

PLAN OF ACTION TO IMPROVE THE FINANCIAL STATUS OF MUNICIPALITIES

“Doing the same thing over and over again and expecting different results” “We cannot solve today’s problems with the same level of thinking that created the problems in the first place” (Albert Einstein)

REPORT TO THE PORTFOLIO COMMITTEE SEPTEMBER 2017

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# INTRODUCTION

The Auditor-General released the audit opinions on municipalities for the municipal financial year ending June 2016 in July 2017 and the National Treasury followed in August 2017 with a report on the financial status of municipalities after the municipal year end reports (section 71 of the MFMA) for the municipal financial year ending in June 2017. Both these reports, although based on financial performance data for different financial years, identified municipalities where the financial status is of concern (A list of the municipalities identified by NT and the AG is attached as Annexure A).

The Portfolio Committee requested CoGTA to present a plan of action to improve the financial status of municipalities.

# BACKGROUND

Since establishment of Developmental Local Government System in year 2000 there have been various support initiatives:

* Project Consolidate; (2003/05)
* Five-Year Strategic Agenda; (2005/08)
* LG Turn Around Strategy; (2008/13); and
* Back to Basic’s Approach; (2014/16)

# THE B2B PROGRAMME

Support and interventions measures must practically respond to addressing existing weaknesses, and improve, strengthen oversight and accountability mechanisms. The Back to Basics programme (B2B), was launched in September 2014, based on a foundation of doing the basics right: putting people first by engaging with communities; effective delivery of services; good governance; sound financial management; and building institutional capabilities to ensure the living conditions of communities are improved.

The B2B categorised municipalities, in three categories using the following criteria:



***Graphic:*** <http://www.gcis.gov.za/insight-newsletter-issue-22>

B2B encourages a whole of government and society approach, including encouraging the participation of the business sector, as they need functional local government to flourish and in turn provide local government with the sound economic development it requires.

At the end of the first phase of the B2B implementation a report (attached as Annexure B) based on 25 key indicators identified the following key trends:

# Demography

# Household growth

Household growth drives the demand for service delivery in municipalities. The province with the highest household population growth in local municipalities between 2011 and 2016 was Gauteng (20.9%), followed by the Western Cape (18.3%). The metropolitan municipality that experienced the highest level of household growth was the City of Johannesburg with 29, 2%.

Looking across provinces there were a mix of rural to urban local municipalities with the largest household growth, including those with high levels of urbanisation rate and medium levels of urbanisation in more rural municipalities. Most provinces did not record a local municipality with a decline in households, but declines were recorded in a few rural areas of the Eastern Cape, KwaZulu-Natal, North West and Limpopo, ranging from 0.2% to 16.4%.

# Municipalities with more than 100 000 households

There are five metropolitan municipalities with more than one million households. Johannesburg is leading with more than 1.8 million households, which is about 550 000 households more than the closest other metro, Ekurhuleni.

Municipalities that experienced considerable growth since 2011, include Rustenburg (31.9%), Govan Mbeki (29.8%), Johannesburg (29.1%), Ekurhuleni (27.9%), Mogale City (25.3%), City of Tshwane (24.7%) and Greater Tubatse (23.2%). The increase in these municipalities’ households could challenge their capabilities to keep up with service delivery. Gauteng is especially under pressure due to high increases in four of its municipalities.

# Demographic Indicators: Analysis

Urbanisation is an important indicator because of its far-reaching social, economic and environmental implications. Urban development that reinforces proximity between work opportunities and dense human interactions can foster synergies between the economy and environment through improvements in resource efficiency, productivity and innovation. Unregulated and haphazard urban development with inappropriate infrastructure can damage the integrity of ecosystems and exacerbate environmental risks and resource scarcities. Rapid urban growth accompanied by even faster, road-based sprawl may lock cities into dysfunctional spatial arrangements and worsening air pollution for many decades (Turok & Borel-Saladien, 2012).

Twenty-one years into the development and implementation of housing and human settlement reforms, the legislative framework, policies and programmes require new thinking and strategies that respond to the latest and emerging challenges, while addressing future needs. Despite the progress achieved in housing delivery, human settlement patterns in South Africa remain dysfunctional across the country. Weak spatial planning and investment has resulted in the inability of government programmes to address the apartheid spatial configuration. Poor spatial targeting has also given rise to growing housing needs in areas of economic growth, with a disproportionate number of new houses in areas of little or no growth.

In this regard the Integrated Urban Development Framework (IUDF) is a response to South Africa’s urbanisation trends, and the directive by the National Development Plan (NDP) to develop an urban development policy that will cater for increasing urbanisation and shifting demographics by ensuring proper planning and the necessary, targeted infrastructure investments to support this growth.

The IUDF seeks to build a shared understanding across government and society about how best to manage urbanisation in order to create more inclusive cities and towns. Critically, it is necessary to introduce the concept of the possible need for more centrally planned endeavours, as well as a revised regulatory framework, in order to avoid the frustrations of the outcomes of fragmented planning. These frustrations is primarily due to the wasting of valuable resources through uncoordinated, and sometimes uninformed, scattered investment in our cities, towns and villages. Additionally, these investments are frequently not planned together with the communities and stakeholders on which such developments have an impact.

These primary interventions would go far in beginning the reversal of the still prevalent patterns of spatial injustice, and hopefully open a broader debate on the opportunities and challenges existent, ranging from our major metropolitan areas to our smaller villages and towns.

# Governance

# Registered Voters

In April 2016 it was reported by the GCIS[[1]](#footnote-1), that South Africa had an estimated population of 34.1 million of voter age. Of these 26.3 million (77.1%) registered for the 2016 municipal elections. Almost 80% of 26.2 million South Africans registered to vote in the 2016 Municipal Elections were under the age of 30, according to the Independent Electoral Commission (IEC).

