

Revised Chapter 9 of the MTSF

Outcome 9: Responsive, accountable, effective and efficient developmental local government system

PREAMBLE

1. National Development Plan 2030 vision and trajectory

The National Development Plan (NDP) envisages that by 2030 South Africa will be a state that is capable of playing a developmental and transformative role. In broad terms such a state intervenes to support and guide development in such a way that benefits accrue across society, with particular emphasis on the poor.

Drawing from the NDP chapter on a Capable and Developmental State, by 2030 we will have a developmental state that is accountable, focused on citizen's priorities, and capable of delivering high-quality services consistently and sustainably through cooperative governance and participatory democracy. As depicted in the White Paper on Local Government, developmental local government is "local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives"¹. In this scenario, local government is at the forefront of participatory democracy, involving citizens in meaningful deliberations regarding governance and development; is responsive to citizens' priorities, and enjoys high levels of trust and credibility amongst the public; whose employees are skilled, competent and committed to delivering quality services; is able to cost-effectively increase the quantity and quality of services and operates within a supportive and empowering intergovernmental system.

The NDP however, cautions that such a developmental state cannot materialise by decree, nor can it be legislated or waved into existence by declarations. It has to be consciously built and sustained. Local government is at the centre of development, and to achieve the aspiration of a transformed and effective local government system will require strong leadership through a clear and consistent, long-term strategy.

2. Constraints and strategic approach

In order to achieve the above vision a number of immediate barriers, constraints and challenges need to be addressed. More than R1 billion per annum is spent on municipal support and capacity building. There are large numbers of credible municipal strategies, policies, guidelines and programmes available to facilitate support, monitoring and interventions within the local sphere. In addition, municipalities are governed through a complex yet robust legislative and regulatory framework. Despite all of this, in a number of instances, municipal performance is far from optimal. Additionally, whilst the metro municipalities have made significant progress in addressing service delivery backlogs, even these advances are obscured by overwhelming challenges related to the fast pace of urbanisation and in-migration.

¹White Paper on Local Government, March 1998

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Municipalities operate in a complex environment and municipal performance is impacted at four levels: the organisational, supporting environment and wider macro-socio-economic context. The priority issues within each of the four levels that are negatively impacting on municipal performance are reflected in the table below:

Institutional Capacity	Enabling Environment	Macro Context
Weak political leadership	Lack of central co-ordination support, information and M&E	Huge pressures of poverty, unemployment and inequality
Technical skills gaps and lack of relevant competencies	Financial viability of municipalities	Huge service delivery backlogs
High staff turnover and vacancy levels	Bulk infrastructure gaps	Weak public participation
Weak understanding of policies	Lack of clarity re decentralisation of powers and functions and role of the districts	Huge social issues, such as crime, drug abuse, gender-based violence
Political deployments not always competent appointments	Role of DCOG unclear	Weak revenue base of municipalities with low levels of affordability
Lack of career progression	Lack of planning alignment amongst the 3 spheres – IDP not taken seriously by other spheres	Political dynamics, including coalitions resulting in inertia
Poor attitudes & values of staff	Local government financing system Unstable political environment	Pressures of in-migration and urbanisation
Lack of professionalism & regulation thereof by professional bodies & government	Inconsistent, incoherent and complex local government legislative environment	Weak education system
Corruption at all levels with no consequences Unclear administrative/political interface	Lack of customised support to municipalities, and support not impactful	
Weak strategy – focus on compliance Weak financial management and low budget spend		
Weak council decisions, often contrary to technical advice Organisational instability, including review of S 57 contracts linked to political term of office Lack of oversight and accountability Lack of legal compliance or regulatory support Weak municipal systems		

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Responding to the issues above will require a proactive approach to managing the intergovernmental system, in order to address specific weaknesses in collaboration and capacity support. National and provincial departments and entities impacting on local government will have to cooperate better and act with greater synergy in providing oversight and support to the local sphere. Moreover, provincial departments of local government will need to improve the way they monitor and support local government.

Decisive leadership and a cohesive plan is crucial, as is a coherent approach to the following constraints:

- Since 2004, the level of public trust in local government has steadily declined. Municipalities for their part have not always endeavoured to be more efficient and effective, to prioritise, maintain and sustain services (including basic services) to all in support of social and economic development, or to curtail the wasting of funds on non-priority expenditure and to collect all revenue due.
- Poor governance and accountability are also of major concern, with communities often feeling alienated and disconnected from decision-making processes. Much of this stems from undue political interference in operations, weak political leadership, and poor communication with communities, lack of transparency and accountability and weak and ineffective platforms for public participation. Governments' approach to citizen participation has too often become formulaic and symbolic. Unsurprisingly, this does little to improve citizens' confidence. Public confidence and trust in local government will have to be consciously rebuilt. Municipalities will need to pay greater attention to engaging citizens in their own spaces as well as ensuring that engagement in IDP processes is deliberative, with citizens actively involved in identifying and resolving trade-offs.
- The low confidence by citizens is also partly due to the fact that community expectations often exceed the administrative and financial capabilities of many municipalities. Amongst the categories and types of municipalities (from metropolitan municipalities through to small mainly rural municipalities) there is significant variation in capacities and socio-economic context, which has a direct impact on municipalities' ability to carry out their full mandate. The NDP specifies that we need to make better use of the scope for differentiation. In this regard practical actions are needed, such as to mediate agreements between district and local municipalities where there is duplication or conflict over the allocation of responsibilities and resources. There is also a need to develop different modalities for the delivery of services in less well-resourced municipalities, to name just two important issues.
- While a coherent yet flexible approach to differentiation should help to mitigate some of the effects of uneven capacity, a range of other factors will have to be simultaneously attended to for our local government system to become more effective and efficient. These include shortage of skills, undue political influence in the recruitment of senior managers, absence of a positive and focused role for provinces in building municipal capacity, intergovernmental collaboration problems, and lack of capacity to sustain service delivery through own revenue in the context of high levels of poverty and unemployment.

