



Appendix D – Guidance note for outcome indicator planning & reporting for MFMA Circular No. 88

Introduction:

Since the publishing and dissemination of MFMA Circular No. 88 (2017) and Addendums (2019, 2020 and 2021), municipalities have been actively preparing and incorporating indicators into their statutory planning and reporting as part of this reform initiative. MFMA Circular No. 88 reiterated conceptual distinctions between types of indicators set out in the National Treasury's *Framework for Managing Programme Performance Information* (2007) and provided additional guidance on how to distinguish between these indicators for planning and reporting purposes. Applying the circular has resulted in municipalities raising further questions and requesting additional guidance on how to practically reflect these indicators across four documents: the Integrated Development Plan (IDP); Service Delivery Budget Implementation Plan (SDBIP); Annual Performance Report (APR); as well as the quarterly and annual reporting (Q&AR) submitted online to National Treasury.

The guidance note summarizes the key provisions from the four iterations of Circular No. 88 to date. It thereafter illustrates practically **how** to reflect the indicators in the distinct planning and reporting documents. In the case of non-metro municipalities, there is only a need to apply the templates issued by National CoGTA as per the circular, whereas metros will be incorporating and integrating these indicators into their IDPs, SDBIPs and APRs.

*Note the appendices referred to in this document are from the previous iteration of the MFMA Circular No. 88 Addendum 3 update issued in 2021. Please refer back to those templates available on the [National Treasury website here](#) to avoid confusion with the 2022 appendices in the Addendum 4 update.

Review of Circular No. 88 guidance 2017 – 2021:

One of the key issues the MFMA Circular No. 88 reform has sought to address is the IDP and SDBIP interface, particularly as it relates to how outcome and output indicators are reflected. The following is an extract from Circular No. 88 (2017) that addresses this specific issue – “many municipalities have blurred the lines between selecting outcome and output indicators in their IDPs and SDBIPs and reporting on them in their quarterly and annual reports. In line with the original intention of the SDBIPs, this circular seeks to clarify that the SDBIP should only be concerned with performance information that speaks to “products or services” directly produced or delivered within the control of the municipality, otherwise known as outputs. The targets set for these indicators should therefore be informed by the resourcing allocation derived from the prioritisation and strategic direction set out in the IDP. Similarly, **the IDP should be concerned primarily with the outcomes and set targets in relation to these over the medium term.**” At the level of “Outcome”, or “the medium-term results for specific beneficiaries” (National Treasury, 2007), the reform has sought to plan for, monitor and report on the results of the constitutionally vested powers and functions of municipalities, in alignment with the strategic vision of the National Development Plan and the Medium-Term Strategic Framework of government.

The practical implications of the above are important and should not be misunderstood. **Outcome indicators, their baselines and 5-year targets should be reflected in IDPs. While related, they should be distinct from how Output indicators are reflected in the**

SDBIP (Component 3) or what is sometimes also referred to as a **Corporate Scorecard**. This is why the Planning and Reporting templates issued in the appendices of MFMA Circular No. 88 (2017 and 2021) separate the formats for planning and reporting Outcome and Output indicators.

Figure 1 from Circular No. 88 (2017) shows alignment between the planning instruments, the corresponding results level, and the reporting instruments. For clarity, the “Annual Report” referenced here in relation to the IDP as well as the “Annual Report” referenced in relation to the SDBIP is the Annual Performance Report (APR) of non-financial information which is addressed in MFMA Circular No. 63 as well as in the Municipal Systems Act Section 46 (and in relation to performance management reporting in Section 41 1(e)).

