

A STRATEGY TO ADDRESS MUNICIPAL PERFORMANCE FAILURES

(A SUSTAINABILITY PERSPECTIVE)

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1. EXECUTIVE SUMMARY

The objects of local government are set out in Section 152(1) of the Constitution, and Section 156 of the Constitution identifies the functions which municipalities are responsible for as those listed in Part B of Schedules 4 and 5. A municipality that achieves these constitutional objects consistently by performing the relevant functions within its financial and administrative capacity could be described as a functional, well-performing municipality.

Sound political leadership and strong organisational capacity are critical for municipalities to perform their functions. However, most municipalities have experienced challenges in this regard which has resulted in a deterioration of basic services provided to communities. This has resulted in a deteriorating financial position, consequently most municipalities are in financial distress.

Over the years, various initiatives were implemented by stakeholders and role players in local government to enable them to perform their functions. These initiatives include financial management reform agenda for local government to improve transparency, accountability and governance and ultimately service delivery. Furthermore, there are various capacity building programmes that were introduced to strengthen municipal capacity.

Some of the reasons for the failure of the capacity-building programmes are that the diagnosis of the problem is inadequate, poorly defined roles and responsibilities and turf wars between national and provincial departments and other role players, and little attention has been given to holding municipalities accountable for poor performance. Lastly, the current design of the hands-on-support approach is leading to perverse outcomes such as that most experts are gap filling rather than capacity building.

Therefore, a differentiated approach to capacity building to provincial treasuries and municipalities is required. As a result, the National Treasury has undertaken the diagnostic review of the local government capacity-building system, completed in 2021. In light of the findings from this review, the National Treasury (NT) has embarked on the development of a Capability Development Programme (CDP) alongside a cohesive NT strategy aimed at bolstering local government. This strategy is designed to enhance financial management and service delivery within local government entities. The CDP will cultivate the essential capabilities required for the effective implementation of this strategy, ensuring that the insights gained from the design and execution of the NT strategy are applied to the reconfiguration of other government support initiatives. This approach will guarantee that such initiatives are responsive to the unique needs of individual municipalities, thereby significantly influencing the formulation of a comprehensive local government strategy for the entire Local Government Capacity Building system.

The review of the capacity building programmes will consider the key focus areas of the Strategy to Address Municipal Performance Failures. The Strategy was developed in 2009 and is updated on a five-year basis aligned to the National Government term of office.

The key focus areas of the Strategy to Address Municipal Performance Failures have been divided into two sections. The first section addresses the “game changers” which have been adopted by the national and provincial treasuries and presented previously to Budget Council; namely, funded budget, revenue management, municipal Standard Chart of Accounts (*mSCOA*), asset management, supply chain management and audit outcomes. The second key focus area involves a review of the external environment to identify the factors that impede good municipal (financial) performance.

The review of the external environment includes reviewing the structure and functions of local government, reconsidering policy options that impact on local government, addressing weaknesses in the legislative framework and reviewing the local government fiscal framework.

Notable is that the Department of Cooperative Governance (DCoG) has initiated the process to review sections 84 and 85 of the Municipal Structures Act, 1998 (Act No. 117 of 1998). In addition, there is a process to review the White Paper on Local Government. The department is also reviewing the National Framework for Municipal Indigent Policies and Guidelines for the Implementation of Municipal Indigent Policies. These initiatives will contribute to addressing the existing challenges in relation to powers and functions and the policy decisions such as provision of free basic services. Therefore, the Treasuries will participate in the process and provide comments where required as this is a key focus area of the Strategy to Address Municipal Performance Failures.

In addition to the initiatives by DCoG, the National Treasury will be reviewing the Local Government Fiscal Framework (LGFF). The focus of this review is to assess the alignment of the LGFF with the constitutional assignment of powers and functions designated to the local sphere of government. The process to review the conditional grant system was concluded and the implementation of the recommendations will be phased in. In light of the emerging preliminary findings and recommendations, the National Treasury is actively engaging with various stakeholders to facilitate a comprehensive consultation process.

The success of the strategy is dependent on the following:

- a) Clarification of the roles and responsibilities of national and provincial departments and other stakeholders to enable a coordinated response;
- b) Prioritisation of the implementation of the collaborative framework between the National Treasury and the Department of Cooperative Governance;
- c) Ensuring that there are political solutions to political problems;
- d) Ensuring that there is adequate resourcing in relation to skills and funding;
- e) Implementation of a single, inclusive system to identify and categorise municipal (financial) and service delivery failures; and
- f) The establishment of a steering committee to monitor and evaluate progress on interventions.

Since the inception of the Strategy to Address Municipal Performance Failures there was a concerted effort to address clarification of roles and responsibilities between the National Treasury and the Department of Cooperative Governance. However, this did not yield the results due to the change in leadership and failure to sign the Memorandum of Understanding (MOU). Therefore, the focus of the updated version of the strategy is to implement the collaborative framework that was signed by the two departments supported by the Presidency.

It was identified that political support would be critical to the successful implementation of the strategy because the root cause of local government failures is leadership. All provincial treasuries have provided extensive administrative support in ensuring that municipalities improve, however, there has been minimal or no political support in other provinces in relation to interventions. This has impacted on some municipalities not achieving sustainability due to their failure to implement the corrective measures which include the Financial Recovery Plans.

Over the years, there have been modifications to the Municipal Finance Improvement Programme (MFIP) to bolster the programme's overall effectiveness and efficiency such as applying a district approach to the Municipal Support work stream. As a priority for the updated strategy, the MFIP programme will be redesigned to have an impactful resource deployment

with a catalytic output-driven performance strategy to ensure improved and sustainable results and align to the recommendations of the capability improvement review conducted by the National Treasury. The MFIP will also place more focus on municipal support and draw from a single government mandate harnessing an integrated institutional response.

To achieve a single, inclusive system to monitor and categorise municipal performance failures, the National Treasury has provided access to the GoMuni portal to more external stakeholders and municipalities to ensure that they can verify the accuracy of information submitted. However, not all stakeholders are using the information from the Local Government Database and Reporting System (LGDRS) for identifying municipal performance failures. In addition, there is no consistent framework for the pillars of sustainability. There will be concerted efforts to ensure that the existing system is fully utilised and that there is a consistent framework to identify municipal performance failures and pillars of sustainability that are applied by all stakeholders.