# Ward Committee Meetings

The average number of ward committee meetings per ward was 4.6 in 2015/2016, which was a slight increase from 4.3 in 2014/2015. The most meetings per ward (4.8-6.5) were held in municipalities in Limpopo, KwaZulu-Natal, North West and Mpumalanga. The Free State and the Northern Cape only averaged 2.9 and 2.3 meetings per ward. Going forward, it becomes increasingly important to invest in developing the skills of committee members to enable them to play a meaningful role in ward committee meetings and in their wards.

# Protests

In the 2015/16 period, 2135 protests were recorded by municipalities in the B2B monthly questionnaire, of which 945 protests were violent. Gauteng and the Western Cape had the largest number of violent protests. Service delivery protests were more prevalent in metropolitan areas, with 76% of the total protests for 2015/16 recorded in metropolitan municipalities.

Cape Town had the highest number of protests (591), followed by Tshwane (256) and Johannesburg (175).

# Regularity of Council meetings

Only 146 municipalities reported on the frequency of municipal council meetings. An emerging best practice is the holding monthly meetings instead of the legislative requirement of quarterly meetings. More than half of reporting municipalities (55.6%) held monthly meetings in 2015/16. In KwaZulu-Natal, Limpopo and Gauteng, more than 66% of reported municipalities held monthly meetings. The reporting by municipalities in the Free State, North West and the Eastern Cape on this indicator was poor.

# Participation of Traditional Leaders in Council meetings

On average, the participation rates of traditional leaders in Council meetings are generally much lower than the allowed percentages in the Municipal Structures Act.

Eastern Cape and Limpopo is making progress however. In this regard the fact that of the Eastern Cape Municipalities (where there are a substantive number of traditional leaders) did not report to the B2B monthly questionnaire, might have had an impact on the dataset.

# Governance Indicators: Analysis

Local government in South Africa is inundated with a variety of challenges, such as the inability to facilitate and enhance development in the communities within the municipalities’ area of jurisdiction. Service delivery protests, inclusive of those turning violent, increased over the two year period. This was especially true in the Category A municipalities. The increase in service delivery protests occurred irrespective of the public participatory type meetings (such as ward committee meetings) held in general as prescribed or expected. One must be however be cautious to assume that it is merely as a result of the public participation mechanisms not being effective or functional enough, that service delivery protests have been increasing. The phenomenon of protests is complex, with many causes, of which the effectiveness of public participation mechanisms is but one. The integration of traditional authorities with a modern democratic governmental system is a challenge. This is because of the different value systems supported by the two institutions (hereditary leadership vs democratic elected leadership). The role of the traditional leadership institution in local government in South Africa is determined by Section 212 of the Constitution, 1996, which emphasises the need for a specific legislation to regulate such an institution’s role as an institution at local level.

According to Section 81 of the Municipal Structures Act of 1998, identified traditional leaders may participate in the proceedings of the council of a municipality, and those traditional leaders must be allowed to attend and participate in any meeting of a council.

Furthermore, Steytler and De Visser (2007:3–22) argued already in 2007, that legislation makes provision for the recognised traditional leaders to be afforded an *ex officio* status when participating in municipal councils. However, this tends to be awkward as often the traditional authority will delay a municipal activity in their area. This is as a result of the expectation by the traditional authority that prior to the implementation of any programme in an area falling within their jurisdiction, the traditional leaders should first approve it. Thus, this situation has given rise to conflict in terms of the demarcation of the roles of traditional leaders and municipalities in respect to development within communities. In order to address this, the Traditional Leaders’ Indaba concluded in June 2017, recommended the following:

* Amendment of the Local Government Legislation (ward committee model,

Systems and Structures Acts) to strengthen and standardise the participation of traditional leaders in municipal councils, ward committees and other local government governance structures; and

* The development of regulations for participation of traditional leaders in local government programmes.

# Service Delivery

# Access to Piped Water

The National Goal (Development Indicators and Outcome 9) is that 90% of households across the country should have access to reliable water by 2019. The formal performance in this regard is that South Africa has moved from 85.1% (2011) to 89.9% (2016) of households with access to piped water.

Although the percentage of the population with access to piped water has increased nationally, these gains have been in metropolitan and urban areas. The data is showing that the ***number of municipalities*** where 90% or more of the households have access to piped water has only marginally improved between 2011 (115) and 2016(118). KZN for example, has the second highest number of households in the country with access to piped water (2.5 million) but only 19.6% of municipalities are providing 90% + of their households with piped water. In this regard eThekwini with almost 40% of the province’s household population, and an achievement of more than 98% of households with access to piped water, is driving the province’s success.

# Access to flush and chemical toilets

Nationally the standard for a basic sanitation facility is a ventilated improved pit latrine (VIP). At this stage only household information on the provision of flush or chemical toilets are available from StatsSA for 2016. It was therefore decided to look at the number of municipalities providing 80% or more of their household populations with access to flush or chemical toilets. The capability to provide 80% or more households with access to flush or chemical toilets has increased by more than 10%, i.e. from 59 municipalities in 2011, to 84 in 2016. Very little progress has been made in KwaZulu-Natal and Limpopo, with both provinces still below 6% access. This is however not to say that progress with the basic level (VIP) has not been made. More than 10% increases were recorded in Northern Cape and the Western Cape, with the Free State posting a 45% increase.

# Access to refuse removal services

The provision of refuse removal services remain a challenge, especially in rural areas. 201 municipalities reported on the provision of refuse removal services for the 2015/16 municipal financial year. Of these, only 39 (19, 4%) were able to serve 80% or more of their households with refuse removal services on a weekly or less often than weekly basis[[2]](#footnote-2).

In four provinces, Gauteng, KwaZulu-Natal, Limpopo and Mpumalanga, 10% or less of municipalities serviced 80% or more of its households. The Free State is scoring the best (55.6%), followed by the Western Cape (26.1%).