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3. NDP priorities to achieve the Vision

The sub-outcomes spread across the different chapters of the National Development Plan that are particularly important to addressing the constraints above, improving local government performance, ensuring quality service delivery and ultimately putting the local government sector on a positive path to achieving the vision are as follows:

- a) Members of society have sustainable and reliable access to basic services.
- b) Intergovernmental and democratic governance arrangements for a functional system of cooperative governance strengthened.
- c) Democratic, effective, capable and well-governed municipal institutions.
- d) Sound financial management.
- e) Local public employment programmes expanded through the Community Work Programme (CWP).

The specific actions and targets for the 2014-2019 period are provided for each of these priorities in the tables in section 5 below.

4. Management of implementation

Implementation of the five sub-outcomes above will require committed involvement and collaboration by various stakeholders and entities. The following national and provincial departments and entities will need to cooperate closely with one another to monitor and support the implementation of the MTSF actions:

- Department of Cooperative Governance
- National Treasury
- Department of Planning, Monitoring and Evaluation
- Department of Water and Sanitation
- Department of Environmental Affairs
- Department of Human Settlements
- Department of Energy
- Office of the Auditor General
- Offices of the Premiers'
- Provincial departments of local government
- Provincial Treasuries; and
- Municipalities.

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This outcome will be coordinated by the extended local government MINMEC at political level and the local government MINTEC at administrative level. Provincial departments of local government have a pivotal role to play in ensuring the success of the local government outcome. In particular it will be necessary for each province to contextualize the key actions and targets and establish the planning, management and administrative apparatus to ensure implementation, monitoring of delivery, and accurate reporting. Moreover, it is essential to ensure that the Local Government function within the province is geared towards strengthening collaboration for effective oversight of and support to municipalities.

While this document focuses on the actions that need to be taken by national departments, this is only intended to create an enabling environment for local government to flourish, and to provide a context for oversight over and support to municipalities. The ultimate responsibility for achieving the vision of development local government rests with municipalities themselves. It is therefore important that the priorities contained in this document inform the development of municipal Integrated Development Plans (IDPs). More generally, it is important that all municipalities are fully focused on ensuring they make optimal use of limited resources; developing and sustaining the skills they need to operate effectively; providing high quality, reliable and equitable services to citizens; and promoting meaningful citizen participation and engagement. National and provincial governments have a responsibility to ensure municipalities receive the best possible support in meeting these objectives, and organized local government will need to highlight where such support is missing, or is not of an adequate standard.

IMPACTS

The table of impact indicators below will serve as the basis for monitoring the extent to which government is making an impact on the long-term vision for local government, as outlined in the NDP.

Impact	Indicator(s)	Ministers responsible	Baseline(s) (2013/14)	2019 Target
Members of society have sustainable and reliable access to basic services	Number and percentage of HHs with access to reliable water services as per norms and standards	Water and Sanitation	Water: 65% (10.3 million HHs)	90% (5.2 million additional HHs receive improved and reliable service and that is maintained at these levels)
		Water and Sanitation	Sanitation: 74% (11.7 million HHs)	90% (2.5 million additional HHs receive access)
		Water and Sanitation	HHs using bucket sanitation 88127 in formal areas	0% households in formal areas with a bucket sanitation service

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Impact	Indicator(s)	Ministers responsible	Baseline(s) (2013/14)	2019 Target
		Energy	Electricity 12,8 million HHs connected to grid	1.25 million additional HHs connected
		Energy	Electricity: 75000 HHs on non-grid	105 000 additional HHs connected
		Environment	Refuse: 72% (11.4 million HHs)	80% (1.3 million additional HHS receive access)
Improved public trust and confidence in local government	% of households	COGTA	56% (Ipsos 2014)	65%
Sound financial and administrative management	Percentage of municipalities that improve their outcomes of that audit	COGTA Finance	23% (total of adverse, disclaimers, outstanding 24% qualified audits 53% unqualified audits)	Less than 15% of municipalities with disclaimers and adverse opinions Less than 20% of municipalities with qualified audits At least 65% of municipalities with unqualified and clean audit opinions
Local public employment programmes expanded through the Community Work Programme	Number of active participants reached	COGTA	174 725 (actual participation rate end March 2014)	1 million participants active in the CWP

SUB-OUTCOME 1: MEMBERS OF SOCIETY HAVE SUSTAINABLE AND RELIABLE ACCESS TO BASIC SERVICES

1. Purpose of sub-outcome 1:

The core focus and purpose of Sub-outcome 1 is to ensure that: “Members of society have sustainable and reliable access to basic services”. The principles and conditions of providing access to “sustainable” and “reliable” service delivery must be clearly understood. Central to this understanding is that access to services is constrained by a number of factors not least the absence of sound asset management practice in the local government sphere. Municipal assets are valued at an estimated current replacement cost of R1.26 trillion. These assets thus make a significant contribution to the fixed capital wealth of the country, underpin the functioning of local communities and economies, satisfy basic human needs, provide a hygienic environment, enable mobility and create opportunities for social integration and well-being². There is thus a need to emphasise asset management practice and asset care in the local government sphere. This is a major deviation from the previous approach that focused mainly on new infrastructure delivery. These conditions and principles will apply to all services areas.

2. MTSF 2014-2019 Targets

The MTSF sets out the targets to be achieved by 2019 for sustainable and reliable access to services as follows:

- 90% of households with access to reliable water services (5.2 million additional households receive access to reliable water services of which 3.2 million HHs are from the 27 priority DMs – or 1.04m HHs per annum of which 0.64 HHs are from the 27 DMs).
- 90% of households with access to functional sanitation services (2.5 million additional households receive access to functional sanitation services – i.e. 0.5 million additional households per annum)
- 80% of households with access to an acceptable refuse removal service (1.3m additional households with access to an acceptable refuse removal service – 0.26 million additional households per annum)
- 1.25 million additional households connected to the grid and an additional 105 000 to non-grid energy supply – i.e. 250 000 and 21 000 additional households per annum respectively.

Responsibility for reporting

- Department of Water and Sanitation for the water
- Department of Water and Sanitation for RHIP
- Department of Cooperative Governance for sanitation from the Municipal Infrastructure Grant (MIG) unit
- Department of Cooperative Governance for the refuse removal target
- Department of Energy for the electricity connection targets

² National Treasury, June 2015, Position Paper: Utilising the Grant System to Incentivise Sound Asset Management Practice and Improve Service Provision in the Local Government Sphere.