The National Treasury has strengthened its capacity in the Municipal Financial Recovery Services (MFRS) unit as well as that of the provincial treasuries to improve the implementation of S139 interventions. In addition, the step-by-step guide for Section 139 MFMA interventions and recovery plans was reviewed and in collaboration with DCoG convened roadshows in each Province to discuss the details of the S139 intervention process. The National Treasury has revised its approach to the development of Financial Recovery Plans (FRPs). The new approach is phased with an emphasis on strategic indicators which can be easily measured and monitored. The three phases of the new approach help municipalities to better navigate between quick wins and solutions required for long-term sustainability.

In addition, the National Treasury is in the process of amending the MFMA to address duplications and to provide more decisive powers for the rapid implementation of Financial Recovery Plans. As indicated above, the success of the strategy is also based on the establishment of a steering committee to oversee interventions. War rooms to oversee progress in interventions and implementation of FRPs were provided for in the framework, however, they are not functioning as intended. Therefore, an oversight committee consisting of different role-players must be formed to objectively evaluate the success or failure of interventions.

Therefore, the focus of the updated strategy is to ensure that S139(5) interventions are invoked by Treasuries where a municipality persistently meets the criteria for a mandatory intervention. The MFRS unit will in future only prepare mandatory financial recovery plans. Voluntary and discretionary financial recovery plans can be prepared by the Provincial Treasuries or any other suitably qualified person. In addition, the monitoring and implementation of existing interventions and financial recovery plans will be strengthened at provincial level.

Overall, the lack of consequence management has exacerbated the deteriorating state of local government. Therefore, political support must be provided to invoke the correct mode of intervention when required. The Treasuries will invoke Section 216(2) in all areas of non-compliance with legislation. Municipalities must effectively implement consequence management in line with the Consequence Management Framework that was issued by the National Treasury.

The National Treasury has also introduced the metro trading services reform given the deterioration in these core municipal services that underpin municipal financial sustainability and enable economic growth. These are services for which service charges are levied (water and sanitation, electricity, solid waste management) and determined with the intention of making a surplus on the delivery of the services. The metro trading services reform entails introducing a new conditional grant with a performance incentive component to strengthen transparency, accountability and institutional capability, financial performance and increased

investment in trading services, and improved service delivery. The reform will be piloted with metropolitan municipalities and will be extended to other municipalities based on the lessons learned. The first phase of the metro trading services reform will commence in 2025/26 and will run until 2030/31.

In addition, guidance will be provided on the Long-Term Financial Plans that must be developed by municipalities to enable financial sustainability and infrastructure financing in addressing the gaps in infrastructure investment.

2. INTRODUCTION

The transformation of local government has probably been the largest undertaking within the entire government process. Enormous administrative progress has been made; however, it is still a long way to go before all 257 municipalities are fully functional and sustainable.

Since 2000, the former Department of Provincial and Local Government (DPLG) (now Department of Cooperative Governance (DCoG)), the National Treasury (NT), the South African Local Government Association (SALGA) and a range of other role players have been involved in a wide-range of programmes and initiatives such as the Local Government Turnaround Strategy, the Municipal Infrastructure Support programme, the Municipal Financial Management Improvement Programme, Operation Clean Audit and the Cities Support Programme to build the capacity of local government. There are also increasing examples of innovative provincial-level responses to the provision of effective support and monitoring within the local sphere of government.

Significant amounts were spent on these initiatives and increased numbers of ‘technical experts’ are being deployed to municipalities through them. Nonetheless, there is growing evidence that the government is failing to get the results it needs and is looking for.

The National Treasury’s analysis of the state of local government finances indicates that more than half (65 per cent) of the country’s municipalities are currently in varying levels of financial distress¹. The poor state of many municipalities’ financial management is further emphasised by the poor audit outcomes and the exponential increase in the number of violent service delivery protests in recent years. Common grievances remain inadequate basic services, inadequate housing, weak accountability and a sense of marginalisation.

The purpose of this document is to highlight the challenges that are still evident in municipalities regardless of the initiatives that have been made thus far in building the local government sphere and highlights the focus areas for the new term of the Budget Council.

The desired goal is to ensure that municipalities that are functional and well-performing are sustained at that level and that municipalities that are non-functional and under-performing are effectively supported and monitored.

In 2009, the National Treasury drafted a Strategy to Address Municipal Performance Failures, which was updated in 2014 and 2019. The strategy and updated versions were endorsed by the respective Budget Councils and for the first time by the Budget Forum during 2019. There have been a number of new developments in local government since 2019 and it is therefore necessary to revise the strategy in light of lessons learnt.

Currently, there are legislative reviews underway such as the MFMA amendments and the White Paper on Local Government. Furthermore, there is work undertaken through Phase II of

¹ As per National Treasury’s report ‘The state of local government finances and financial management as at 30 June 2023’.

Operation Vulindlela. These reforms may result in changes to the local government landscape. As a result, it may require updates to the Strategy to Address Municipal Failures before 2029.

3. EVIDENCE OF MUNICIPAL PERFORMANCE FAILURES

Municipal performance needs to be assessed against the objects of local government set out in section 152(1) of the Constitution and the performance of the functions outlined in section 156 of the Constitution. A municipality that achieves these constitutional objects consistently by performing the relevant functions within its financial and administrative capacity could be described as a functional, well-performing municipality (the detail of what constitutes a functional, well-performing municipality is attached as Annexure A).

The Constitution read with the 1998 White Paper on Local Government advocated for a decentralised system of local governance within South Africa. Whilst the system has afforded municipalities the space to operate with relative freedom, it has also placed a significant amount of power in the hands of councillors and the accounting officer. Often, and as pointed out above, the lack of skills and competencies and poor/ lack of political and administrative interface that exist at this level has largely created a space for irrational decision making which has led to the failures that are currently observed. The decentralised system has also limited the ability of national and provincial governments to effectively address the local government challenges head-on. The time has therefore come to review this decentralised system of local governance and explore alternative models that has some degree of centralisation embedded into it. However, the capacity of national and provinces, their capability and leadership to perform their oversight functions in a coordinated and aligned manner should be considered.

However, it should also be noted that municipalities function within a system of local government, and so there are a range of external factors that impact on the environment within which municipalities work. Very often problems in these external factors cause or aggravate problems in municipalities. These different external factors are discussed below.