# Time taken to repair unplanned service interruptions

Due to only 161 municipalities reporting on response times to electricity interruptions, some municipalities reported less than 5 times in twelve months, it is a challenge to provide accurate figures. 36, 3% of municipalities responding to the B2B monthly questionnaire took 10 hours or more on average to restore unplanned water interruptions. 35.1% of municipalities responding to the B2B monthly questionnaire took 10 hours or more on average to repair sewerage spillages. 13.7% of reporting municipalities took 10 hours or more on average to repair unplanned electricity outages. It should be noted that quite often, bigger municipalities, even the metros are struggling with response times, so for example is the response times in Mangaung, the City of Johannesburg, the City of Tshwane, Ekurhuleni and the City of Cape Town, for water service interruptions all above the ten hour benchmark set in this report.

Substantial under-reporting were evident in the Eastern Cape, KwaZulu-Natal, and Limpopo, representing rural municipalities with capacity challenges. It is therefore conceivable that the number of municipalities with higher response times could be more.

# Service Delivery Indicators: Analysis

Well-maintained water and electricity distribution infrastructure is central to economic production and attracting businesses to particular localities, with the spin-offs of more jobs and a larger municipal tax base. Challenges are mainly still experienced across the infrastructure development life cycle in municipalities, namely from project identification, infrastructure planning, financing, construction to operations and maintenance. Some of the root causes remain weak institutional capacity and the shortage of skills, that all impact on the ability to plan for operation and maintenance of infrastructure.

The delivery of municipal infrastructure however, involves all spheres of government, as well as a whole range of sector departments. It has subsequently become increasingly necessary for both co-operative governance and cross sector collaboration when it comes to infrastructure delivery. Co-operative governance is essential to ensure that the different departments and spheres of government are working towards common goals and objectives in the development of municipal infrastructure.

The Inter-Ministerial Task Team on Infrastructure (IMTT) is playing a key role in facilitating integration.

# Financial Management

# Revenue Collection

66 Municipalities (23, 7% of all municipalities) collected less than 80% of the revenue owed to them as per their adjusted budgets. Municipalities are especially struggling in the Eastern Cape (17), Northern Cape (11) and Limpopo (9) to collect revenue owed to them. Almost a quarter of municipalities under spent conditional grants. Limpopo (40%) and Mpumalanga (38%) have the highest percentage of municipalities that under spend more than 20%.

# Service charges as Revenue source

Service charges should form a key component of the sources of revenue for municipalities. Nationally, the number of municipalities where service charges comprised less than 30% of own revenue (as compared to an average of 59%), have reduced from 85 in 2014/15 to 71 in 2015/16.

# Conditional Grant expenditure

Almost a quarter of municipalities under spent conditional grants. The majority of these municipalities were in Limpopo. National Treasury reported[[3]](#footnote-3) that there are weaknesses in municipalities’ effective utilisation of conditional grants, with 67 municipalities found not to have complied with the Division of Revenue Act (DoRA) requirements. 26 of these municipalities utilised the grant for purposes other than those allowed for by DoRA and 46 municipalities did not evaluate the performance of the programmes and projects funded by the grants.

# Municipal Infrastructure Grant (MIG) expenditure

The overall total national expenditure for the municipal financial year ending June 2016, was 92% of R14.888bn. This is 3% higher than the 89% of the previous financial year, 2014/15. Despite these higher expenditure levels, National Treasury[[4]](#footnote-4) found that a total of 131 municipalities that received a Municipal Infrastructure Grant (MIG) allocation did not achieve the planned targets, with 82 municipalities underspending by more than 10% (pre-finalisation of the Annual Financial Statements). The CoGTA data shows that 121 municipalities did not achieve the planned targets, and 77 municipalities underspent by more than 10% (post finalisation of the Annual Financial Statements).

# Financial Health

The Auditor General reports that the financial health of municipalities is on a steady decline, and that only 35% of municipalities (93) are financially healthy. National Treasury indicates in its report on the state of local government finances and financial management that municipalities in financial distress were characterised by poor cash management and an increase in debtors.

# Financial Management Indicators: Analysis

The two sides of the budget – revenue and expenditure – play equally important roles in municipal sustainability. On average the revenue bases of metros, secondary cities, larger towns and medium to smaller towns are dominated by own revenue (derived mainly from property rates and user charges), whereas rural municipalities and districts tend to rely heavily on intergovernmental transfers. Revenue derived from services charges made up the largest component of operating revenue, particularly for metros, secondary cities, larger towns and medium to smaller towns. In the case of rural and district municipalities, government grants, specifically the local government equitable share (LES) allocation, are the dominant operating revenue source.

Due to unemployment and poverty, there are households/citizens that are unable to access or pay for basic services – this grouping is referred to as indigent households (**dplg**, 2005). According to the Free Basic Service (FBS) Policy of South Africa, indigents are exempt from having to pay for basic services below a certain threshold[[5]](#footnote-5). The roll-out of FBS within municipalities is funded through the LES allocation ***and municipal own revenue***. As a result, the issue of indigents is intricately related to non-payment, as non-payment reduces the amount of own revenue at a municipality’s disposal, which affects its ability to extend access and deliver FBS to the poorest of the poor.

National Treasury identified the following common challenges in financially distressed municipalities:

* An increase in the number of acting Municipal Managers and Chief Financial
* Officers;
* An increase in poor cash flow management;
* An increase in reliance on conditional grants;
* Low capital spending on infrastructure;
* Increases in debtors and creditors;
* Inadequate provision for repairs and maintenance;
* Lack of credible budgeting; and
* Ineffective governance structures which undermines the administration of municipalities.