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Frequency

- Quarterly reports to MINMEC and Cabinet

3. Problem statement

Access to service delivery is constrained by a number of factors spanning planning and institutional dimensions.

The planning aspects entail the following factors:

- Access is affected because formal infrastructure does not exist;
- Households are not adequately served because the capacity of the existing infrastructure is insufficient, as such the infrastructure requires extension e.g. urgent upgrading of Waste Water Treatment Works (WWTW) are required as its capacity has been exceeded;
- Services have collapsed or are unreliable because of non-operational infrastructure due to neglect of routine maintenance and life cycle asset management e.g. waste water treatment works in distress and lack of asset registers for engineering facilities to assist in informed costing of operations and maintenance for water and sanitation;
- Services fail because of aged infrastructure that needs replacement e.g. aging electrification infrastructure;
- Non-payment for services which impacts on the municipalities' ability to deliver services; and
- Inaccurate data regarding access to services to form an integrated picture per sector for the prioritisation of service delivery needs according to each district and municipality.

The Institutional aspects include:

- Weak technical capacity in planning, project management, designing and procuring of infrastructure e.g. municipalities require support to design and develop tender documents for submission to the Supply Chain Management units;
- Critical shortages in skilled artisanal, engineering personnel and waste management;
- Several departments impact on the delivery of basic services but often operate in isolation;
- Absence of a structured, organised and integrated approach inhibits territorially (district) specific strategies;
- Municipal capacity building is ad-hoc and has produced less than optimal outcomes.

4. What is the intent and the key outputs expected with regard to this sub-outcome?

By focusing effort and energy in the 27 priority DMs significant advances can be made in achieving the 2019 targets for sustainable and reliable access to services.

The key outputs for this sub-outcome are as follows:

- A pipe line of implementable projects properly costed for maintenance, refurbishment, upgrading and renewal to address demand and needs with respect to water, sanitation, refuse, electricity and roads in the 27 priority districts by March 2017.

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- Prioritisation and an implementation schedule for the delivery of prioritised projects in these districts including asset management and infrastructure maintenance plan.
- Consolidated project register of all infrastructure projects
- Support plans and systems for those with the capacity to plan, implement, operate and maintain infrastructure and alternate delivery models in areas where municipalities lack technical capacity.
- Establish integrated monitoring system for tracking the implementation of the pipeline of projects (project register).
- Audits of the water and sanitation challenges among Water Services Authorities (WSA) undertaken and priority action plans to remedy the challenges in each affected WSA developed annually.
- Greater expenditure on infrastructure maintenance encouraged and financial asset management over the life-cycle of assets enforced at municipal level.

5. Intervention Strategy: activities, tasks and responsibilities

5.1. Establish a Programme Management Office (PMO) comprising sector departments (Water and Sanitation, Energy, Environment and Transport) as well as National Treasury, DPME and DCoG and MISA. The principle task of the PMO is to oversee/coordinate:

- Determination of the status quo by each sector department with respect to refurbishment, extension, maintenance and new infrastructure requirements in each of the 27 DMs
- Determination of the priority interventions/projects to improve access to basic services
- Engagements with the relevant municipality regarding the interventions together with provincial structures to be facilitated by the PMO.
- Provision of technical support and assistance with planning, designing and procurement of projects by National DCoG supported by sector departments.
- Tracking of project implementation and resolving problems where these arise by the PMO.

5.2. Functioning WSAs

- All WSAs annually assessed by DWS
- WSAs develop priority action plans to address operational vulnerabilities annually after each assessment
- Implementation of priority action plans monitored by DWS and reports produced for MinMec

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5.3. Municipalities encouraged to increase expenditure on maintenance and asset management over the life-cycle of assets

- A team comprising senior representatives from all the sectors, DCoG and National Treasury meet to discuss how to encourage greater expenditure on infrastructure maintenance and to enforce asset management over the life-cycle of assets at municipal level. This should at the minimum include allowing MIG or other grants to be temporarily used generate the necessary asset registers and asset management strategies, setting minimum requirements for asset management practice and asset care, providing guidelines and practice instruments to support municipalities to improve practice, and improved asset care monitoring and evaluation protocols.
- Municipalities supported by National DCoG to establish municipal asset management systems such as MISA's Municipal Infrastructure Performance Management Information System (MIPMIS).
- National DCoG to strengthen oversight over municipal spending on maintenance including ensuring LGES allocation for maintenance costs is used for maintenance purposes.

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National WS Challenge 2014

Reliable Service 2014	65%	10.3 m hh	
Unreliable and no services (2014)	35%	5.3 m hh (2014)	
2019 target	90% reliable service	15.5 m hh to be served @ reliable standards	Based on estimated 2019 households (17.2 m hh)
5 year delivery target (2014 -19)	25% improvement based on macro scale	5.2 m hh to receive improved services and maintained	NB. 5 year challenge: *10.2 m hh to be maintained @ reliable services *plus 5.2m hh to be improved/recovered
Annual target (5 years)	5% improvement per annum (macro scale)	1.04 m hh to receive improved services per annum (0.26m hh p q)	10 fold improvement required based on existing delivery rate (2014)

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27 DM WS Challenge 2014

Reliable Service 2014	43%	2.6 m hh	Estimated present 27 DM hh = 6 m
Unreliable and no services (as per 2014)	57%	3.4 m hh	
2019 target	90% reliable service	5.8 m hh to be served @ reliable standards	Based on estimated 2019 households
5 year delivery target (2014 -19)	47% improvement based on macro scale	Additional 3.2 m hh to receive improved services	5 year challenge: <ul style="list-style-type: none"> • 2.6m hh to be maintained plus • * 3.2 m hh improved services
Annual target (as per 2014)	10% improvement per annum (macro scale)	0.64 m hh to receive improved services per a (0.16m hh per q)	20 fold improvement required based on existing delivery rate (as per 2014)

SUB-OUTCOME 2: STRENGTHENED INTERGOVERNMENTAL ARRANGEMENTS FOR A FUNCTIONAL SYSTEM OF COOPERATIVE GOVERNANCE FOR LOCAL GOVERNMENT

1. Purpose of Sub-Outcome 2

Local government is a sphere of government in its own right and has been given a distinctive status and role in building democracy and promoting socio-economic development. While recognised as a distinctive sphere the Constitution enjoins all 3 spheres to govern in a cooperative manner. The realisation of the vision of developmental local government which centres on local government working with local communities to find sustainable ways to meet their needs and improve the quality of their lives will in great measure depend on a system of intergovernmental relations and cooperative governance arrangements that is cohesive, enabling and supportive of local government. The provincial sphere and district municipalities have a particularly important role in supporting municipalities to meet their developmental challenges.