3.1 To provide democratic and accountable government of local communities

There can be no doubt that enormous progress has been made in the transformation of local government since 1994. Numerous policies and legislation to govern local government have been put in place and most of the larger Metros and some secondary cities have established best practices and produce municipal documents that compete favourably with other well-performing cities in the world.

However, many district and local municipalities' key accountability documents (the Spatial Development Framework (SDF), Integrated Development Plan (IDP), Budget, Service Delivery Budget Implementation Plan (SDBIP), Annual Financial Statements and Annual Reports) are of such poor quality that they undermine accountable local government.

Furthermore, there are municipalities that do not produce their accountability documents timeously, and do not publicise them adequately – so disempowering local communities from holding the Mayor, Council and municipality accountable. During the 2023/24 financial year, only 209 (81 per cent) municipalities published their annual budgets on their municipal websites as required in terms of Section 75 of the MFMA.

The extent to which municipalities comply with the governing legislation for local government remains problematic. This is reflected by the fact that in the 2022/23 financial year, only 34 (13.2 per cent) municipalities obtained unqualified audit opinion without findings. This was an 11 per cent decrease compared to 38 municipalities in 2021/22. There was a marginal increase

in the number of unqualified audit opinions with findings from 105 (40.9 per cent) municipalities in 2021/22 to 110 (42.8 per cent) municipalities in 2022/23. Municipalities with qualified audit opinions increased marginally from 84 municipalities in 2021/22 to 85 municipalities in 2022/23, adverse opinions remained unchanged at 6 municipalities, whilst disclaimer opinions decreased from 22 municipalities in 2021/22 to 12 municipalities in 2022/23, however, the audit opinion of 10 municipalities is still outstanding.

However, according to the Auditor-General, at the end of the 2022/23 financial year, the balance of irregular expenditure that had accumulated over many years was R137 billion while unauthorised, fruitless and wasteful expenditure for the same period was R104.7 billion and R19.7 billion, respectively. These are significant increases which are indicative of ineffective controls and dysfunctional governance structures.

Local government continues to be plagued with high levels of non-compliance with the Municipal Finance Management Act. This to a large extent is as a result of weak internal controls.

According to the report on the *State of Local Government Finances and Financial Management for 2022/23* produced by the National Treasury, **168 municipalities** were in varying levels of financial distress. The report also highlighted that municipalities continue to have insufficient cash coverage to fund their operations, and some have ended the financial year with negative cash balances. At the end of 2022/23, 110 municipalities (42.3 per cent) had a cash coverage ratio of less than one month (the norm is between one to three months). These municipalities will not be able to pay their fixed monthly operating expenses in the event that no revenue is received in the month, or an unplanned financial burden is incurred (e.g. when the equitable share is withheld, or unspent grants must be paid to the National Revenue Fund). Often these municipalities then illegally use conditional grants to cover fixed operating expenditure. Other issues identified include the persistent underspending of capital budgets, growth in outstanding consumer debtors, high levels of outstanding creditors, inadequate spending on asset management, high water and electricity losses and the adoption of unfunded budgets by some municipalities.

The conclusion is often wrongly drawn that the smaller municipalities (especially in rural areas) find themselves in financial distress because they are 'non-viable'. The National Treasury's research backed-up strongly by the Auditor-General's findings, indicates that failures in governance, financial management and administration are the primary causes of municipalities finding themselves in financial difficulties of which contributing factors include weak management practices and processes. In recent years, the unstable coalition government in some municipalities has significantly contributed to their financial distress.

The constitutional and legal framework makes the Council and Mayor of a municipality responsible for ensuring that the municipality is structured and functions in a way that ensures the sustainable delivery of services. If the municipality fails to do so and the cause for the failure is internal to the municipality, the Council/ Mayor is accountable for such performance failures. This implies that all persistent municipal performance failures that have internal causes can be attributed to failures in the Council/Mayor's political leadership.

It is the Council/ Mayor's responsibility to provide strategic guidance to ensure that the municipal management resolve the factors that are hindering the municipalities' performance. Very often this takes time, but what is important is the direction of movement. If things are getting progressively better, the Council/Mayor is providing good political leadership. If not, there is a failure in political leadership.

3.2 To ensure the provision of services to communities in a sustainable manner

Significant progress has been made in extending access to basic services (i.e. water, electricity, sanitation and refuse removal) in previously marginalised communities. These improvements were largely made possible by substantial increases in both the operational and infrastructure transfers to local government from national government. This is also reflected in the StatsSA quarterly non-financial publications.

While there is little systematic information on municipal service delivery failures, the available information (e.g. the Department of Water and Sanitation (DWS) reports on water quality, and NERSA reports on electricity infrastructure), media reports and other anecdotal information (e.g. letters to the Minister from rate-payer associations) suggest that many municipalities are experiencing serious difficulties maintaining service standards, and even the services themselves. The current wave of protests against local government in the past few years also indicates growing community frustration with the lack of services.

There exists a general public perception that all local government service delivery failures can be attributed to corruption, graft, and maladministration. This perception is incorrect as there are many municipalities experiencing service delivery failures owing to weaknesses in their human resource management, skills in planning, engineering, and service delivery, failure to implement consequence management, political interference, weak oversight structures and financial management processes and procedures. However, it must also be noted that corruption and incompetence (skills and leadership) work together in the failure of municipalities to deliver services in a financially sustainable manner.

Service delivery has collapsed in many municipalities due to inadequate expenditure on repairs and maintenance which is threatening the quality and reliability of municipal services. The medium- to long term consequences of underspending on repairs and maintenance include the deteriorating reliability and quality of services; move to more expensive crisis maintenance, rather than planned maintenance; increasing the future cost of maintenance and refurbishment; shortening the useful lifespan of assets, necessitating earlier replacement; and reduced revenues due to the failure to sell water and electricity, and other services.

National aggregate spending on repairs and maintenance as a percentage of property, plant and equipment averages 4.1 per cent in the period 2019/20 to 2025/26. Although a rising trend in investment is evident, with full year forecasts reflecting an increase of up to 4.8 per cent by 2025/26. This is still below the norm of 8 per cent. The aggregate proportion of capital expenditure on asset renewal is decreasing from 52.6 per cent in 2019/20 to 38.2 per cent in 2022/23 and is projected to be 38.4 per cent by 2025/26, significant under-investment in asset management continues to be evident. The pace of asset depreciation continues to outstrip investment in asset renewal by a significant margin, with renewal investments accounting for only 76.9 per cent of depreciation values in 2023/24.