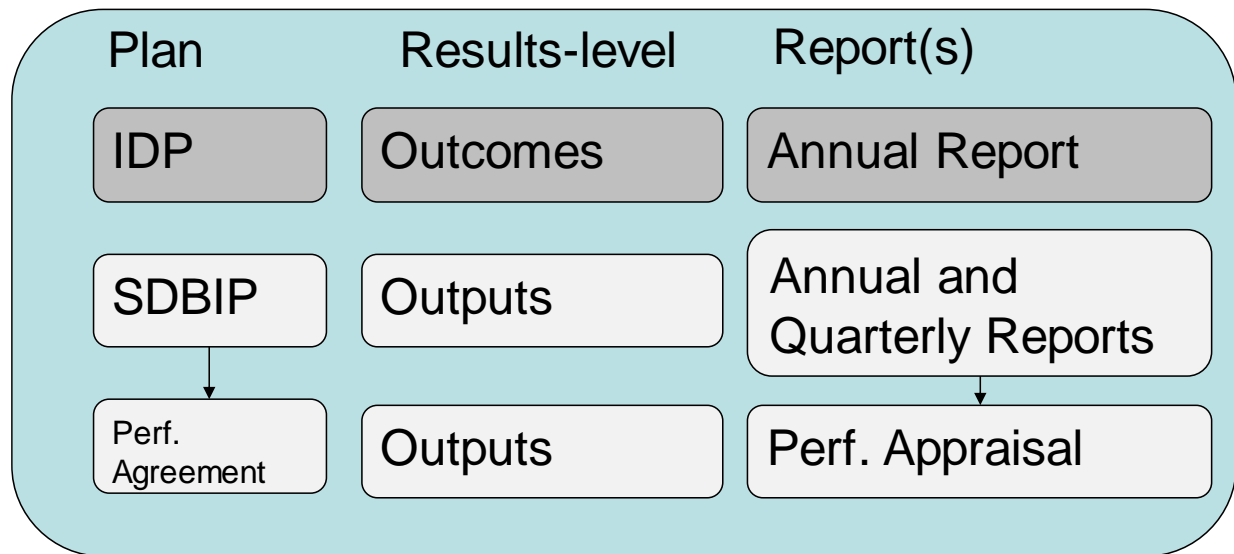


Figure 1: Planning and Reporting instruments and their results-level (2017)

Note: An area of clarification since the introduction of MFMA Circular No. 88 has been to shift the target-setting horizon for outcome indicators beyond annual targets to a medium-term target linked to the term of government. This change and clarification has sought to address the unintended consequences of creating short-term accountability for medium-term change, resulting in the exclusion of otherwise useful indicators.

MFMA Circular No. 88 (2021) addressed challenges that may have arisen from the initial guidance on setting outcome indicator targets over the medium-term. It clarified that **“municipalities are expected to include a medium-term target for outcome indicators for the electoral term (5th year). Following the 2021 Local Government Elections, this means that outcome indicator targets should be set for the medium-term planning horizon: 2026/27.”**

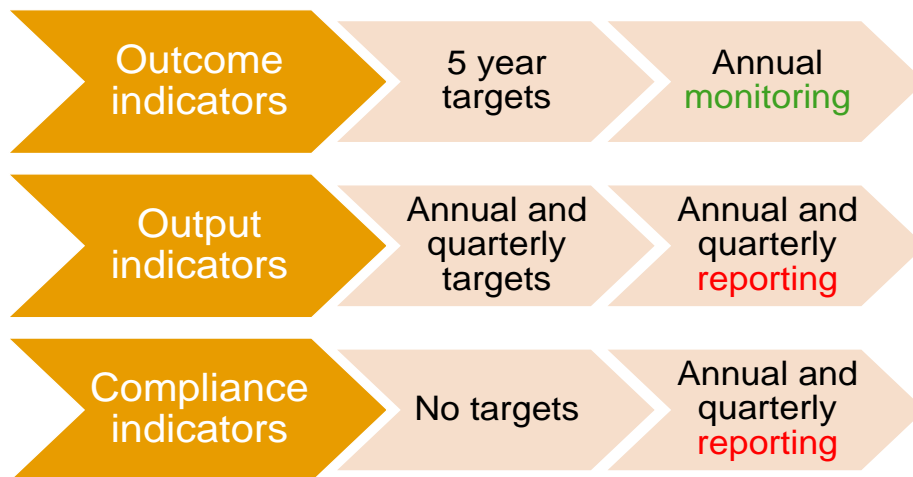


Figure 2: Indicator target-setting and reporting guidance (2021)