Section 154 of the Constitution tasks provincial governments with promoting the development of local government capacity to enable municipalities to perform their functions and manage their own affairs. They thus have a pivotal role in the institutional development of municipalities specifically with respect to:

- Institutional development and capacity building
- Fiscal role in monitoring the financial status of municipalities
- Monitoring and oversight to ensure maintain high standards of service and good governance
- Intervention in the event of a municipality not fulfilling an executive obligation

A system of district government has been established with the express purpose of addressing regional challenges cutting across municipal boundaries as well as assisting in the development of local municipalities. Specifically the following performance areas have been identified for districts:

- Integrated development planning for the district as a whole
- Providing district-wide bulk infrastructural development and services
- Building the capacity of local municipalities in its area to perform their functions and exercise their powers where such capacity is lacking

2. Problem Statement

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Fifteen years into the newly designed, legislated and demarcated system of developmental local government, two thirds of municipalities are either dysfunctional or at risk of collapsing. Despite the huge staff compliment and budgets of provincial departments many of them have not been impactful in terms of supporting and strengthening the capacity of municipalities. They lack the core skills to carry out their mandate and operate without a clear focus.

Various studies show that districts are not performing as well as expected for a host of reasons. They are too small and too many placing limits on the value that can be achieved through the co-ordination, facilitation and support role that districts can play. Among the implications of the too many and too small districts is the cost/expenditure of governance and administration which is expenditure outside the scope of direct service delivery. This effectively means that a significant chunk of monetary resources that could address service delivery backlogs is channelled to sustaining district government administrations. Six of the total 43 district municipalities perform less than 40% of the total functions assigned to districts. One Lejweleputswa performs just 7% (only Governance and Administration) of the total functions. Another challenge facing the districts, particularly those in the rural former Bantustans is the inability to attract professional staff and scarce skills. This in turn negatively impacts the affected district municipalities' ability to provide technical support to local municipalities on request. Very few district Water Service Authorities (WSAs) collect revenue or have the necessary billing systems for cost recovery for services. Rural district municipalities face a huge challenge with regard to sustainable infrastructure provision, operations and maintenance of infrastructure with a great many of the WSAs considered to be highly or extremely vulnerable according to the Department of Water and Sanitation's assessments.

3. What is the intent and the key outputs expected with regard to this sub-outcome?

Strengthening the capability of provincial CoGTAs will provide a solid institutional platform for the provision of effective context specific institutional development and capacity building support to municipalities as well as improved monitoring and oversight to ensure high standards of public service and good governance is maintained at local government level.

We have a variable district government system in which districts exercise different sets of powers depending on local circumstances in terms of regional planning and or the provision of bulk infrastructure and provision and maintenance of services in administratively and financially weak municipalities. However this system has not been operating as envisioned in the White Paper on Local Government (1998). The different sets of powers vis-a-vis the area and the local municipalities that make up the district have to be looked at and shaped depending on local circumstances and conditions.

The key outputs for this sub-outcome are as follows:

- Effectiveness of provincial COGTAs evaluated with a view to improving their functioning in terms of monitoring, supporting and empowering municipalities to fulfil their mandate.
- Norms and standards for the management of concurrency between national and provincial departments of cooperative governance established.
- Status of each district established and strategy and action plan developed to ensure district municipalities are able to undertake their functional responsibilities in terms of

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regional development and coordination, and are able to provide support to weaker municipalities within their jurisdiction.

4. Intervention Strategy: activities, tasks and responsibilities

National DCoG establishes a Steering Committee comprising National Treasury, DPSA and DPME to undertake an organisational evaluation of provincial departments of cooperative governance, engage the provincial departments on the findings and initiate processes to improve focus and organisational performance of provincial departments of cooperative governance.

National DCoG in conjunction with relevant national and provincial counterparts to establish the situation in district municipalities with respect to development potential, district regional planning, relationships with locals, distribution of powers and functions and prepare a strategy and action plan to strengthen districts in the performance of their roles and responsibilities.

SUB-OUTCOME 3: DEMOCRATIC, WELL GOVERNED AND EFFECTIVE MUNICIPAL INSTITUTIONS CAPABLE OF CARRYING OUT THEIR DEVELOPMENTAL MANDATE AS PER THE CONSTITUTION.

1. Purpose of sub-outcome 1:

Municipalities operate in a fast changing and complex environment within which societal demands for quality, value for money and social justice have become paramount. Each municipality is also unique in terms of the balance between its socio-economic, cultural and political environments. The Constitution sets out the developmental mandate of local government and the positive effect this sphere is meant to have on society. Developmental local government as envisaged in the Constitution and the 1998 White Paper will not materialise by decree nor, as cautioned by the NDP, can it be legislated or waved into existence. It has to be consciously built and sustained.

The quality of institutions and their internal workings matter and make the delivery of positive developmental results possible. Local experiences as well as international studies show that a clear link and correlation exists between quality leadership, management practices and workplace capabilities on the one hand and quality of service delivery and productivity on the other. It is an incontrovertible fact that the quality of institutions and management practices has a measurable impact on quality of services and productivity.

2. MTSF 2014-2019 Targets

- Municipalities in the “dysfunctional” category supported to progress to “at risk” or better
 - Indicator: reduction in number of municipalities in the “dysfunctional” category.
- Municipalities in the “at risk” category supported to progress to “doing well” category and maintained at this level
 - Indicator: reduction in number of municipalities in the “at risk” category
- Unauthorized, irregular and wasteful and fruitless expenditure curbed from R24billion in 2013/14 to R10 billion by March 2019.

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- Public trust and confidence in local government increases to 65% by 2019 as measured by the Ipsos survey from a baseline of 56%.