# Institutional Capabilities

# MM and CFO positions filled

The fact that the positions of municipal manager and chief financial officer are filled, or not filled has a serious impact on municipalities’ administrative capabilities. In 17 municipalities both the CFO and MM positions were reported[[6]](#footnote-6) vacant for 75%, or more, of the time. These municipalities are particularly vulnerable administratively. Then again, ninety eight (98) or 35.3% of municipalities reported a 100% occupancy rate of both their MM’s and CFO’s.

The AG found in the 2015/16 audit opinion that the average length of time that municipal managers had been in their positions, was more than four years in 2015-16, which was an improvement from the previous year. By 2015-16, municipal managers at 100 municipalities (47%) had been in the position for four years or longer – a significant improvement compared to the 70 (32%) in 2014-15.

# Employees in municipalities

Nationally, 69 municipalities (29.5%) reported vacancy rates higher than 20% to the StatsSA non-financial census. KZN had 16 municipalities with vacancy rates higher than 20% followed by Eastern Cape and Free State with 10 municipalities, each.

The AG concluded in his Audit outcomes report for 2015/16 that one of the biggest challenges for local government, especially rural municipalities, is to attract and retain qualified and competent persons in all areas of administration.

# Institutional Capability Indicators: Analysis

As was observed with the previous five local government elections, this point in the electoral cycle is inherently one of strategic and administrative change. New administrations under new political leadership usually introduce revised five year strategies that are, in all probability, driven by new administrative leadership including new MMs and new CFOs. Some of these officials’ predecessors’ contracts, will have come to an end after serving their five year terms. There is therefore a risk that the stability at senior management level will worsen in the 2016/17 financial year after the local government elections. As a result, continuity in running municipalities and service delivery can be affected for six months to a year because of the time it takes to fill all senior leadership positions and for that new leadership to adapt to their new roles and responsibilities.

The on-going instability in senior municipal management positions has a negative impact on service delivery to communities. This manifests in a number of ways, including the inability to make basic managerial decisions such as the appointment of service providers. This often delays project implementation and affects the municipality’s ability to spend its capital budget.

In April 2017, a Local Government Summit was held were delegates committed as follows:

1. Provide ethical and committed leadership;
2. Implement the National Development Plan (NDP)
3. Continue with the implementation of the Back to Basics Programme;
4. Put people and their concerns first and ensure constant contact with communities through effective public participation platforms;
5. Improve the political management of municipalities and be responsive to the needs and aspirations of local communities;
6. Create conditions for decent living by consistently, equitably and efficiently delivering municipal services to the right quality and standard;
7. Act collaboratively with sectors to address spatial imbalances in economic opportunities and prioritise alignment of spatial development frameworks with integrated development plans
8. Expand economic opportunities near where people live and work;
9. Coordinate infrastructure investments in targeted spaces across spheres, sectors and with stakeholders;
10. Overcome persistent backlogs and/or inequities in service delivery through improved intergovernmental planning and budgeting processes;
11. Overcome the widespread under-maintenance and renewal of infrastructure;
12. Recognise rural-urban interdependency and the need for a more comprehensive, integrated approach to urban and rural development;
13. Reap the ‘urban dividend’ through well-managed, well governed urbanisation;
14. Implement the Integrated Urban Development Framework (IUDF);
15. Ensure good governance and effective administration - cut wastage, spend public funds prudently, hire competent staff, ensure transparency and accountability;
16. Further ensure that corruption is prevented and rooted out at all levels;
17. Ensure sound financial management and accounting by prudently managing resources so as to sustainably deliver services and bring development to communities;
18. Build and maintain sound institutional and administrative capabilities managed by dedicated and skilled personnel at all levels;
19. Eliminate unnecessary regulatory burdens; and
20. Ensure continued performance monitoring and reporting on the work of municipalities as directed by the Back to Basics approach.

# CONCLUSION

Unfortunately, the uneven performance continue to characterize the state of municipalities. In this regard the following is emerging:

* There are municipalities that continue to remain in a dire state, despite support and intervention measures, e.g. *(Makana, Ngaka Modiri Molema, Thabazimbi, Ubuntu, Emalahleni, Emfuleni, Mafube and Masilonyana, Kannaland, etc)*
* Predominant challenges relate to unfunded budgets, low collection rate, bloated organograms, high turnover of senior managers, aging water and electricity infrastructure, lack of internal controls, no performance management systems, poor operations and maintenance, etc.;

Root causes for the above have been identified as:

* Weak oversight mechanism – systems and processes at National and Provincial Level;
* Uneven capacity of Provincial Cogta departments;
* Political and administrative instability at municipal level;
* Inadequate skills - The lack of appropriate skills levels and high levels of vacancies for technical directors for example, is a material problem in all the municipalities. SCM is non-existent in many municipalities. The complexities, especially for smaller municipalities result in municipalities blatantly disregarding the prescribed procedures which result in the appointment of incompetent service providers and/or legislative action from service providers who were unhappy about the fairness of the appointment processes.
* Poor oversight structures at municipal level (MPACs, Council Committees, Audit Committee);
* Inadequate consequence for poor performance and transgressions;
* Instability on vacancies on key senior management positions;
* There are perennial deficiencies that remains the inability to comply with constitutional and legislative requirements governing local government system, and enforcement and regulation thereof, namely:
  + Leadership
  + Management
  + Accountability
  + Oversight

# WHAT NEEDS TO BE DONE

Going forward, the B2B approach will become the foundation to build a functional local government system that delivers on its Constitutional and legislative developmental mandates. In this regard the following is planned:

* National Cogta to lead Provincial Engagements Sessions (Annexure C provides a detailed proposed action plan which still has to be discussed and agreed to between National and Provincial CoGTA’s);
* Joint National and Provincial Session to undertake following:
  + identify critical municipalities;
  + Agree on root causes and extent of challenges;
  + Develop joint B2B action plans;
* Convene Sectoral engagement with critical sector departments to develop and confirm sector support plans aligned to the B2B action plans;
* National & Provincial Cogta, National & Provincial Treasuries, SALGA and Sector Departments review existing legislative levers/regulatory regime and other instruments to address the perennial deficiencies;
* Submit concluded Provincial Reports to MinMec, PCC and Cabinet for endorsement and support; and
* Critical assessment of Provincial capacity, functions and resources to support municipalities.