Figure 2 above distinguishes between how indicators at different results levels should reflect in relation to target-setting for municipalities in planning documents, as well as in relation to reporting. The latest MFMA Circular No. 88 (2021) explains “Outcome indicators will still be tracked on an annual basis in Annual Performance Reports for monitoring purposes, but that determinations of outcome ‘performance’ should be linked to medium-term target-setting for the outer year of the local government term of office.”

Beyond IDPs, this means that outcome indicator data should reflect in municipal APRs on an annual basis for monitoring as per the frequencies set in the Technical Indicator Descriptions (TIDs) of MFMA Circular No. 88 (2017 – 2021). The accountability expectation for outcome indicators should be in relation to municipal government reporting against its term of office (medium-term) targets at a (local) government level, and periodically assessed via evaluation, rather than judged in isolation within an annual timeframe. Tracking progress on outcome indicators is not the same as accounting for the delivery of short-term products, goods or services by the municipal administration. Output indicators are the basis for, and should inform, senior manager performance agreements and determinations of the performance of the municipal administration.

How to reflect Outcome indicators for planning purposes:

The following provides an example of three outcome indicators and reflects how their baseline data and medium-term (5-year term of government targets) should be set and reflect in an IDP. The following provides three examples of how outcome indicators should reflect for the purposes of planning.

Table 1: Populated Outcome indicator planning extract from MFMA Circular No. 88 (2021) Appendix C.

Performance indicator	Ref No. (sub)	Data element	Baseline (Annual Performance of 2021/22 estimated)	Medium term target for 2026/27	Reasons for no data, if not provided	Steps undertaken, or to be undertaken, to provide data in the future	Estimated date when data will be available
OUTCOME INDICATORS FOR ANNUAL MONITORING							
<i>Examples</i>							
EE4.4	Percentage total electricity losses		11,5%	8,0%	N/A	N/A	N/A
	EE4.4(1)	(1) Electricity Purchases in kWh	10601106030,44				
	EE4.4(2)	(2) Electricity Sales in kWh	9379155992,55				
WS5.1	Percentage of non-revenue water		34,4%	25%	N/A	N/A	N/A
	WS5.1(1)	(1) Number of kilolitres water purchased or purified	266617112,15				
	WS5.1(2)	(2) Number of kilolitres of water sold	174989604,51				
ENV2.2	Tonnes of municipal solid waste diverted from landfill per capita		Unknown	0.2			Draft good practice target.
	ENV2.2(1)	Tonnes of municipal waste accepted at...	--		No system in place yet.	Establishing system.	May 2023
	ENV2.2(2)	Total population of the municipality	1734467,00				

It is possible to include an indicator target in the absence of an established baseline and explanations may be provided at either a data element or indicator level where data does not yet exist or is incomplete.

The colouring of cells is used to highlight the difference between the indicator data elements (white) and the indicator value and targets (yellow). Yellow cells in the above reflect a value from a 'calculation' of data drawn from the white cells, or what will be reported on in the future.

There is not an expectation that this table should be precisely replicated within a municipal IDP. However, there is an expectation that the IDP includes the baseline indicator value, specifies the values of the underlying data elements on which that value is derived, and sets a medium-term target.

Ahead of every financial year from 2023/24 – 2026/27 an IDP update should be issued. Each IDP update should include the latest baseline information for the **outcome indicators** ahead of the approaching financial year. If the municipality chooses to revise the 2026/27 target for an outcome indicator, the original target (set in the 2022/23 IDP) should always be acknowledged and the motivation for adjustment of the target provided. This motivation may be expressed in a footnote or written form in the IDP update, so long as it is clear to a reader and members of the public where a medium-term target has been altered, from what it has been altered, and why it has been altered.