The implementation of unfunded mandates for essential services such as health, housing and firefighting continue to place undue pressure on municipal budgets, while the increasing demand for services is being compounded by the “mushrooming” informal settlements.

3.3 To promote social and economic development

In the 2008 and 2011 Local Government Budget and Expenditure Review, it was highlighted that the prevailing trends of rapid urbanisation and a reduction in the average size of households are reshaping the contexts for service delivery and governance. Economic developments continue to create pressures on municipalities to expand local infrastructure.

The overall conclusion is that “the limited provision of strategic infrastructure and a declining quality of service are growing constraints to economic growth and poverty reduction”, and that “if this trend is not arrested it might undermine the future sustainability of everything.”

3.4 To promote a safe and healthy environment

The spatial planning function (as distinct from municipal planning) of municipalities is key to achieving this objective. It is critical to determining and remoulding the urban form to create safer, healthier and more functional cities. Unfortunately, in many municipalities the function does not exist, or is not effective – due to the lack of clear policy and qualified staff.

Even where municipalities do have a spatial planning function, the complex institutional arrangements make co-ordination of processes relating to the built environment difficult; there is no periodic review of planning frameworks, and the mechanisms to prevent corruption are weak. The consequence is that most municipalities are unable to plan and influence the spatial form of land use patterns. This has resulted in the perpetuation of apartheid-style spatial development patterns, or undirected developments that compromise communities’ health and safety (e.g. developments in areas prone to flooding, or the location of housing developments next to heavy industries).

Other functions important to this objective are firefighting, building inspections, air and noise pollution control, water purification, the proper management of refuse dumps and sewerage works, the provision of municipal amenities such as parks, and sports facilities. Generally, municipalities are under-funding those functions that are not directly linked to the provision of the key basic services or have simply not established the functions as yet.

3.5 To encourage the involvement of communities and community organisation in the matters of local government

The legislative framework for local government places great emphasis on facilitating and encouraging community participation. To this end, the Municipal Structures Act (1998) provides for the establishment of Ward Committees in metropolitan and local municipalities, and Chapter 4 of the Municipal Systems Act (2000) sets out processes and mechanisms to facilitate community participation in key areas of municipal governance. The Systems Act also requires that the community be consulted when the municipality reviews its IDP, as well as community participation in setting key performance indicators and targets. Similarly, the MFMA prescribes a budget process that specifically requires a two-month community consultation period – between the tabling of the budget at the end of March and the initiation of the process to adopt the budget at the end of May.

There are Councils and municipalities that have gone to great lengths to facilitate meaningful community participation. However, by far the majority do it for compliance purposes, effectively just paying lip-service to the process. Consultation processes have tended to devolve into ‘information sessions’ – with little input from the community being solicited or considered. In some instances, the products of consultation processes tend to be wish-lists that have little value for planning and budgeting purposes, rather than the processes being used to draw out the real priorities of communities – so that these can inform plans and budgets.

To conclude this brief assessment of municipalities’ performance, it is evident that while there are many examples of exceptional efforts and remarkable successes by individual municipalities, the local government system does not, at present, appear to be responding to these challenges very effectively.

It is worth noting that an inability to deliver services in itself does not necessarily reflect a capacity challenge but could be a manifestation of the failure of local government practices, procedures and systems.

3.6 The Local Government Reform Agenda

The promulgation of the Municipal Finance Management Act (MFMA) in 2003 laid the foundation for the broader financial management reform agenda for local government to improve transparency, accountability and governance and ultimately service delivery.

Some of the key milestones of these reforms include amongst others, developing and implementing Regulations, development of norms and standards, development and implementation of a municipal budgeting systems, development and implementation of a *municipal reporting system*, Citizens Portal on Municipal Money, Development and implementation of a *Local Government Conditional Grant Monitoring System*, reviewing the intergovernmental fiscal arrangements, establishment of a MFMA Helpline, Municipal Revenue Management (including tariff setting and costing), implementation of a Municipal Standard Chart of Account (*mSCOA*), developed uniform sets of key municipal financial ratios and norms, service delivery performance management indicators, Financial Management Capability Maturity Model (FMCMM) and Audit Action Plan web enabled system and Muni eMonitor and MFMA Calendar web enabled system.

4. INITIATIVES TO BUILD MUNICIPAL CAPACITY

The establishment of the current system of local government entailed a total redesign of the existing systems, and in many areas putting in place local government structures for the first time.

In order to effect this transformation, the government has put in place numerous capacity-building strategies and programmes. The extensive efforts to strengthen municipal capacity include initiatives such as the Siyenza Manje programme (2008 to 2010), Municipal Infrastructure Support Agency (MISA), City Support Programme (CSP), SALGA's support programmes, Provincial Initiatives in Municipal Support, District Development Model (DDM), other stakeholders and international donor countries support programmes.

A substantial amount of money has been spent on capacity building of municipalities without commensurate improvements in outcomes. An evaluation of all government capacity building and support programmes offered by the government was undertaken in order to inform policy decisions concerning the system's changes. The main finding was that over R9 billion is spent annually on capacity building and that the system has a strong focus on individual capacity rather than organisational capability. It is a fragmented system with significant duplication of efforts and the focus is on quick fixes rather than sustainable change. However, despite the considerable spending on capacity building initiatives, the state of municipalities has further deteriorated.

4.1 Outcomes at the municipal level have been disappointing

When one considers the diversity of strategies and programmes, the amount of hands-on-support given, and the funding going to capacity building in the context of the municipal performance failures outlined above, there is reason to be disappointed with the outcomes of these efforts. This is despite the fact that all programmes are considered to have achieved or are reported to be achieving their objectives.

This raises the key question of this analysis: **Does government simply continue doing the same thing going forward? Is it a case of simply throwing more programmes, experts and money at the problem – and eventually it will disappear? Or does the government need to step back and consider doing things differently?**

4.2 Problems with past and current capacity building initiatives

The analysis below of problems with past and current capacity building initiatives is not intended to be comprehensive, but rather focuses on issues that inform the approach presented later:

The diagnosis of the problem is inaccurate. The prevailing assumption is that all municipal performance failings are due to a lack of capacity – whether it be individual, organisational or environmental capacity. This is despite there being clear evidence of sheer laziness, incompetence, mismanagement and political interference. Maintaining this ‘lack of capacity’ assumption enables institutions and officials to focus on the softer, nicer ‘building capacity’ type interventions, rather than the more, messy processes of dealing with bad behaviour and bad performance, and a longer-term focus on aligning systems and incentives to ensure sound administration.