3. Problem statement

A third of municipalities are considered to be dysfunctional reflecting high degrees of political and administrative instability, non-functioning executive structures that fail to meet and provide proper leadership and in some cases prone to endemic fraud and corruption. Services in these municipalities are on the verge of collapse and outages and supply disruptions are frequent and lengthy. Asset theft is high and maintenance of infrastructure is neglected. From the point of view of management, most managers lack the skills and competence to do the job, vacancies and critical skills gaps are high and financial and administrative delegations are non-existent. Financial management is poor with chronic under-spending on capital budgets, high proportion of debtors, no controls to ensure accountability and curtail irregular, wasteful and fruitless expenditure. The audit opinion amongst municipalities in this category is consistently negative with disclaimers being the norm.

A third of municipalities are at risk of becoming dysfunctional. These are municipalities that show signs of political instability, excessive political interference in administrative and operational matters especially Supply Chain Management. They respond slowly to service failures, experience high technical losses and or theft. From a financial management point of view these municipalities experience low revenue collection rates, significant debtors, have low cash coverage ratios, under-spending on capital budgets and declining audit opinions. Interactions with communities are weak and the locality experiences a rise in community protests.

A third of municipalities are said to be performing well. These municipalities display political and administrative stability, functional executive structures and a healthy political-administrative interface. They are responsive to the service needs of communities and infrastructure is well-maintained. The management team and key staff have the necessary competencies and skills and a clear financial and administrative delegations framework is in place. Financial management shows high revenue collection rate, at least 7% expenditure on maintenance and capital budgets are spent according to plans. Municipalities in this category receive clean audit opinions.

Absence of accountability and effective governance and controls is suggested by the over R24 billion in unauthorised, irregular and wasteful and fruitless expenditure incurred by municipalities in 2013/14. Twenty municipalities account for just over half of this amount with Nelson Mandela Bay and Tshwane metros and the City of Matlosana topping the list with R1.8 billion, R1.4 billion and R1.3 billion respectively. This is primarily as a result of governance and institutional lapses.

The 2013/14 audit revealed a worrying trend where more municipalities than ever have issued out tenders to companies with connections to local government politicians and officials. The Auditor-General blamed 99% of the total irregular expenditure on this and the non-compliance with tender rules and poor tender management practices.

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4. What is the intent and the key outputs expected with regard to this sub-outcome?

The intent is to align the B2B and the MTSF chapter with a view to ensuring that municipalities have the fundamental institutional and management processes and practices in place to deliver quality services and are responsive to the needs of communities.

The key outputs for this sub-outcome are as follows:

- Putting people first – ward committees engage in participatory ward-level planning to produce ward level service delivery plans and municipalities have responsive and viable community complaints systems
- Good governance – strengthened accountability and functional executive structures. Key risk areas associated with corruption and or weak governance identified and responded to, including political interference and non-compliance with tender rules.
- Operational capacity – Municipalities monitored and guided to appoint competent and suitably qualified senior managers in line with the Municipal Systems Act and the MFMA.
- Management practices measured, monitored and improvements supported.

5. Intervention Strategy: activities, tasks & responsibilities

5.1. Putting people first – National DCoG to lead in partnership with provinces

- All ward committees through a robust community engagement process identify a basic package of issues affecting residents in the ward that requires attention by the municipality. That is participatory ward level service delivery plans focusing on a set of basic concerns (potholes, non-functioning traffic lights, service interruptions, billing queries, etc.) of citizens in their wards.
- Ward committees play an active oversight role in monitoring and reporting to community on progress against the IDP and SDBIP and the ward level service improvement plan.
- Municipalities supported to put in place a viable community complaints systems that registers complaints and queries and ensures these are promptly attended to

5.2. Good governance – National DCoG to lead in partnership with provinces

- Irregular, wasteful and fruitless expenditure curbed with 10 municipalities per quarter thoroughly investigated and reported on to MINMEC for action. Point of departure will be the top 20 municipalities (as per the 2013/14 audit report) with the highest unauthorized, irregular and wasteful and fruitless expenditure investigated in terms of Section 32 of the MFMA and corrective action proposed.
- Rigorous monitoring of and reporting on the functioning of executive structures as well as adherence by Councillors to the code of conduct as per Schedule 1 of the Municipal Systems Act particularly with respect to (but not limited to) attendance at meetings, disclosure of interests, declaration of financial interests within 60 days of appointment/election and untoward interference in the management and administration of any municipal department.

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- Municipalities supported to establish tender rules and compliance with tender rules monitored for adherence. National DCoG and provincial counterparts together with the Office of the Chief Procurement Officer ensure that all municipalities have and apply clear tender rules, that adherence to the rules is monitored and that compliance is enforced by the MECs in terms of Section 106 of the Municipal Systems Act.

5.3. Operational Capacity

- National DCoG together with provinces to ensure that compliance with minimum competencies regulations is monitored and reported on and new appointments are supervised for compliance with regulations. Moreover DCoG and provinces will provide guidance to municipalities regarding appointments of competent and suitably qualified senior managers in line with the Municipal Systems Act and the MFMA.
- DPME together with National DCoG and provinces to undertake a minimum of 25 management performance assessments per annum together with provincial departments responsible for local government. Provinces have the responsibility to support municipalities in completing accurate self-assessments, communicating final moderated assessment scores to participating municipalities and supporting the development of improvement plans in underperforming KPs and standards as well as monitoring implementation thereof and providing progress reports.

SUB-OUTCOME 4: SOUND FINANCIAL MANAGEMENT

1. Purpose of sub-outcome 4:

Municipalities are required to strive, within their financial and administrative capacity, to achieve the desired objectives of local government which include service delivery. Over the past 10 years the legislative framework to build institutions of local government has been introduced in a phased manner, however, implementation by municipalities and capacitating of the system through support and interventions needs to be expedited during the next decade to ensure full compliance with laws and regulations, such as the Municipal Finance Management Act (MFMA), Municipal Systems Act, Municipal Property Rates Act (MPRA) and Municipal Fiscal and Powers Act.