It is expected that the Outcome indicators and targets in the IDP will be presented in a table separate from the Output indicators with baselines, quarterly and annual targets reflected in the SDBIP.

Setting targets for outcome indicators:

Setting targets for outcome indicators has proven to be a stumbling block for some municipalities. This is in part due to the practice of avoiding performance indicators “outside of the control” of the municipality as part of statutory planning and reporting. The accountability expectations of annual audit processes has further reinforced a practice whereby municipalities rely almost exclusively on performance information within municipal control, usually at an output or activity level, at the expense of an outcome orientation in performance planning. It is not uncommon for management within municipalities to exclude outcome indicators, or to be reluctant to set targets for outcome indicators, for fear that they will have to account for data they are not necessarily the primary custodians of, is easily misinterpreted or that may be costly to collect. Motivations sometimes include that targets cannot be set for outcomes that are “demand-driven”, for results that municipalities “can only influence” or that reflect a shared or concurrent function because the accountability cannot be isolated. MFMA Circular No. 88 has therefore specifically identified outcome indicators applicable to local government and identified where that information can be sourced (including by other public entities and spheres of government), at which frequencies, on a standardised basis. This is intended to provide greater clarity on how to measure outcomes and account for the underlying data, particularly those that measure social constructs and are prone to potential misinterpretation.

The historic reluctance to incorporate outcome indicators neglects the key policy provisions of *Improving Government Performance: Our Approach (Presidency, 2009)* as well as the legislative provisions of the Municipal Systems Act of 2001 which states in Section 41:

- (1) *A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed —*
 - a. *set appropriate key performance indicators as a yardstick for measuring performance, including **outcomes and impact**, with regard to the municipality’s development priorities and objectives set out in its integrated development plan;*

It is with this understanding in mind, that municipalities are expected to apply the Outcome indicators specified in MFMA Circular No. 88 in their IDPs and their annual IDP updates.

The outcome indicators specified in MFMA Circular No. 88 (2021) Appendix A and defined in Appendix B require municipalities to begin by establishing the performance **baselines** for these indicators. A baseline enables the municipality to understand the recent level of performance, or a pattern of performance if there is a history of data for the indicator, as well as help in the identification of the related policies, programmes, budgets and/ or projects for the indicator. Baselines are essential to setting credible targets and they should be in place at the time of planning unless a municipality has provided substantive justification for why the data is not available.

With a clear understanding of the baseline measure for an outcome indicator, a municipality should be in a good position to set a medium-term target that indicates what the municipal government seeks to achieve over its terms of office. A target for an outcome indicator should convey a desired level of improvement, stabilisation or reduction in some result area based on the municipality's priorities and development objectives. Target setting should be informed by considerations related to municipal budget allocations, personnel resources, as well as the outside conditions, both within and external to the state, that will contribute to the outcome. Target-setting should be formulated with due regard to political priorities as well as wider institutional capacity.

To further differentiate outcome indicators from output indicators, and to accommodate the implementation and (sometimes) data lags associated with these indicators, **a municipal target for an outcome indicator is only requested for the term of municipal government.** Annual targets are not expected to be published for outcome indicators because the accountability interval is too short for the nature of the result sought more generally, particularly when considering there may be implementation or data lags that need to be accounted for. In the absence of annual targets, monitoring of outcome indicators should still occur and reflect in annual performance reports to illustrate the municipality's application of performance indicators for tracking progress towards outcomes in terms of Municipal Systems Act of 2001 Section 41(1).

