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The State of Financial Management and Governance in
Municipalities with Coalition Government: A Case for
Constructive Coalition Governance
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Introduction

- Since the first integrated Council in 2000, the City of Johannesburg was under the leadership of one party.
- From August 2016 to October 2019 the City of Johannesburg was under a coalition government led by Democratic Alliance including Inkatha Freedom Party, African Christian Democratic Party (ACDP), Congress of the People (COPE), United Democratic Movement (UDM), Freedom Front Plus (FF+) and Al Jama-ah which pulled out during the course of the arrangement.
- They were also supported by the Economic Freedom Fighters (EFF), who were not formally part of the coalition agreement but often voted with the minority government on an issue by issue basis.
- From 4 December 2019, the City is under a coalition government of the African National Congress, Inkatha Freedom Party (IFP), Patriotic Alliance (PA), United Democratic Movement and African Independent Congress (AIC), Congress of the People (COPE) .
- There are challenges, opportunities and lessons to be learnt from the Johannesburg experience of minority/coalition governments. **Possibly, that the future of local government, especially in the metros, might be decided by various forms of coalition governments.**



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Introduction (Continues..)

- There is a noticeable trend that suggests that voters distribute their votes across the political spectrum leaving no one party with an outright majority to form a government.
- These can be both a blessing and a curse, depending on how the parties involved handle such an outcome.
- It is surely a positive that in a situation where there is no outright majority for one party, there is increased consultation across and outside the coalition to gain consensus on matters that require a majority vote.



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Local Government Mandate

- Voting on a wide range of issues such as the enactment of by-laws, on rates and taxes, passing budgets and raising of loans tends to reflect a more inclusive tone.
- The growing consensus is that coalition governments send a positive message to the electorate that political parties are opponents and not enemies. This is particularly important in a country that has known serious strife and political intolerance.
- With many fellow South Africans demanding clean governance and stricter oversight, a multi-party government has the distinct advantage of providing internal oversight.
- These, if properly handled can only serve to deepen good governance and prudential care of the interests of the ratepayers and people of our respective municipalities. They provide an in-built mechanism of checks and balances.
- **These were, amongst others, the key considerations in the formation of the Government of Local Unity for the Johannesburg metro.**



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Local Government Mandate

- It is imperative to emphasise that the local government mandate is derived from the Constitution; **democratic and accountable government, sustainable service delivery, economic and social development, safe and healthy environments, and involvement of communities and community-based organisation** in local governance.
- To enable the attainment of this mandate there are key guiding Acts/legislation that each municipality must abide by so that local government collectively delivered on this mandate, inter alia Municipal Finance Management Act (MFMA, Municipal Systems Act, Municipal Structures Act)
- Coalitions must conform to the expectations of the constitution and enabling legislation. The emergence of coalitions in local government in general and in the City of Johannesburg in particular and their ability to operate within the context of the ground rules set above is further discussed below.
- Key factors that affect financial management and governance in municipalities are;
 - the **limited capacity and experience** of coalition partners in running government;
 - the **expectations** of coalition partners from the government; and,
 - the **capacity of technocrats** to execute their responsibilities within in coalition governments



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Financial Management in Minority/Coalition Governments: Lessons and Experiences on Governance



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Financial Management and Governance: Government of Local Unity

- Prudent financial management is the cornerstone of municipal governance.
- While there's much debate on a coalition government's ability to effectively ensure financial management above the interest of the coalition – which may or may not be misaligned to policy - the solution lies in establishing a common strategy, supported by knowledge of government policy framework; financial controls and a strategic planning process that results in a shared vision and common goals.
- The fact that the City of Johannesburg managed to pass its 2020/2021 MTREF Budget, supported not only by the coalition partners, but also by the main opposition in Council is evidence that stability in the exercise of power in a coalition government is the key to success.
- Joburg's 2020/2021 budget story is anchored on a coalition that has established a common vision; agreed to a common strategy; and the application of consistent engagement and consultation – not only with our partners – but with all parties in Council.



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Financial Management and Governance: Government of Local Unity

In an ordinary process - whether Council is led by a majority or a coalition- the various factors that inform the budget and financial management are:

- National grants;
- Tariffs setting;
- Effective revenue collection;
- Expenditure Management;
- Completeness of Revenue;
- Supply Chain Management; and
- Sustaining the key financial ratios of the City in line with investor covenants and National Treasury guidelines.



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Financial Management and Governance: Government of Local Unity

- These must then be viewed alongside challenges which include:
 - Slow economic growth, that impacts disposable income levels and a customer's ability to service municipal debt;
 - The affordability of the basket of tariffs even if increases are limited to pass through costs, the burden on customers still remains high;
 - The City's financial capacity to respond to historical infrastructure backlogs and ensuring continued capacity to spend on capex;
 - The scope for future borrowings in light of High debt to revenue levels; and
 - Our ability to sustain liquidity levels, especially in light of limitations to aggressive credit control measure in current economic environment.
- Additionally, our 2020/2021 budget discussion cannot exclude the external setting in which the budget was drafted.
- Joburg entered the budget process with a country-wide poor economic forecast at the beginning of the year. This was exacerbated by the economic upheaval and constrained growth linked to the COVID-19 pandemic; which added to the myriad of complexities already mentioned.



