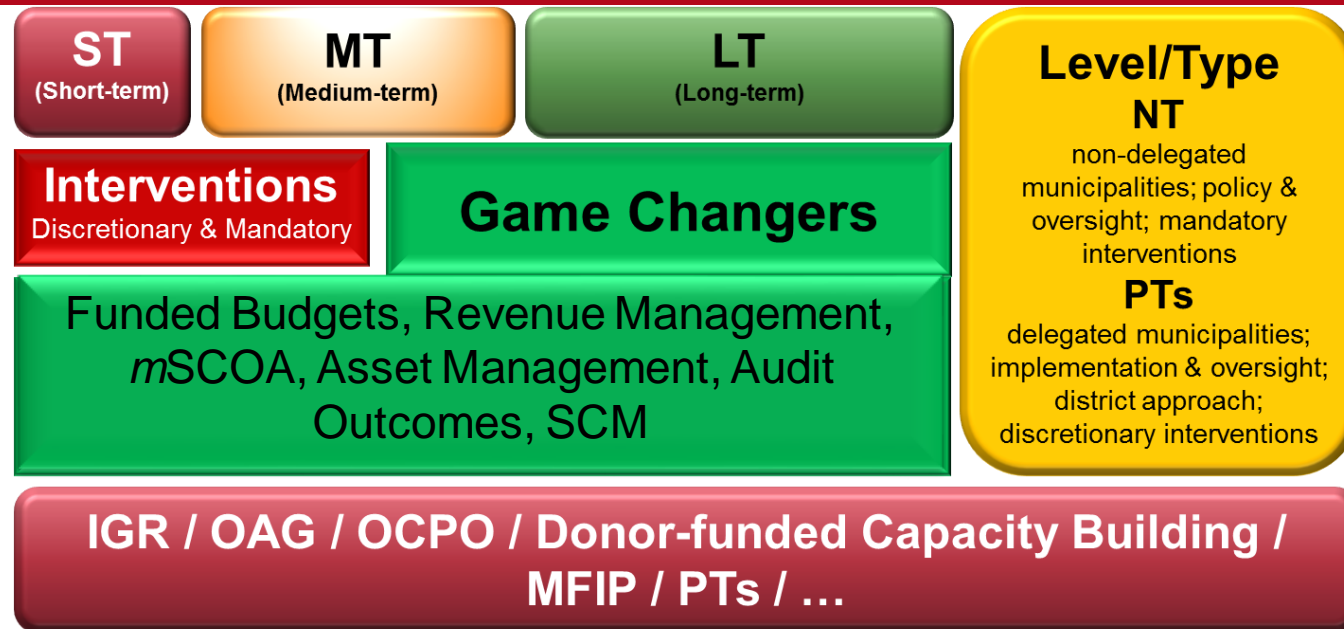
Information comparable across all municipalities to aid resource allocation decisions

Ensuring a credible budgeting process as a key ingredient to improving financial management

Prevention of municipal difficulties before they occur through the application of budget and section 71 analysis

All efforts must be the improvement between policy formulation, planning, budgeting, implementation, reporting and monitoring

Integrated Resourcing Framework



- Blended, agile and bespoke approach
- Voluntary and Intervention support (discretionary and mandatory) in the short- to medium-term
- PTs provide support on voluntary and discretionary interventions in collaboration with MFRS
- MFRS provide support in FRPs with priority on mandatory in collaboration with PTs
- Treasuries prioritise monitoring, support in implementation of FRP and elevation for non implementation
- Game changers provide short, medium to long-term focus

Conclusion: Key issues for consideration

- Financial sustainability is paramount to addressing municipal service delivery failures
- Governance related challenges are at the centre of most of the failures in Municipalities
 - It is however the core mandate of CoGTA
- “Team Finance” have adopted “game changers” and with the MFRS unit is gearing up towards driving the longer term municipal financial sustainability agenda, but:
 - We need to consider what can we do differently to achieve better, more sustainable results
 - Are the initiated programmes adequate and sufficient?
 - Is cost containment the only solution to controlling expenditure?
 - Is there an appetite for an abbreviated version of the MFRP without compromising the legal frame work required for the process?
- The lack of skills in LG also hampers efforts to successfully transfer skills
 - How can LG be professionalized and career development within the sector be strengthened?

THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

www.municipalmoney.gov.za
open **local government budget** data portal

Explore easy-to-understand, verified financial information for **every single municipality** in South Africa in one place.



For information on local government finances, please visit: <https://municipalmoney.gov.za>