Poorly defined roles and responsibilities and turf-wars between national departments, and their provincial counterparts, and between government and other role-players has meant:

- a) There is no long-term strategic focus – instead there is a series of ad hoc, successive and parallel initiatives based on a similar methodology (hands-on-support) – but apart from ‘building capacity’ it is not clear what role each initiative plays in relation to the others;
- b) The management of capacity building is fragmented, sometimes resulting in overlapping initiatives being undertaken by different role-players in a single municipality;
- c) The ongoing turf battles between departments distract them from the task at hand; and
- d) The lack of co-ordination results in the duplication of efforts and a waste of resources.

Little attention has been given to holding municipalities’ accountable for poor performance. The current design of the hands-on-support approach is leading to perverse outcomes, namely:

- a) The fact that the deployed ‘experts’ earn more than people working in municipalities is resulting in an exodus of skilled employees from municipalities to these programmes. This is distorting the market for technical skills and making it more difficult to build permanent capacity in municipalities;
- b) In practice most experts are gap filling rather than capacity building, because there is (a) no-one to train, (b) the focus is on quick wins in service delivery so there is no time to train and lack of willingness to learn on the side of municipal officials, (c) the expert does not have an aptitude for mentoring and training. The result is that support programmes tend to take over the role of municipal officials instead of helping them do their work and transfer the skill;
- c) Individuals and organisations have developed vested interests in the current hands-on-approach. The experts want the programmes to continue – because it is their livelihood; and
- d) Programmes that simply provide additional support to failing municipalities most often treat the immediate symptoms of failure rather than the underlying causes, and reward municipalities with weak performance while effectively penalising (through removing support from) strong performers.

Although the performance of experts and capacity building programmes are monitored and audited, there is no evaluation of the real impact of and value for money received from capacity building programmes.

The current design of capacity-building programmes does not cater for 'rapid response' support in instances where a municipality has been identified as being significantly at risk of experiencing a persistent financial crisis and in need of rapid intervention. Likewise, there is no clear mechanism for managing the transition between providing support and intervention.

5. MOVING FORWARD

If it is agreed that things need to be done differently, this does not imply that everything that was done before should be abandoned. Much good capacity building work has occurred; there are programmes that are performing well. The challenge is to build on what exists, moulding it to be aligned to what needs to be done going forward.

The current policy framework, consisting of the *Five-Year Strategic Agenda for Local Government* and the *National Capacity Building Framework for Local Government*, provides a useful point of departure. There are also a range of initiatives that are performing well, and that should form part of a revised strategy going forward.

5.1 Capacity Building and Support Initiatives – Adopting a Differentiated Approach

Failures in previous approaches to support programmes have been documented in the earlier sections of this strategy. It is evident that a differentiated approach to support and capacity building is required in light of the varying levels of skills and capacity in both the provincial treasuries and municipalities.

5.1.1 Support to Provincial Treasuries

Future support to Provincial Treasuries will be based on the specific requirements of the province at the time. The types of support and assistance rendered to a specific Provincial Treasury will be considered on a case-by-case basis. It may be that a provincial treasury performs well with the analysis of the quarterly Section 71 reports, but the same Provincial Treasury may experience difficulties with the budget assessment and benchmarking process. In such a case, a resource that is competent within that discipline will provide short-term support to build provincial capability.

Based on an assessment of their capacity to implement the local government reform agenda, it is envisaged that the nine provincial treasuries will be categorised in terms of the level of support they require as:

- a) Well Performing: assistance will be short-term and will mainly focus on guidance and advice, specialist support to strengthen specific functional areas, financial support to provincial programmes, advisors/ experts in specific functional area(s).
- b) Functional: treasuries will be supported to address their organizational and capacity challenges. Commitment and a clear plan to address capacity gaps in terms of adopting and populating a structure will be key requirements for technical support. A combination of long-term and short-term assistance will be provided, depending on the extent of the treasury's weaknesses. The focus will be on strengthening these treasuries' ability to perform their functions.

- c) Weak: a combination of long-term and short-term support will be provided according to the specific needs of the treasury. The focus will be on enabling these Provincial Treasuries to perform their monitoring, support and intervention functions, while at the same time providing the necessary support to weak municipalities on their behalf and in conjunction with the treasury until it is capacitated enough to perform their required functions independently.

5.1.2 Support to Municipalities

Given the persistent municipal financial sustainability challenges and to maintain the momentum created by the Municipal Finance Improvement Programme (MFIP) III, which concluded on 31 March 2020, approval was granted to extend the MFIP III for an additional two years, from 1 April 2020 to 31 March 2022.

The programme was further extended until 31 March 2026 and has been institutionalised into the Intergovernmental Relations (IGR) division within National Treasury for the period beginning on 01 July 2022. The MFIP programme will be redesigned to have an impactful resource deployment with a catalytic output-driven performance strategy to ensure improved and sustainable results and align to the recommendations of the capability improvement review conducted by National Treasury. The MFIP will also place more focus on municipal support and draw from a single government mandate harnessing an integrated institutional response. It will also look at root cause analysis to avoid the challenges noted above in relation to current capacity building initiatives.

The Municipal Finance Improvement Programme (MFIP) had procured and deployed 103 technical advisors as at 31 December 2024. Support was provided to Municipalities identified for support, Provincial Treasuries and National Treasury under the various work streams in line with the Local government Financial Management (LGFM) game changers. The support includes direct capacity support to municipal Budget and Treasury Offices (BTOs), direct capacity support to the Municipal Finance Units of Provincial Treasuries (PTs) and direct capacity support to three National Treasury (NT) Chief Directorates (CDs), namely Local Government Budget Analysis, Office of the Accountant General (OAG) and Office of the Chief Procurement Officer (OCPO).

Cities Support Programme (CSP): The CSP supports metropolitan municipalities to strengthen urban governance systems required to build more productive, inclusive and sustainable cities. It operates within the parameters of the Integrated Urban Development Framework (IUDF). The first phase of CSP entered its final full year of implementation in 2017/18. The implementation of the second phase of the Programme was completed at the end of March 2024. The implementation of the second phase was mainly informed by a number of evaluations including the Government Wide Evaluation System through the Department of Planning, Monitoring and Evaluation (DPME) which was undertaken at the end of the first phase. The third phase has been approved in 2023 and commenced in April 2024. Informed by the mid-term evaluation of the second phase, the third phase of the programme will focus on institutionalisation of the programme through policies and grants. The third phase is mainly focusing on strengthening urban reform across all the eight metropolitan municipalities and extending to the thirteen secondary cities. The CSP is the acupuncture of the NT in delivering urban reform within the ambit of IUDF.