The current state of municipalities shows that there are many weaknesses in the system which compromises the ability of municipalities to fulfil their service delivery obligations and developmental mandate. A proactive approach to identifying and resolving institutional problems is key to ensuring municipalities meet the minimum level of norms and standards of good institutional performance. The availability of collective data on municipal financial management and governance is vital to inform smarter and more effective municipal implementation, support and intervention to improve financial and administrative management. The focus at national level, by the National Treasury, will include hosting of the FMCMM and Financial Indicator Ratios in a database on municipal financial management, the development and implementation of the FMCMM and tools appropriate for measuring, monitoring and supporting improved management in municipalities and the utilisation of current coordination forums to prioritise, monitor and support interventions.

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To improve the audit outcomes, municipalities need to put in place action plans to address their audit findings. Where applicable, financial recovery plans must be developed to ensure that municipalities meet their financial obligations. National Treasury will continue to support the implementation of audit action plans through allocation of resources such as the Financial Management Grant (FMG). Provincial Treasuries will also strengthen their institutions to effectively support municipalities with the implementation of the MFMA. Treasury strategies will be aligned to address priority areas as identified from the FMCMM and Financial Indicators. The outcomes of benchmarking exercises and mid-year visits as well as the section 71 early warning system will inform interventions required at municipal level.

The National and respective Provincial Treasuries are responsible for the supervision over local government finance management and must ensure that municipalities manage their own affairs, exercise their powers and perform their functions. To perform this oversight role, budgets, financial performance (i.e. actual revenues and expenditure), compliance with the conditions of the Division of Revenue Act (DoRA), financial position, cash flows, assets and liabilities and service delivery performance of municipalities are to be monitored continuously. Various reforms will continue to be introduced to assist municipalities with their mandate and to enhance reporting so that informed decisions regarding policies and interventions in local government can be made.

2. MTSF 2014 – 2019 Targets

- Numbers of municipalities in good financial status are increased:
 - As of 2013/2014, 86 municipalities were in financial distress
- Improvements in audit outcomes:
 - Decrease in the number of municipalities that have disclaimers and adverse audit opinions to below 15%
 - Decrease in the number of municipalities that have qualified audit opinions to below 20%
 - Increase in the number of municipalities that have unqualified audit opinions to at least 65%
- Reduction in the number of infrastructure grants, improved outcomes from spending of existing grants and stronger oversight from national departments

3. Problem Statement

The Financial Management Capability Maturity Module (FMCMM) developed by the National Treasury and rolled out in 2015 to assess and improve the level of financial management maturity and capabilities as well as financial health within municipalities highlighted that there are challenges on areas of revenue management, supply chain Management, asset management, capacity building, risk management, internal auditing and information technology. Many municipalities have low liquidity (due in many cases to poor revenue collection); they are not able to meet their financial obligations; they provide inadequate funding for asset maintenance and have high distribution losses of electricity and water.

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Various institutional and administrative challenges also impact on the ability of municipalities to effectively perform their functions and deliver on their various obligations. The Local Government: Regulations on Appointment and Conditions of Employment of Senior Managers and the minimum competencies for financial and supply chain management officials were promulgated to address the weaknesses in recruitment, management and human resources. The implementation of these measures is on-going and is being monitored at national and provincial departments.

Financial sustainability of municipalities requires sound financial management. Although certain municipalities (especially the metros and secondary cities) have done very well in this area, other groups of municipalities are still having challenges. These challenges include amongst others lack of collection of own revenue, lack of maintenance of infrastructure, incorrect billing information, dependency on national transfers, under expenditure on grants, poor project management and implementation, lack of technical skills and political interference. In most rural municipalities the revenue base is shrinking due to out-migration of people to urban areas, while in urban areas informal settlements and un-serviced areas causes planning nightmares.

Infrastructure grants to municipalities play an important part in enabling municipalities to refurbish and provide critical infrastructure for the delivery of basic services. However these grants have not been performing optimally. A proliferation of grants has added to administrative inefficiencies, limited differentiation has not reflected the diversity of municipalities, poor asset management has undermined the sustainability of municipal infrastructure created by the grants, and restricted capacity and resources in national departments has limited the necessary oversight and support.

4. What is the intent and the key outputs expected with regard to this sub-outcome?

The intent is to take firm steps to strengthen the financial sustainability of municipalities through better monitoring and support.

The key outputs for this sub-outcome are as follows:

- Financial management maturity and capability is identified through the baseline assessments of the FMCMM and Financial Indicator Ratio undertaken in 2015 and national and provincial treasuries assist municipalities in developing and implementing action plans to address gaps and monitor progress on improvements.
- Phase-out and consolidate overlapping infrastructure grants; increase differentiation in the grants and grant design; develop stronger grant management capacity in national departments; incentivise more sustainable investment in existing assets.
- Performance of municipalities with bad financial status is monitored and outcomes are published quarterly through in-year monitoring and annually through the State of municipal finances report at the end of financial year.

5. Intervention Strategy: activities, tasks and responsibilities

The fundamental aim is attaining robust and a sound financial management regime at local government level. Through monitoring and reporting the following needs to be determined:

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- 5.1. Risk areas in local government finances identified so that appropriate system-wide responses can be investigated and developed; and
- 5.2. Municipalities who are in financial distress identified so that processes can be initiated to determine the full extent of their financial problems with a view to determining whether:
 - (a) A municipality requires support and what support should be provided, or
 - (b) An intervention is required in a municipality due to a crisis in its finances

This will be achieved through:

Quarterly monitoring of:

- Percentage of municipalities with cash coverage less than 3 months for fixed operation costs
- Percentage of municipalities with negative cash balance for more than 3 of the last 6 periods
- Percentage of municipalities with debtor's growth of more than 10% from last period
- Percentage of municipalities with creditor growth of more than 10% from last period
- Percentage of municipalities with collection rate of <95%
- Percentage of municipalities with a growth of >10% in short term borrowing from previous period
- Percentage of municipalities with a growth of >10% in short term investments from previous period

- 5.3. National and Provincial treasuries, in response to weaknesses identified in the FMCMM and Financial Indicator assessments, will assist municipalities in developing and implementing action plans to address gaps, monitor progress on improvements to financial management maturity and capability. The combination of these interventions is designed to address institutional and technical challenges contributing towards improved financial management and audit outcomes. Provincial Treasuries should align strategies to address priority areas identified.
- 5.4. Municipalities that received disclaimers for 3 years or more prioritised for improvement by DCoG.
- 5.5. Municipalities monitored and provided guidance to comply with minimum competency regulations for financial management by National and Provincial treasuries
- 5.6. National DCoG to address the issue of debt owed to municipalities and debt owed by municipalities with a view to finding viable solutions to the problems of low collection, debt over 90 days and non-payment of creditors by municipalities within 30 days.