Annexures

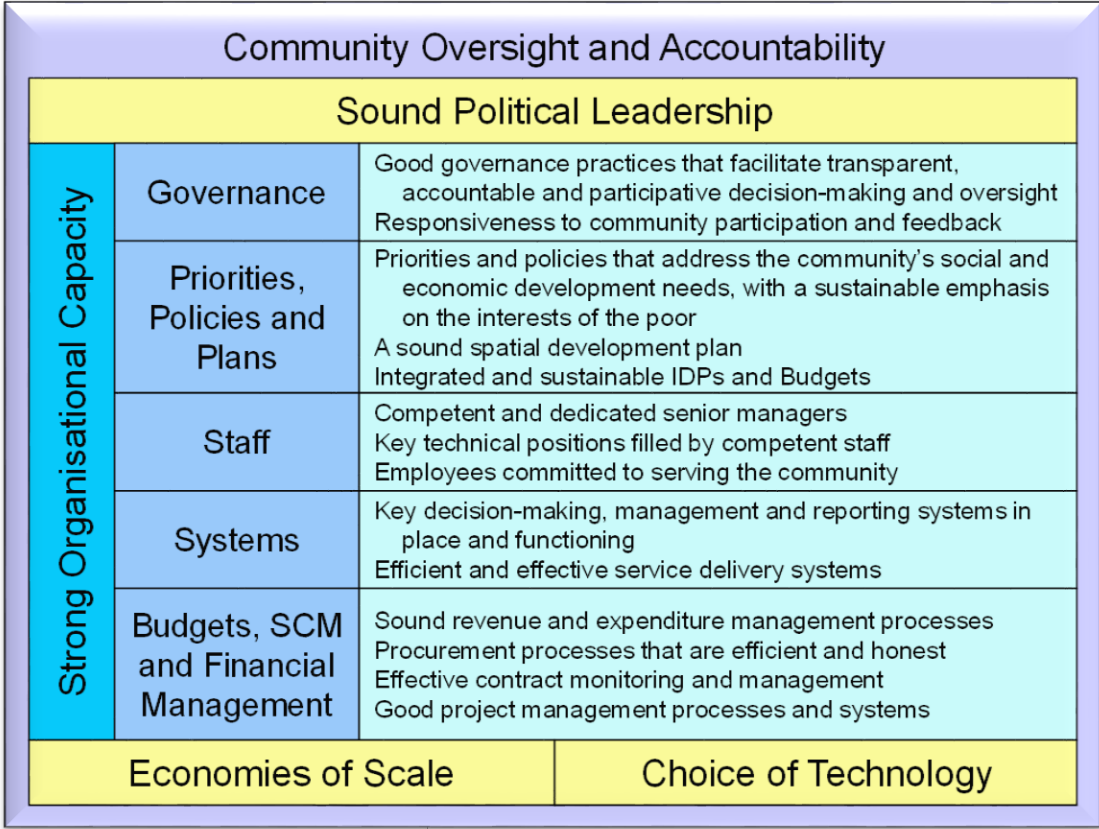


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1. Root Causes: Political Accountability

- Failures in political leadership
- Bloated municipal organisational structures strains the municipal budgets - *“not fit for purpose”*



Audit Findings – 2016/17:

There were varied reasons for the accountability failures:

- Vacancies and instability in key positions
- Inadequate skills led to a lack of oversight
- Political infighting at council level
- Leadership's inaction, or inconsistent action, created a culture of "no consequences"
- blatant disregard for controls
- Leadership did not take our repeated recommendations and warnings of risks
- unqualified financial statements at a great cost
- Provincial and national role players did not sufficiently support municipalities

2. External contributing factors

- **Institutional arrangements:**
 - Absence of or weak service level agreements where municipalities perform functions on behalf of provinces translates into unfunded (or under funded) mandates, e.g. library and primary health services
 - Municipalities performing functions which are not their core competency in terms of the Constitution
- **Powers and functions:**
 - Misalignment of funding to the district and local municipalities
 - The Department of Cooperative Governance is leading the process of reviewing the functions of district municipalities (in progress for several years now and still not concluded)
- **Impact of amalgamations:**
 - Combining two dysfunctional / distressed municipalities does not yield a functional municipality
 - Funding any amalgamation is a zero-sum gain and may result in reduced funding allocations
 - Weaknesses in the process of re-establishing the amalgamated municipalities
 - This process of transition takes time and any anticipated benefits of such institutional change may only be realised over a three to five year period
- **Misalignment of legislation:**
 - The overlap between the MSA and MFMA has blurred the functional responsibilities for LG performance monitoring and oversight that is shared among national and provincial treasuries and COGTAs

3. Internal Contributing Factors

Governance and leadership

- Where municipal leadership is weak, ineffective councils and governance structures have negative consequences (weak fiscal discipline; mismanagement, political/administrative instability and bloated organisational structures)
- Notably accountability is weaker at municipalities where there is an “acting” incumbent as municipal manager as he/she is less inclined to take decisions
- The absence of suitably competent CFOs poses a risk to sound financial management with dire consequences such as non-compliance to the legal framework and general mismanagement of public funds

Financial management is among the responsibilities of the BTO

- Included are ineffective implementation of financial management principles; weak budgeting capabilities; low collection levels; inadequate allocation for repairs and maintenance and asset management; weak internal controls and risk management and supply chain management shortcomings

4. Culture of non payment and past initiatives

The “culture of non-payment” impacts all

- It is evident that non-compliance to the MFMA and PFMA is endemic across all spheres of government
- The call to stop the “**culture of non-payment**” was tabled at the PCC on two occasions that agreed it adversely affects the sustainability of certain institutions
- More critically, this “culture” threatens the livelihood of medium and small suppliers and State Entities (Eskom and Water Boards)

Past initiatives did not achieve the desired results

- Eskom’s PAJA process
- Invoking of s216
- Warning letters
- Debt forums
- “provincial bail outs”
- Court decisions
- DPE, CoGTA & SALGA
- **Uncoordinated and reactive with no tangible results to the bigger issue**
- **Monitoring and oversight was weak**
- **Unresolved matters**