The CSP has delivered a broad range of outputs, documenting progress made in strengthening urban planning systems, financial strategy making and infrastructure delivery management. It has focused on key aspects of built environment management, including housing and urban public transport, while building a portfolio of activities that support metros to focus their actions on building resilience and accelerating inclusive growth. From a programme perspective

there are two priorities for the programme: project (output) delivery and effective institutionalisation. These are both essential to ensure that the CSP leaves an enduring legacy, across government, for the subsequent programme phase, and for any successor initiatives.

The implementation of the third phase is designed to focus mainly on key urban reform that will unlock the economic potential of the cities while addressing spatial inefficiencies and harnessing just urban transition opportunities. This will include implementing infrastructure reform programmes that are responding to service delivery, leadership and governance reform, fiscus and financial reforms, infrastructure and land development reforms among others.

5.1.3 Parallel support initiatives

The President in 2014 launched the Back-to-Basics Programme (B2B). This re-focused municipalities on ensuring compliance with existing legislative requirements and on creating a more responsive, service delivery-oriented culture. From the above underpinning principles, DCoG initiated Back-to-Basics (B2B) that focused on developing three categories of municipal performance through an assessment criterion to initiate focused action. Pillars of the Back-to-Basics approach against which municipalities had to report to the department were established. The assessment was conducted using the pillars of the Back-to-Basics programme which are political stability, good governance, service delivery, financial management, institutional management and community satisfaction.

The objective of this approach was to recognise good performance and to ensure appropriate consequences and support for under-performance. This assisted in ensuring that challenges in the local government sphere, specifically in the short to medium term, are addressed. This exercise resulted in the development of municipality-specific action plans that included a financial component for which treasuries are responsible.

Initiatives such as DCoG's "Back to Basics" with the support of MISA may be an avenue to lean on for resources. Therefore, this initiative must be resuscitated as part of the Strategy to Address Municipal Performance Failures.

5.1.4 Review of the local government capacity building system

In light of the findings from the diagnostic review of the local government capacity-building system, completed in 2021, the National Treasury (NT) has embarked on the development of a Capability Development Programme (CDP) alongside a cohesive NT strategy aimed at bolstering local government. This strategy is designed to enhance financial management and service delivery within local government entities. The CDP will cultivate the essential capabilities required for the effective implementation of this strategy, ensuring that the insights gained from the design and execution of the NT strategy are applied to the reconfiguration of other government support initiatives. This approach will guarantee that such initiatives are responsive to the unique needs of individual municipalities, thereby significantly influencing the formulation of a comprehensive local government strategy for the entire Local Government Capacity Building system. This endeavour will be undertaken in collaboration with the Department of Cooperative Governance, the South African Local Government Association, and various other institutions.

As part of the CDP's implementation, the NT will consolidate all financial management support initiatives led by the Treasury into a singular programme. This integrated approach will provide a comprehensive framework for developing financial capabilities, equipping municipalities with the necessary tools, knowledge, and resources. Such a programme promises to deliver substantial value to municipalities nationwide by streamlining existing support initiatives and leveraging best practices.

Currently, the NT offers a range of financial management support initiatives for municipalities, including the Local Government Financial Management Grant, which aims to enhance financial management capacity; the Municipal Finance Improvement Programme, which provides technical assistance to strengthen financial governance; and the Municipal Revenue Management Improvement Programme, designed to boost municipal revenue collection and management. These three initiatives share a common objective: to enhance the financial management capabilities of municipalities and promote improved service delivery. Given their similarities, these initiatives will be consolidated and reimagined to create a unified Local Government Financial Management Capability Programme/grant, thereby fostering a more effective and cohesive approach to capacity building within local government.

6. GOING FORWARD: A REVISED STRATEGY TO ADDRESS MUNICIPAL PERFORMANCE FAILURES

Since the development of the original *Strategy to Address Municipal Performance Failures in 2009* as endorsed by the Budget Council, several developments have taken place which require an amendment to both the original 2009, 2014 and the revised 2019 strategy.

6.1 Overview of the revised Strategy

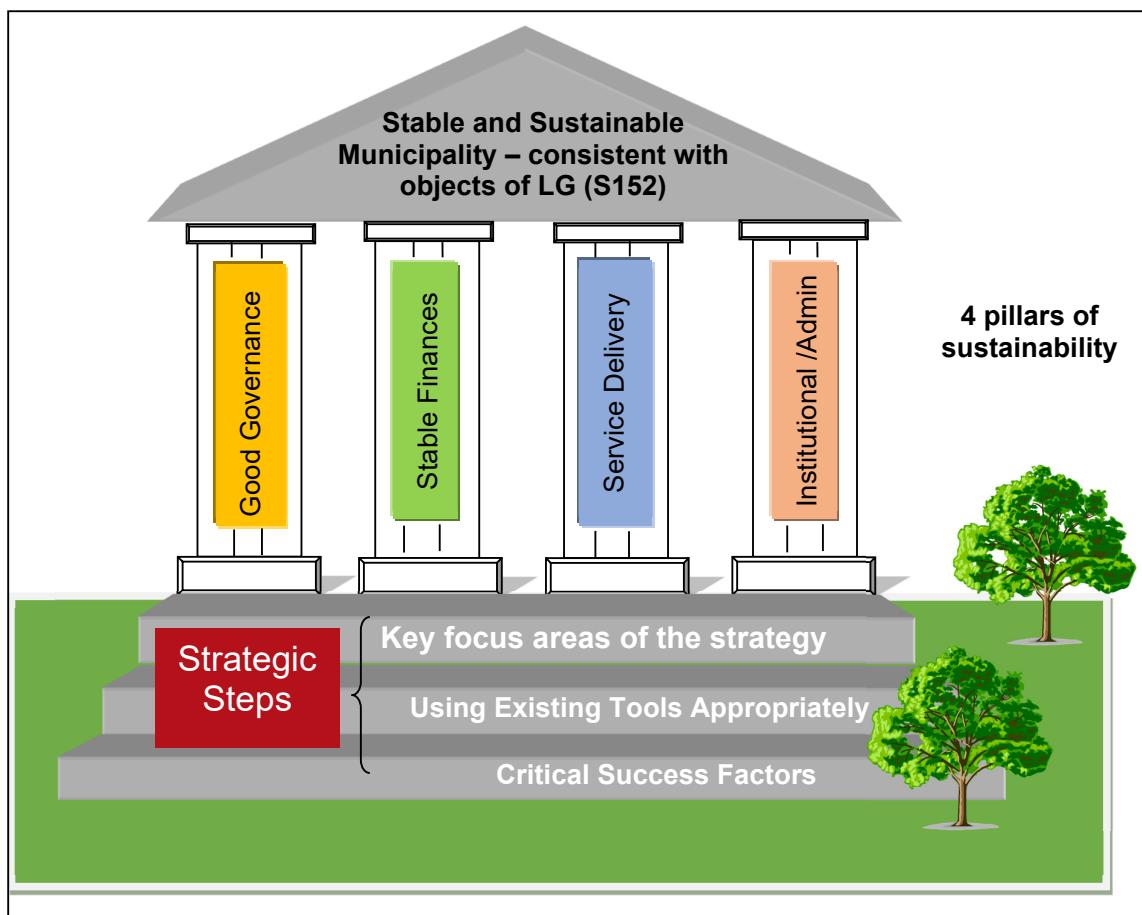
This strategy draws on the work done in the 2009, 2014 and 2019 versions of the Strategy to address Municipal Performance Failures. It has been amended to align with some of the initiatives underway in the sector.