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State of municipal finances measures

1. Cash as a percentage of operating expenditure	To determine cost coverage – does the municipality have adequate cash available to meet its operating expenditure requirements?
2. Persistence of negative cash balances	Identifies whether cash shortages / bank overdrafts pose a 'chronic' problem for the municipality.
3. Over spending of original operating budgets	Tests the effectiveness of municipal spending in accordance with resources available to them, what is the credibility of the budget and are municipalities able to adjust expenditure should planned revenue not materialise.
4. Underspending of original capital budgets	Tests the effectiveness of municipal spending – but also provides an indication of whether municipalities are compromising on capital programmes to resolve cash flow challenges, are there planning deficiencies which are impacting on service delivery, etc.
5. Debtors as a percentage of own revenue	Examines the revenue management capabilities of municipalities
6. Year-on-year growth in debtors	Is the municipality exercising fiscal effort in collecting outstanding debt? To what extent is financial distress the result of poor debtor management.
7. Creditors as a percentage of cash and investments	Is the municipality able to meet its monthly commitments – does it have sufficient cash to pay its creditors in line with the requirements of the MFMA (i.e. cost coverage).
8. Reliance on national and provincial government transfers	Determine the levels at which municipalities are able to generate own funds to finance revenue generating assets to enhance and sustain revenue generating streams.
9. The extent of repairs and maintenance as a percentage of property, plant and equipment. ***	Does the municipality prioritise expenditure towards repairs and maintenance? Is the level within the acceptable norms and standard as guided in the budget circulars?

** Denotes that owing to data limitations this measure has not been incorporated in the financial distress list this year.

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Sub-outcome 5: Local public employment programmes expanded through the Community Work Programme (CWP)

1. Purpose of the sub-outcome

To respond to the persistently high levels of poverty, unemployment and inequality, government adopted the CWP in order to provide livelihood support to poor households. The objective of the programme is to create access to a minimum level of regular work and thus an income stream by targeting areas of high unemployment and poverty where sustainable alternatives for employment are likely to be limited for the immediate future.

Problem statement

The programme has not been able to scale up to a sufficient level to reach the intended number of 1 million participants by 2019. Despite high demand for expansion at local level, the programme under-spent its budget, and participation rates have remained stagnant. This is partly due to experienced constraints in operationalising the business plan for scaling up and inadequate programme management and administration systems. In providing a strategic policy direction to redress these challenges, it is imperative to recognise that a specialised programme of this nature requires that innovative approaches be developed in order to enhance its development effectiveness. While funding for the programme is not sufficient to enable it to expand, money will not be forthcoming from the national budget until the organisational and programme management and administration deficiencies are addressed.

2. What is the intent and the key outputs expected with regard to this sub-outcome?

Implement the CWP in identified sites in 234 municipalities to reach 1 million participants by 2019. To ensure economies of scale and facilitate the achievement of 1 million participants in the programme by 2019, ideally each site should have a minimum of 1000 participants.

The key outputs for this sub-outcome are as follows:

- CWP Service Delivery Model developed
- Financial model and requirements to upscale
- Database of NGOs and community-based organisations
- NGOs and community-based organisations trained
- Innovation and variety in “useful work” identified

3. Intervention Strategy: activities, tasks and responsibilities

3.1. A business plan was developed over a year ago on how the CWP can increase the actual participation rate to 1 million. This included the organisational and financial pre-conditions that needed to be in place in order for the initiative to succeed. The CWP, in collaboration with National Treasury’s Government Technical Advisory Council (GTAC) and other partners, is working on a Service Delivery Model that will indicate the budgetary requirements and institutional arrangements required to upscale to 1 million participants by 2019. This joint work will be overseen and supported by the CWP National Steering Committee.

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- 3.2. Through the review of the Service Delivery Model and the support of GTAC, the CWP will put in place functional systems and structures as well as financial modelling techniques to determine the financial requirements to upscale. The financial requirements should be determined before March 2016 to be able to influence the MTEF in the new financial year 2016. This work will be overseen and supported by the National Steering Committee.
- 3.3. Where possible, DCoG should ensure that all sites have a minimum of 1000 participants and that the main labour intensity of 65% is maintained to ensure that most of the funding goes towards wages.
- 3.4. DCoG to mobilise NGOs and community-based organisations, create a database of these organisations and pro-actively train them to be implementing agents of the CWP in local areas.
- 3.5. Through collaborative initiatives with other sector departments, DCoG to champion innovation and variety in “useful work” in order to attract the unemployed poor particularly among the youth who would stand to benefit by acquiring new skills and work experience.

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ANNEXURE

BACK TO BASICS CATEGORIZATION OF MUNICIPALITIES – FEBRUARY 2015

KWAZULU-NATAL PROVINCE - 61

DYSFUNCTIONAL - 8	POTENTIAL TO DO WELL – 18	DOING WELL - 35
Umvoti	Greater Kokstad	Uthungulu DM
Mtubatuba	Maphumulo	Ubuhlebezwe
Mooi Mpofana	Edumbe	Umzimkhulu
Abaqulusi	Phongolo	Hibiscus Coast
Ugu DM	Nongoma	Emnambithi / Ladysmith
Endumeni	Ulundi	Msinga
Umzinyathi	Jozini	Ingwe
Amajuba	Hlabisa	Emadlangeni
	Uthukela DM	Umzumbe
	Ndwedwe	Okhahlamba
	Umkhanyakude DM	Umhlathuze
	Vulamehlo	Ethewini Metro
	Zululand DM	Umgungundlovu DM
	Umfolozi	Umhlabuyalingana
	Umngeni	Mthonjaneni
	Umshwati	Nkandla
	Indaka	Mandeni
	Umtshezi	Kwadukuza
		Ilembe DM
		Impendle
		Richmond
		Danhauser
		Big Five False Bay
		Harry Gwala
		Kwasani
		Nquthu
		Ezinqoleni
		Mkhambathini
		Umuziwabantu
		Umlalazi
		Msunduzi
		Ntambanana
		Umdoni
		Umzambe
		Imbabazane
13%	30%	57%