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Financial Management and Governance: Government of Local Unity

- The first thing we needed to do was adjust the way we engage with residents and stakeholders as part of the IDP process. COVID-19 dictated that our IDP process shift from the traditional face to face public meeting engagements to the new normal.
- Overnight we needed to ensure every effort was made to reach as many residents as possible and the City used:
 - online platforms;
 - bulk SMSes;
 - virtual stakeholder engagement sessions convened with the Speaker, Executive Mayor and MMC's to facilitate discussion and comments on the documents with stakeholders; and
 - Three dedicated email addresses to receive public comments for the IDP, the Budget and tariffs and for the Rates Policy.
- The country-wide poor economic forecast, the COVID-19 pandemic and shift from the usual format of public participation were a matter of heated discussion and debate, but communication and negotiation skills have been key. The coalition agreements, coalition priorities and extensive consultation have been key in driving solutions.



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Financial Management

- From a financial management perspective a number of key factors can be observed;
- First, a key observation is that there is pressure on the Supply Chain Management provisions. The Auditor General observed, during the period 2016 to 2019, there was an increase in the **contravention of supply chain management regulations**, in particular the use of Regulation 32 as the 'preferred' procurement method, in the City of Johannesburg;
- One of the factors that contributes to this is the need to use a procurement process that permits the targeting of a preferred service provider as compared to a competitive process.
- A second observation is that financial performance on aspects such as grant funding declines. The City of Johannesburg witnessed **significant underspending of infrastructure grant funding** between 2016/17 and 2018/19 resulting in some funding being withdrawn;
- One of the factors that contributes to this is failure to conform to the conditions of grant funding, preference to shifting funding to alternative projects in different areas, and the failure to conform to built environment performance plans;



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Financial Management and Governance: Government of Local Unity

The financial management and governance of the Government of Local Unity is premised on the following:

- Legislative and policy framework
- Separation of Powers
- COJ Governance Structure / Model
- Quarterly Performance Assessment



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Governance

- A key observation is that while the White Paper on Local Government, the Constitution and related legislations clearly spell out the things that enjoin us regardless of coalition arrangements, there is a disjuncture between this common position and coalition agreements (if there is one) or other informal basis of a coalition.
- This contributes to delayed decision making as well as at times operational decisions that are opposed to commonly established municipal policy positions
- One of our major experiences is the issue of **lack capacity/experience** among coalition partners to run the affairs of government which at times contributes to major governance challenges as shown through delayed decision making, blurring of executive and administrative lines as well as contraventions of various legislations and policies;
- Governance is also affected by the misinterpretation of 'oversight' over a government department to mean 'ownership' of a government department. expectations of coalition partners
- The current voting framework may need lead to more coalitions in future, however where the performance of political parties in elections is considered, minority/coalition governments end up giving a governing responsibility to parties that may not have earned this responsibility by virtue of their numbers;



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Governance

- Where common policy positions are not defined upfront, there is a risk of extremely minority policy positions being adopted, that do not represent any significant majority;
- Our experience shows that coalition/minority governments can aid shared policy development. However, they also result in lack of strategic certainty in Cities.
- The failure to acknowledge the existence of a Growth and Development Strategy aligned to the National Outcomes and National Development Plan had a negative effect on the City's ability to attain local and national objectives;
- Our experience confirms that COGTA and National Treasury must continue the work of supporting strategic certainty in municipalities (such as Circular 63 and other frameworks) as well as challenging municipalities to ensure that whatever government is in power, the outcomes of government cannot be diverted from;
- In Johannesburg the effects of coalition governments can also be seen in the **collapse of governance** in municipal entities from 2016 to 2019, something that will admittedly take some time to correct.
- The shift to annual Board terms in municipal entities reflected short-term thinking that led to annual upheavals in the governance arrangements affecting service delivery.



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GOVERNANCE OF GLU AND GLU IN GOVERNMENT

- The governance and management of the GLU is through:
 - Coalition Agreement and Memorandum of Understanding, managed by Political Management Committee
- The Coalition Agreement and MOU addresses representation of parties in government, working relationship of parties in government and resolution of disputes.
- The PMC acts political management tool of the GLU providing guidance and accountability for the political parties.
- In government the GLU parties agreed to work collaboratively and on the basis of “good faith”



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GLU IN GOVERNMENT

- Appreciating that there would be differences of emphasis because of different mandates, the GLU further agreed on five Non-Negotiables. These are:
 - **Service delivery programmes** that will rebuild the City such as ensuring that 6kl of water is provided, electrification of both informal and formal settlements, clean our City three times a day; build houses that promote integrated human settlements and upgrading and maintenance of road infrastructure.
 - **Create a safer city** where people can live, work and play.
 - **Build cohesive communities** that will enable people to coexist with each other.
 - Put in place systems that will enable the City to become **financial viable and good governance** is practiced daily.
 - Decisively deal with corruption.