# ANNNEXURE A: MUNICIPALITIES IN FINANCIAL DISTRESS

| MUNICIPALITIES IN FINANCIAL DISTRESS (NT)  2016/17 FY | MUNICIPALITIES WITH FINDINGS IN 7 OR MORE OF THE FINANCIAL HEALTH INDICATORS ASSESSED BY THE AG  (2015/16 FY) | DCoG LIST OF PRIORITY MUNICIPALITIES IDENTIFIED BY PROVINCIAL COORDINAOTRS IN SEPTEMBER 2017 |
| --- | --- | --- |
| EASTERN CAPE: |  |  |
| Gariep | Gariep |  |
|  | Nxuba |  |
|  | Inxuba Yethemba |  |
|  |  | Makana |
|  |  | Buffalo City |
|  |  | Mnquma |
|  |  |  |
| NORTH WEST: |  |  |
| City of Matlosana |  |  |
| Ditsobotla |  |  |
| Naledi | Naledi |  |
|  | Ventersdorp |  |
|  | Tswaing |  |
|  | Lekwa Teemane |  |
|  | Madibeng |  |
|  |  | Mamusa |
|  |  | Ngaka Modiri-Molema |
|  |  | Kagisano Molopo |
|  |  |  |
| GAUTENG: |  |  |
| Emfuleni |  | Emfuleni |
| Randfontein |  | Rand West |
| Mogale City |  |  |
|  |  |  |
| WESTERN CAPE: |  |  |
|  | Kannaland | Kannaland |
|  |  | Beaufort West |
|  |  |  |
| MPUMALANGA: |  |  |
| Emalahleni | Emalahleni | Emalahleni |
| Thaba Chweu |  | Thaba Chweu |
| Msukaligwa |  | Msukaligwa |
| Govan Mbeki |  |  |
| Lekwa | Lekwa |  |
|  |  |  |
| NORTHERN CAPE: |  |  |
|  | Siyathemba | Siyathemba |
|  |  | Ubuntu LM |
|  |  | Renosterberg |
|  |  | Magareng |
|  |  | Tsantsabane LM |
|  |  | Ga-Segonyana |
|  |  | Kgatelopele LM |
|  |  | Dikgatlong |
|  |  | Phokwane |
|  |  |  |
| FREE STATE: |  |  |
|  | Masilonyana | Masilonyana |
|  | Mafube | Mafube |
| Matjhabeng |  | Matjhabeng |
| Maluti-a-Phofung |  | Maluti-a-Phofung |
| Nketoana |  |  |
| Ngwathe | Ngwathe |  |
| Dihlabeng | Dihlabeng |  |
| Moqhaka | Moqhaka |  |
| Nala | Nala |  |
|  |  |  |
| KWAZULU-NATAL: |  |  |
|  | uMkhanyakude District | uMkhanyakude District |
|  |  | eMadlangeni |
|  |  |  |
| LIMPOPO: |  |  |
| Thabazimbi |  | Thabazimbi |
|  | Mookgophong/Modimolle | Mookgopong /Modimolle LM |
|  | Mopani District | Mopani District |
| Musina |  |  |
| Ba Phalaborwa |  |  |
|  |  | LIM345 (Collins Chabane) |
|  |  | Vhembe DM |
|  |  | Sekhukhune DM |
|  |  | Mogalakwena LM |

# ANNEXURE B1: STATE OF LOCAL GOVERNMENT REPORT AS AT JUNE 2016

# ANNEXURE B2: SUPPLEMENT WITH MUNICIPAL DETAIL

# ANNEXURE C: COGTA PROPOSED DETAILED ACTION PLAN FOR THE SECOND PHASE OF B2B (Still to be discussed with Provinces and Municipalities)

**BACKGROUND – STRATEGIC FRAMING OF THE B2B SECOND PHASE**

**First Phase**

The conceptual framing of the first phase of the Back to Basics programme was based on and characterized by the following factors;

* Consensus-type comprehensive assessment of the State of Local Government (*not scientific*);
* Appreciation of the unevenness in municipal performance and varied causes;
* Systemic and poor performance challenges
* Introduced categorization – “Doing well, Potential to do well or At Risk and Dysfunctional or Vulnerable”
* Defined the ideal municipality or acceptable level of performance;
* Outlined B2B objectives as per the pillar legislative compliance requirements;
* National and Provincial COGTA’s to develop B2B support plans and work with municipalities and prioritise categories of the Dysfunctional group and the At Risk group, whilst encouraging and monitoring the Doing well to remain in the same category;

The Back to Basics approach is consistent with the previous Local Government Improvement Programmes that were introduced by the erstwhile DPLG and current COGTA department.

The foundation for a developmental local government is doing basics right and there is therefore correlation between pursuance of developmental outcomes, effective delivery of service, changing living conditions of our people and meeting compliance requirements and doing the basics as provided for in the legislations that governs local government.

**Lessons Learned during B2B’s First Phase**

The following lessons emerged from the first phase:

* Back-to-basics is not an end in itself but the continuation of a journey in pursuance of our developmental objectives.
* The direct ‘hands-on’ support from spheres of government to municipalities has yielded improved performance;
* Positive lessons were realized from the various support packages and interventions;
* Political instability and weaknesses in governance are two of the primary causes of poor service delivery at municipal level;
* Evidence is emerging that reducing vacancy rates of municipal managers in municipalities seem to have a positive effect on improved audit outcomes.
* Municipalities with weaknesses in governance and corporate management functions such as financial management, human resource management and supply chain management, also tend to experience difficulties in service delivery;
* Whilst municipalities focused on the delivery of infrastructure to eradicate backlogs, they have sometimes neglected operations and maintenance thereof;
* Citizen engagements are generally weak in those municipalities categorized as ‘dysfunctional’ and ‘at risk’; and
* Municipalities generally, have weak technical capacity in planning, project management, and the designing and procurement of infrastructure.