The revised strategy highlights where attention should be focused over the next few years to improve municipal (financial) performance but does not include the details of the activities required to achieve the objectives. However, the detailed strategies are available through several other documents presented to the Budget Council, Budget Forum and the Technical Committee on Finance.

The figure below provides an overarching view on which the four pillars of an effective and well-functioning municipality is premised.

It is also critical to emphasise the interdependence between the pillars. All four pillars must be in place for the municipality to execute its constitutionally mandated roles.

Figure 1: Pillars of sustainability



The strategic steps required to revise the Strategy to Address Municipal Performance Failures are:

- Step 1: Identifying the critical success factors;
- Step 2: Using existing tools better; and
- Step 3: Identifying key focus areas of the strategy.

Step 1: Identifying critical success factors

The identification of critical success factors is an essential part of any strategy development. It explores the factors which are essential for the attainment of the objectives outlined in the strategy. Failing to identify the critical success factors will lead to failure in the implementation of the strategy.

The critical success factors are as follows:

Figure 2: The critical success factors

Critical Success Factors (Pre-requisites)	Clarify the roles and responsibilities of national and provincial depts and other stakeholders	Priority to be given to implementation of the collaboration framework between NT and DCoG	Political solutions to political problems
	Adequate resourcing: Skills and Funding	A single, inclusive system to identify and categorise municipal (financial) and service delivery failures	The establishment of a steering committee to monitor and evaluate progress on interventions

Critical Success Factor 1: Clarification of roles and responsibilities

It is still relevant to maintain the clarification of roles and responsibilities as a critical success factor in this version of the strategy as many of the shortcomings of the past and present municipal capacity building initiatives can be linked directly to the lack of clarity around roles and responsibilities.

It is almost 15 years since the strategy was first endorsed by the Budget Council and issues regarding the respective roles and responsibilities of key sector partners and stakeholders have not been satisfactorily resolved. In addition to the clarification of the roles of the two key departments involved with local government finance and service delivery, namely, NT and DCoG, it is also necessary to clarify the roles and responsibilities of other sector stakeholders to identify the value that these stakeholders could add within the context of their defined roles.

The role of SALGA in improving municipal performance warrants special attention. SALGA can play a direct role in empowering municipal councillors to ensure that they execute their oversight role effectively and attend to their assigned responsibilities as required in the regulatory framework. For instance, councils must meet regularly to take decisions, operate more effectively by listening to communities, working through ward committee structures and be responsive to the needs of all citizens. Councils must report back regularly to their constituencies on performance.

Critical Success Factor 2: Priority to be given to the implementation of the collaboration framework between NT and DCoG

Discussions to ratify the issues of the respective roles and responsibilities between NT and DCoG began in 2009 when various policies, service delivery, financial management and institutional challenges were experienced at municipalities. These discussions informed the proposal of the original MoU, where implementation has been the subject of negotiations since 2014.

The principles espoused in the MoU was that the National Treasury will lead on local government financial management matters while DCoG will lead on the governance and service delivery coordination. However, there were challenges with the MoU that was concluded in 2015.

The legislative review of the MFMA is already in progress and will be expedited to confirm the roles, responsibilities and functions of the two departments. However, this also requires legislative review of the Municipal Systems Act.

Overall, there was a concerted effort to address clarification of roles and responsibilities between National Treasury and DCoG. However, this did not yield the results due to the change in leadership and failure to sign the Memorandum of Understanding (MOU). The Presidency has intervened to resolve the impasse where a Collaboration Framework Agreement between the two departments was signed. Therefore, it is critical that the collaboration framework is implemented.

Critical Success Factor 3: Political Solutions to Political Problems

The political environment contributes to shaping the incentives faced by Mayors and Councillors and can either encourage them to do the right thing or create the impression that it does not really matter. It is therefore proposed that the national and provincial political leadership can make an important contribution to shaping the political environment by:

- a) Sending the right political messages;
- b) Ensuring that there is political oversight of the performance of Mayors;
- c) Political interventions in dysfunctional Councils;
- d) Enhancing ethical behaviour by disclosure of interests and compulsory lifestyle audits for all councillors; and
- e) Ensuring that allegations of corruption against Mayors and Councillors get properly investigated and prosecuted.

Sending the right political messages through the national and provincial leadership needs to be consistently communicated. Examples of key messages on local government may include:

- a) Zero tolerance of self-enrichment, nepotism and corruption;
- b) Councils and Mayors are responsible for driving improvements in service delivery, and will be held accountable for service delivery failures;
- c) Councils must appoint competent municipal managers, Chief Financial Officers and other senior managers; and
- d) Households that can afford to pay for their rates and services must pay for what they consume.

Political oversight of the performance of Mayors is extremely important if accountability and overall governance are to be improved.