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GLU IN GOVERNMENT

- More notably, the members of the Government of Local Unity in Johannesburg came together and decided on a 10 Point Strategic Direction and Priority Programme of Action for the coalition.
- This 10 Point Strategic Direction is reflective of the diverse political underpinnings (and their accompanying programmes) of the different political parties in the GLU.
- They all find expression in the various policies that guide the City, as well as in the business plans that ensure that departments and entities track their performances (service delivery) against these priority points.
- **The end result is a strategy that is reflective of all social interests in the region under one funded mandate.**



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COJ:
GOVERNANCE
STRUCTURE /
MODEL



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COJ GOVERNANCE STRUCTURE : GROUP SNAPSHOT

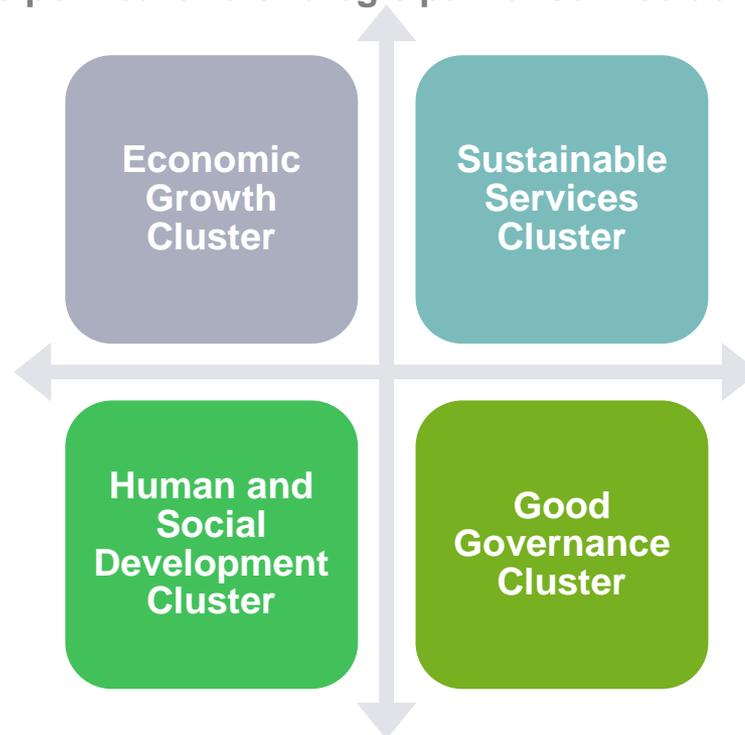




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COJ GOVERNANCE STRUCTURE: CLUSTER SYSTEM

- The City has adopted the Cluster approach to governance, financial management and service delivery of the Group as a whole.
- The Cluster system has a technical and a political pillar, the former being responsible for the administrative part of governance, financial management and service delivery, and the latter being responsible for the political and strategic part of service delivery.





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COJ GOVERNANCE STRUCTURE: FLOW OF REPORTS



COJ GOVERNANCE STRUCTURE: GROUP COMMITTEES





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Opportunities

Coalitions present a number of opportunities for local government going forward;

1. Our experience enables us to make a meaningful contribution to the discussion on how performance of coalition governments can inform electoral reforms.
2. We can confirm, based on our experience, that indeed we must accelerate the work of ring-fencing a core set out outcomes that municipalities and cities must deliver regardless of which coalition government comes into power.
3. There is need to strengthen the capacity building and support provided to coalition governments to enable them to execute their responsibilities especially in areas where there are completely new participants. This will improve financial management and governance in municipalities
4. There is an opportunity to develop a framework to guide coalition governments to be better aligned to local government mandate. Coalition agreements ideally should not be in contravention of the mandate of local government and must always be encouraged to enhance the attainment of
5. The last opportunity is to strengthen the calibre of municipal officials and the frameworks that support them to navigate the pressures that come with coalition governments and the blurring of roles that happens in the early stages of coalition governments



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CONCLUSION

- Our lessons learnt are:
 - Coalition agreements and priorities must be clear from the onset.
 - Any plan needs room and scope for addressing the requirements of a broader constituency.
 - Respect and affirm robust and effective institutional systems and structures.
 - Resource constraints mean that not all requests can be honored.
 - Consultation across and outside the coalition is vital to gain consensus on matters that require a majority vote as stipulated in Section 160 of the Constitution (voting on By-laws; Rates and Taxes; Budget and Loans).
 - Prepare and plan for prolonged decision making, to limit impact on service delivery.
 - Guard against decisions made in the interest of the coalition with far reaching financial implications in the future.
 - Accountability and Transparency.