How to reflect Outcome indicators for reporting purposes:

The following provides an example of the same three outcome indicators to compare how they would reflect within annual reporting, in this case the municipal APR. It is important to emphasise these indicators should be tracked in the municipal annual report *for the purposes of monitoring at the outcome level*, not for reporting in relation to an annual target that one individual or department is construed as responsible for. This is one of the key distinctions with the output and compliance indicators – they should be reported on quarterly and annually and they may form the basis of holding individuals, departments or municipal units accountable in the short term.

Table 2: Populated Outcome indicator reporting extract from MFMA Circular No. 88 (2021) Appendix D.

Performance indicator	Ref No.	Data element	Baseline (Annual Performance of 2021/22 estimated)	Medium-term target 2026/27	Annual Actual performance	Remedial action/ Steps taken to improve performance	Reasons for no data, if not provided	Steps undertaken, or to be undertaken, to provide data in the future	Estimated date when data will be available
OUTCOME INDICATORS FOR ANNUAL REPORTING									
<i>EXAMPLES</i>									
EE4.4	Percentage total electricity losses		11,5%	8%	13,4%	Intervention to address theft & non-payment underway.	N/A	N/A	N/A
	EE4.4(1)	(1) Electricity Purchases in kWh			11401709110,44				
	EE4.4(2)	(2) Electricity Sales in kWh			9876413542,55				
WSS.1	Percentage of non-revenue water		34,4%	25%	31,8%	On track. No additional action needed.	N/A	N/A	N/A
	WSS.1(1)	(1) Number of kilolitres water purchased or purified			226317411,15				
	WSS.1(2)	(2) Number of kilolitres of water sold			154385644,51				
ENV2.2	Tonnes of municipal solid waste diverted from landfill per capita		Unknown	0,2	0,13	Improve user communication & expand recycling pilots.	N/A	N/A	N/A
	ENV2.2(1)	Tonnes of municipal waste accepted at...			227342				
	ENV2.2(2)	Total population of the municipality			1814767				

For the purpose of this guidance note, the above extract has been slightly amended from the published appendix to adjust any wording which may create confusion with the output indicators that will be reported separately in the APR. Furthermore, rows deemed irrelevant (e.g. Variation, Reasons for Variation, Remedial Action) have been removed. An important difference from the Appendix D template issued for the purpose of Q+AR reporting to National Treasury via the online platform by metros, is that the *Medium-term target 2026/27* for the indicator is included in the above to highlight the overall target the municipality is working towards. Note this was not included in the previous circular template for the purposes of simplicity in terms of data capture but has been added for the purpose of this guidance note because this should reflect in official municipal reporting to the public for the APR.

The colouration of the cells is also used above to highlight the difference between the indicator data elements (white) and the indicator value and targets (yellow). Yellow cells in the above presuppose a 'calculation' of data drawn from the white cells.

It is expected that the performance against annual targets for output indicators will be presented in a table separate from the outcome indicators in the municipal APR. Output indicators should reflect in a table consistent with the municipality's existing SDBIP for the purpose of the municipal APR, as per pre-existing guidance. Generally, this does not require any change or alteration from existing practice as it relates to reporting on quarterly and annual performance indicators reflected in the SDBIP in the APR as is not illustrated for that reason.

The data reported to National Treasury (or the Department of Cooperative Governance for non-metros) via the online platform should be consistent with the data submitted in the APR officially submitted by the municipality and published for the public once adopted by Council. This is why municipalities are afforded the opportunity to submit their reporting in August, and then again in January following the conclusion of the audit process.

Conclusion:

The above guidance note has sought to assist municipalities to understand how to apply and reflect outcome indicators for the purposes of planning, target-setting and reporting. Drawing on the historic iterations of MFMA Circular No. 88 (2017 – 2021) this has sought to clarify and guide how outcome indicators specifically should be reflected and planned for in the IDP and IDP update, as well as the municipal APR. This document is intended to be a resource that helps to better delineate and distinguish between the performance, accountability and results implications of using different types of indicators in a way that ultimately strengthens the strategic orientation and policy intentions of the municipality in its planning and reporting.