**STRATEGIC FRAMING OF THE B2B SECOND PHASE**

As referred to, the first phase of the B2B focused on laying the foundation for a developmental local government by doing the basics right. This means that the pillars of the first phase of Back to Basics will now become the foundation on which we need to build further.

In his 2017 State of the Nation Address, the President indicated that we are building a South Africa that must be free from poverty, inequality and unemployment as guided by the National Development Plan. After two decades of democratic governance, South Africa is still a highly unequal society where too many people live in poverty. B2B will therefore continue to play a key role in seeking to reverse these legacy trends.

In this regard, the second phase of B2B is conceptually predicated on the theme ***“Managing Municipal Spaces for Radical Social and Economic Transformation”.*** The second phase however, requires a government-wide paradigm shift in perceptions of the role of Local Government, and will require a reorientation of the approach to implementation of the Back to Basics Programme. However, municipalities that are not achieving the basics yet, will still need to first concentrate on getting the foundational pillars right in order to stabilise such municipalities.

The B2B ten-point has been updated and tightened after the inputs of the Third Presidential Local Government Summit to reflect the five pillars as foundational areas and the focus areas of Spatial and Integrated development Planning, LED, Disaster Risk Planning and the Strengthening of the IGR. The original ten points have been included in the relevant focus area to improve the coherence of the framework and now reflects eight key points and the high level action areas:

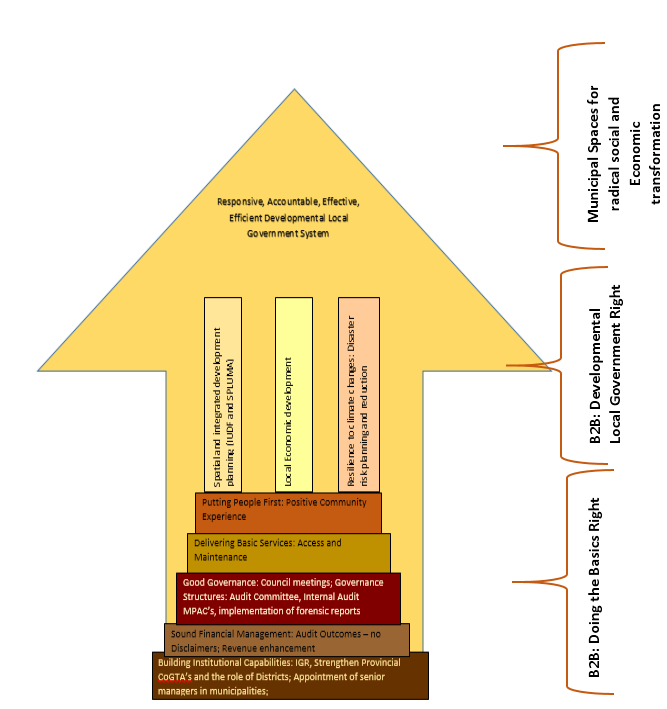
1. Enhancing Positive Community Experiences through:
   1. Improvement of complaints management systems and municipal frontline offices;
   2. Regular feedback to communities on progress with service delivery
2. Transforming Developmental and Spatial Planning to:
   1. stimulate local economic development; and
   2. lay the foundation for equitable service delivery
3. Implementing the IUDF through:
   1. Addressing spatial imbalances in economic opportunities
   2. Sustainable human settlements and improved household quality of life
   3. Job creation and inclusive growth
   4. Responsive and accountable local government
4. Continued focus on basic service delivery and infrastructure through:
   1. Prioritising Capacity for Service and Infrastructure Delivery
   2. Maintenance of existing infrastructure
   3. Increasing access to quality, reliable and sustainable basic levels of service in 27 prioritised districts
   4. Making municipal infrastructure procurement more efficient and effective
5. Strengthening good governance through:
   1. Enforcing Consequences for Corruption and Implementing Forensic Reports
6. Strengthening financial management and financial viability of municipalities through:
   1. Implementing Revenue Enhancement Programme
   2. Addressing Municipalities Consistently Receiving Disclaimer Audit Opinions
7. Building Municipal Institutional Capabilities through:
   1. Strengthening of IGR
   2. Strengthening the roles of District Municipalities
   3. Strengthening the provincial CoGTA’s
   4. Monitoring compliance with the requirements for the appointment of senior managers in Municipalities
8. Strengthening resilience and adaptation to environmental changes through
   1. Ensuring Disaster Risk Planning and Reduction

The enormity of the developmental challenges, and the severe fiscal and other resource constraints we are facing as a country, requires all our spheres of government to work together effectively and efficiently towards common goals for transformation.

The second phase requires therefore, moving beyond the basics and placing a focus on issues such as:

* A spatial and integrated developmental planning focus;
* Integrated Urban Development Framework (IUDF) priorities and its implementation modalities; and
* An local economic development (LED) focus to stimulate local economies
* Strengthening resilience and adaptation to environmental changes

This can be graphically illustrated as follows:



**B2B Pillars in the Second Phase**

The five pillars in the first phase of B2B remains relevant and important in going forward. The five pillars now become the foundational building blocks.

Three new pillars are added in the second phase: Local Economic Development, Building Resilience to Climate Changes and Spatial Planning and IDP. These additions are necessitated by the new emphasis on radical social and economic development and the transformation of municipal spaces.