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MPUMALANGA PROVINCE - 21

DYSFUNCTIONAL (10)	POTENTIAL TO DO WELL (6)	PERFORMING WELL (5)
Thaba Chweu	Chief Albert Luthuli	Steve Tshwete
Emalahleni	Dipaleseng	Govan Mbeki
Msukaligwa	Lekwa	Mbombela
Thembisile Hani	Nkomazi	Ehlanzeni
Dr JS Moroka	Umjindi	Nkangala
Emakhazeni	Gert Sibande	
Bushbuckridge		
Mkhondo		
Victor Khanye		
Dr Pixley Ka Isaka Seme		
47%	29%	24%

NORTH WEST PROVINCE - 23

DYSFUNCTIONAL – 9	POTENTIAL TO DO WELL – 5	DOING WELL – 9
Ditsobotla	Mamusa	Dr. Kenneth Kaunda DM
Kagisano-Molopo	Lekwa-Teemane	Dr. Ruth Segomotsi Mompati DM
Mahikeng	Madibeng	Bojanala DM
Ngaka Modiri Molema DM	Moretele	Rustenberg
City of Matlosana	Ramotshere Moila	Tlokwe
Tswaing		Greater Taung
Kgetlengrivier		Ratlou
Ventersdorp		Naledi
Maquassi Hills		Moses Kotane
39%	22%	39%

LIMPOPO PROVINCE - 30

DYSFUNCTIONAL (10)	POTENTIAL TO DO WELL (12)	PERFORMING WELL (8)
Mopani	Greater Giyani	Greater Letaba
Vhembe	Greater Tzaneen	Maruleng
Aganang	Ba-Phalaborwa	Musina
Polokwane	Mutale	Thulamela
Thabazimbi	Molemole	Makhado
Mookgopong	Lepelle-Nkumpi	Blouberg
Mogalakwena	Capricorn	Bela Bela
Ephraim Mogale	Lephalale	Waterberg
Sekhukhune	Elias	
Greater Tubatse	Modimolle	
	Makhuduthamaga	

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	Fetakuwu	
33%	40%	27%

NORTHERN CAPE PROVINCE - 32

DYSFUNCTIONAL - 15	POTENTIAL TO DO WELL – 15	PERFORMING WELL - 2
Mier	Gamagara	ZF Mgcawu
!Kheis	Phokwane	Frances Baard
Kai !Garib	Magareng	
Kgatelopele	Kareeberg	
Tsantsabane	Ubuntu	
Joe Morolong	Khai-Ma	
Ga-Segonyana	Sol Plaatje	
Dikgatlong	//Khara Hais	
Renosterberg	Namakwa	
Siyancuma	Hantam	
Siyathemba	John Taolo Gaetsewe	
Thembelihle	Pixley Ka Seme	
Karoo Hoogland	Emthanjeni	
Nama Khoi	Riechtersveld	
Kamiesberg	Umsobomvu	
47%	47%	6%

EASTERN CAPE PROVINCE - 45

DYSFUNCTIONAL - 14	POTENTIAL TO DO WELL – 13	PERFORMING WELL - 18
Mbashe	Alfred Nzo DM	Umzimvubu
Mhlontlo	Nxuba	Amathole DM
King Sabata Dalindyebo	Mbizana	Ngquza Hill
Ngqushwa	Mnquma	Cacadu DM
Lukhanji	Chris Hani DM	Joe Qcabi DM
Intsika Yethu	Inxuba Yethemba	Matatiele
Ikwezi	Tsolwana	Nkonkobe
Makana	Emalahleni	Nyandeni
Sundays River	Blue Crane	Engcobo
Gariep	Kou- Kama	Port St Johns
OR Tambo DM	Sakhisizwe	Camdeboo
Great Kei	Kouga	Senqu
Inkwanca	Maletswai	Elundini
Baviaans		Ndlambe
		Buffalo City Metro
		Nelson Mandela Metro
		Ntabankulu
		Amahlathi
31%	29%	40%

WESTERN CAPE PROVINCE - 30

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DYSFUNCTIONAL - 2	POTENTIAL TO DO WELL – 8	PERFORMING WELL - 20
Oudtshroon	Prince Albert	Overberg DM
Kannaland	Matzikama	Saldanha Bay
	Cape Agulhas	Bergrivier
	Lainsburg	Eden DM
	Beaufort West	Drakenstein
	Central Karoo DM	Stellenbosch
	Cederberg	Cape Winelands DM
	Swellendam	Hessequa
		City of Cape Town
		Overstrand
		Threewaterskloof
		West Coast DM
		Swartland
		Breede Valley
		Langeberg
		George
		Witzenberg
		Mossel Bay
		Bitou
		Knysna
3%	13%	67%

FREE STATE PROVINCE - 24

DYSFUNCTIONAL (10)	POTENTIAL TO DO WELL (9)	Performing Well (5)
Naledi	Letsemeng	Mangaung
Tokologo	Mohokare	Tswelopele
Matjhabeng	Xhariep	Lejweleputswa
Nala	Masilonyana	Dihlabeng
Maluti-a-Phofung	Kopanong	Fezile Dabi
Phumelela	Setsoto	
Mafube	Nketoana	
Moqhaka	Thabo Mofutsanyana	
Ngwathe	Mantsopa	
Metsimaholo		
42%	38%	21%

GAUTENG PROVINCE - 12

DYSFUNCTIONAL (2)	POTENTIAL TO DO WELL (0)	PERFORMING WELL (10)
Westonaria		City of Joburg Metro
Randfontein		City of Tshwane Metro
		Ekurhuleni Metro
		Midvaal

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		Emfuleni
		Mogale City
		West Rand DM
		Sedibeng DM
		Lesedi
		Merofong
17%	0%	83%

National Overview		
Dysfunctional	80	29%
At Risk	86	31%
Performing Well	113	40%
Total	278	100%