**Second Phase B2B Foundation:**

1. Putting People First
2. Delivering Basic Services and Infrastructure
3. Good Governance and Accountability
4. Sound Financial Management
5. Building Institutional and Administrative Capabilities

**Second Phase B2B Pillars:**

1. Local Economic Development
2. Spatial Planning and IDP
3. Resilience to climate changes

**The B2B Pillars and the Ten (Eight)-Point Plan**

The second phase of B2B will focus more specifically on a number of critical areas within the Foundation as well as the Pillars. The elements of the re-packaged Eight-Point Plan can be directly linked to the Foundation and the Pillars and should be the first area of priority for implementation. It does not mean that other related municipal key performance areas should be ignored, but it should be considered in relation to the priorities to enhance the achievement of results. It is important for municipalities to continue to implement the foundational areas (Basics) of the B2B programme. This section outlines some of the remaining challenges and priorities for the next phase:

**Putting People First**

**Enhancing Positive Community Experiences**

In recent years, citizens have resorted to protest action, sometimes violent, to draw attention to their demands. Many communities are frustrated and feel their voice is not being heard through formal channels. There is an urgent need to ***create more constructive forms of engagement and feedback***, in which citizens feel there is a genuine desire to listen to and act on their concerns.

Community engagement shifts the emphasis from developing ‘imported’ solutions to community development by emphasising the value of local skills and making efforts to engage them in new and more participatory programmes. It recognises that development is an interactive process in which municipal officials and citizens come together to negotiate the development process in communities.

Examples of constructive community engagement could include but are not limited to:

* Improvement of complaints management systems and municipal frontline offices;
* Community feedback mechanism; *(sms community feedback system)*
* Develop ward based service delivery dashboard
* Implementation of ward improvement plans that addresses basic services, e.g. cutting of grass, working street lights and robots, water leaks, etc.;
* Use of Community Development Workers, Community Work Programme participants and Ward Committee members into the implementation of B2B programme

**Delivering Basic Services: Infrastructure Development and Maintenance**

The decentralised delivery of infrastructure in South Africa recognises the key role of sub-national govern­ments, especially local government as the sphere closest to the people. In line with this, the NDP envisages an even bigger role for local government. Since the delivery of municipal infrastructure however, involves all spheres of government and a whole range of sector departments, it has become increasingly necessary for both co-operative governance and cross sector collaboration when it comes to infra-structure delivery. Effective co-operative governance is essential to ensure that the different departments and spheres of government are working towards common goals and objectives in the development of municipal infra-structure. More effective ways to achieve this should be pursued.

An area of critical concern is infrastructure maintenance. The Department of Water and Sanitation reported as follows to the Inter-Ministerial Task Team on Service Delivery during September 2016:” …, *the reality is that due* ***to poor/lack of effective operations and maintenance****, vandalism and theft, at least 10% of the (water) schemes have become dysfunctional, resulting in only 85% of the schemes remaining operational (these are schemes that are functional but not necessarily providing reliable services).*” With regard to the provision of electricity, it was also found that municipalities tend to under-budget and under-spend on maintenance, when compared to international best practice benchmarks. The following service actions could be considered:

* Strengthening the technical capacity and capability of municipalities, in terms of Technical Units organograms, alignment of structure with core function, existing capacity and vacancies;
* Analysing the municipal absorption capacity and capability to manage infrastructure grants, e.g. whether all critical post are filled with appropriate expertise and critical functions such as BTO’s and SCM’s are in place;
* Increasing access to quality, reliable and sustainable basic levels of service in 27 prioritised districts, through diagnostic analysis leading to support and intervention to address key challenges.

**Good Governance and Accountability**

**Enforcing Consequences for Corruption and Implementing Forensic Reports**

The Auditor-General over several year has found that accountability is not receiving sufficient attention and that one of the root causes is inadequate consequence management for poor performance and transgressions. For the 2015/16 financial year there was a regression in this area and 73% of auditees were found to have inadequate consequence management processes and procedures. The Auditor-General remarks:” If officials who deliberately or negligently ignore their duties and contravene legislation are not held accountable for their actions, such behaviour can be seen as acceptable and tolerated.” The following activities could be considered:

* Improving the state of forensic reports, (collation of the forensic investigation undertaken by Province and Municipalities);
* Analysis of the reports;
* Status of reports in Councils and consequence management and accountability; Monitor municipal implementation plans; and
* Strengthening the role of MEC and other agencies in enforcing consequence management.

**Sound Financial Management**

**Addressing Municipalities consistently receiving Disclaimer Audit Opinions**

Disclaimer audit opinions have reduced dramatically from 104 in 2008/9 to only 25 in 2015/16. There are however 21 municipalities left that struggle with a history of repeat disclaimer audit opinions.

Of the twenty-one municipalities, 14 were categorised as ‘dysfunctional’ in 2014 at the inception of the B2B programme. In terms of the Municipal Infrastructure Investment Framework (MIIF) categorisation, 17 of the municipalities that continually receive disclaimer opinions, are categorised as B3 municipalities, i.e. Local municipalities with small towns, with relatively small populations and a significant proportion of urban population but with no large town as core.

It is also interesting to note that not a single one of these municipalities were categorised as a B4 municipality in terms of the Municipal Infrastructure Investment Framework (MIIF) categorisation, i.e. local municipalities which are mainly rural with communal tenure and with, at most, one or two small towns in their area.

It would therefore seem as if the municipalities with small towns are struggling more than the rural municipalities to manage their finances. The following activities could be considered:

* Prioritising and targeting municipalities receiving disclaimers for more than 3 years;
* Analysis of the AG management letters and Post Audit Action Plans Status of reports in Councils and consequence management and accountability; and
* Monitoring municipal implementation plans;

**Revenue Enhancement**

During implementation of the Back to Basics programme, it has become evident that one of the challenges facing many municipalities, is their inability to collect monies owed by consumers. In order to fully implement B2B the revenue collection problem would require a radical transformation and a more efficient mechanisms, both legislatively, and in practice, to ensure the liquidity of municipalities to facilitate sustainable service delivery.

Some additional revenue sources, outside of property taxes and electricity service charges should be considered.

Municipalities can enhance their revenue bases through inter alia:

* Ensuring property registers and valuation rolls are up to date;
* Ensuring the municipality is capacitated to collect property rates;
* Managing indigent registers and access to free (basic) services; and
* Curbing water and electricity losses.

It is furthermore critical to consider how municipal councils can exercise accountability over conditional grants, which is related to where the accountability for the performance should lie: with the grant provider (national or provincial department), the municipality (as recipient of the grant) or both. Targeted and effective spending of the Equitable Share should also be monitored by councils. The following activities could be considered for the second phase:

* Consolidated Billing for municipal services rendered to residents;
* Issues of metering and credibility of data and bills;
* Address tariff setting challenges;
* Non-revenue electricity and water, e.g. System losses (e.g. leaking pipes, house connection leaks, storage overflow), Commercial losses (e.g. billing anomalies, metering errors, water theft, Electricity theft;
* Address government debt, municipal debt, business and residents’ debt; and
* Other critical issues related to revenue generation by municipalities

**Building Institutional and Administrative Capabilities**

**Strengthening IGR**

Despite several areas of success, including many functional intergovernmental forums, and an awareness of the importance of joint work towards agreed outcomes, there are still areas that require attention. A key area is to improve the functionality of the *intergovernmental system* and better clarify within a differentiated approach, the roles and functions and interdependencies of the different spheres of government.

This requires a focus on the overall architecture of local government in particular, as all government actions takes place within a municipal space. Continuing review of the two-tier system is necessary, with more detailed exploration of the options for institutional adjustment to strengthen how functions are performed to better serve developmental local government.

Such review must also explore how district / regional spatial planning for growth and development may be better facilitated. This will entail a renewed focus on the sectoral / local government interface, through greater coherence and joint focus on national, provincial and local plans.

The Intergovernmental Relations Framework Act (IGRFA) forms the administrative spine for the practice of South Africa’s Intergovernmental Relations System. However, the prevailing systemic and institutional challenges cannot be resolved through the administration of the Act alone, as a broader understanding of intergovernmental governance is needed.

An example of this need is how the IUDF should be implemented. Urban governance covers the fiscal, functional and planning regimes, and how these need to be managed inter-governmentally as the bedrock, or foundation, for the success of the IUDF’s policy levers for integrated transport, human settlements, infrastructure and land-management.

Within the framework for intergovernmental governance are some other systemic prevailing problems; these include how to assign correct funding and accountabilities within the practice of concurrent, shared or split functions, the plethora of ‘decision-making’ entities, which can result in poor policy coherence, as policies and legislation often lack a series of checks and balances to ensure intergovernmental convergence, and the lack of oversight over the multiple, fragmented intergovernmental plans across government.

For B2B Phase 2 the following activities will contribute to strengthened intergovernmental policy and practice:

* **Review of the Architecture of Local Government**: exploring the current options for reform structurally and institutionally, with a view to possible rationalisation of the two-tier system, and an improved governance model emerging; these to be informed by current developmental and urban policy imperatives for transformation and growth.
* **Review of the IGRFA:** as referenced, the current Act has limitations as a framework to strengthen the intergovernmental practice of public governance; provisions to be explored include a regulatory environment for the management of powers and functions between and across the three spheres (vertical and horizontal intergovernmental relations).
* **Defining the role IGR plays in the implementation of the IUDF:** particularly in respect to the intergovernmental coordination and accountabilities of sectors and spheres for implementing plans and programmes under the umbrella of the IUDF.
* **Developing a joint process with the NPC to re-imagine and redefine intergovernmental, spatially informed development planning:** this is in order to make planning ‘fit for purpose’ towards the transformation of municipal space.

**Strengthening Provincial CoGTA’s**

* Clarify core functions and mandates/structure (Constitutional and Legislative)
* Empowering provisions and levers
* Capacity and Expertise required
* Operational and Funding model
* Municipal Support Plans

**Strengthening Districts**

* Clarify allocation and distribution of powers and functions;
* Consider a workable model for allocation and distribution of powers and functions, e.g. District performing both WSA and WSP functions against roles of Local municipalities
* Regional integrated planning and delivery of services
* District and local IGR coordination model
* Shared service model and strong district support plans for weaker local municipalities

**Compliance to the requirements for the appointment of senior managers in municipalities**

* Analysis of the current state of affairs, data on vacancies, number of senior managers compliant with minimum competency regulations, number of senior managers affected by the National Treasury CPMD competency requirements, number of senior managers contract coming to an end;
* Strong oversight over the pre – election and post - election phases as it relate to illegal cancellation of contracts and removal of senior managers and costs implications and court challenges on municipal budgets;
* Strategy for monitoring the post- election tasks, in relation to new appointments and meeting appropriate skills requirements;
* Issues circular/guidelines or notices to clarify contract appointments and which positions are permanent in senior management level;
* Resolve the misalignment between NT and COGTA regulations on minimum competency requirements.

1. http://www.vukuzenzele.gov.za/sa-ready-local-government-elections [↑](#footnote-ref-1)
2. Statistics South Africa. 2017. Non-financial Census of municipalities for the year end June 2016. Glossary. [↑](#footnote-ref-2)
3. National Treasury. 2016. State of Local Government finances and financial management as at 30 June 2016. [↑](#footnote-ref-3)
4. *Ibid*. [↑](#footnote-ref-4)
5. For example, in the case of electricity, the FBS threshold is 50 kilowatt hours per household per month. For water, the FBS amount is 6,000 litres per formal connection per month. [↑](#footnote-ref-5)
6. Of the municipalities that responded to the monthly B2B questionnaire [↑](#footnote-ref-6)