Furthermore, it must be ensured that capable management and professionals are appointed in municipalities. This requires delinking the appointment of senior management from the authority of municipal Council to move towards greater professionalisation of the administration.

Political interventions in dysfunctional Councils: Certain Councils are rendered dysfunctional by political conflicts between political parties, or even between members of the governing party. These problems cannot be resolved administratively – they require political interventions by either the provincial or national leadership of the relevant political parties. It would be useful if there could be a mechanism to help identify potential conflicts early on so that steps can be taken to diffuse them before they impact negatively on municipal performance. A framework governing the coalition governments, and the related accountability was developed and is in a process of being legislated.

Ensuring allegations of corruption are investigated and prosecuted: There is an unfortunate, but widespread perception that corrupt politicians, especially in local government, always get away with it. This perception creates a sense of cynicism among ratepayers and undermines any

sense of civic duty – both of which impact negatively on their willingness to pay their municipal bills. The perception may also encourage other politicians to try their luck. To change this perception, it must become abundantly clear that corruption is not tolerated, and the most effective way of showing this is to ensure that all substantive allegations of corruption against Mayors and Councillors get investigated and prosecuted. This requires political will, and a high degree of staying power, because these processes can generate significant political heat and are often time consuming.

The Department of Cooperative Governance must lead in addressing the governance-related challenges because they are the root cause of municipal challenges.

Critical Success Factor 4: Adequate Resourcing (Skills and Funding)

Without adequate resourcing, efforts to build and maintain a sustainable municipality will not bear fruit.

Skills resourcing and capacity building does not imply only the allocation of nationally deployed resources (people) to local municipalities. For skills resourcing to be effective, there must be someone to supply the resources (typically national and provincial government through capacity building and support programmes) and someone to receive the knowledge and skills (a designated official within the municipality to whom the skills can be transferred). Without having both a “provider” and “recipient”, efforts to build capacity and successfully transfer skills will be ineffective.

In addition, there are various initiatives that aim to contribute to developing skills that are needed by local government. These include various interns’ placement programmes, placement of young professionals, bursary programmes and mentoring programmes. There is a need for better co-ordination, and these initiatives need to be expanded.

In all capacity building programmes, there needs to be a clear separation between the authority role (who directs the deployment of ‘hands-on support’ to municipalities and monitors and evaluates the success of the intervention) and the service provider role (who employs and manages the experts that get deployed to municipalities).

Support programmes must move away from gap filling. The approach of ‘deploying’ experts needs to be revisited with a view to re-establishing a better balance in the municipal market for technical skills available to municipalities, and ensuring capacity is built in municipalities over the medium-term.

The oversight and support responsibility of 240 municipalities have been delegated to the Provincial Treasuries. Therefore, it is essential to continue strengthening the capacity of Provincial Treasuries with a uniform structural design that is fit for purpose to perform their support and oversight role over local government. The support will be based on the Province Specific Strategy of each Provincial Treasury and will focus on the six game changers of funded budgets, revenue management, *mSCOA*, asset management, SCM and audit outcomes.

In the case of a section 139 intervention, where national government deems it necessary to appoint a National Executive Representative (NER), it will bear the full cost of appointing such a person and providing other ‘experts’ to assist implementing the recovery plan.

Critical Success Factor 5: A single, inclusive system to identify and respond to municipal performance failures

There are at present a number of different systems in use to identify and classify the need for municipal support and intervention. This is the main reason behind the quoting of different statistics by different stakeholders and failures to successfully arrest the problem of municipal

failures. For example, the DCoG uses audit outcomes to identify municipalities requiring some or other form of intervention. National Treasury, on the other hand, has a sophisticated and reliable Local Government and Database and Reporting System (LGDRS) from which municipal performance data is extracted.

Section 216 of the Constitution of the Republic of South Africa, 1996, provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications and uniform treasury norms and standards. The introduction of the MFMA in 2003 laid the foundation for the municipal financial management reforms. One of the reforms was to develop a comprehensive reporting system for local government which included:

- The creation of a Local Government Database and Reporting System (LGDRS) to facilitate the collection and storage of financial and non-financial data;
- The establishment of a culture of monthly reporting in terms of Section 71 of the MFMA by all 257 municipalities; and
- The routine publication of budget, in-year financial performance information (including conditional grant) and annual the State of Local Government Finances and Financial Management Report for local government, escalating the performance of local government into the public domain.

A sound reporting system facilitates transparency, better in-year management and oversight of budgets and better policy decisions on funding allocations at a national and provincial level.

The reports available on the LGDRS are management tools and early warning mechanisms for municipal management and councils to improve municipal performance. The aim of an early warning system is to provide government with timely information on the state of municipalities' finances that highlights possible areas of risk so that such risks can be investigated and mitigated before they give rise to serious problems.

There is a need for information on municipal performance by various stakeholders such as South African Reserve Bank (SARB), Statistics South Africa (STATSSA), Department of Water and Sanitation (DWS), National Energy Regulator of South Africa (NERSA), Department of Cooperative Governance (DCoG), Auditor-General South Africa (AGSA) and universities. A central reporting system eliminates duplication of effort where various departments request the same information from the same municipality.

The LGDRS also provides information on municipal performance to the public. The Municipal Money portal on LGDRS 'demystification' information about municipal spending, thereby promoting transparency and enabling citizens to hold their municipalities accountable. Municipal Money is designed to present key municipal financial information to a general audience, who do not necessarily have any financial background or knowledge. Municipal Money has also been included in the Open Government Partnership (OGP) 5th National Action as part of the National Treasury's commitment to improve transparency and public participation in local government processes.

In addition, a range of municipal documentation is available for downloading on the LGDRS, such as the Integrated Development Plans, budgets, in-year performance reports, annual financial statements and annual reports. Information on municipalities that are placed under intervention; the socio-economic profiles of municipalities are also available on the LGDRS.

The LGDRS also offers a host of training material, tool kits and training session recordings on municipal finance, urban reforms and the municipal standard chart of accounts (*mSCOA*).

It is critical that a single, inclusive method be found to identify municipalities with poor financial and service delivery performance. Given the shortage of skills in the sector, it is necessary to ensure that limited resources are allocated efficiently and aligned to where the needs are the greatest. A unified approach to identifying and classifying distressed municipalities will also ensure that interventions are not duplicated.

From the single system, it will be important to rank the municipalities in order of where the poorest performance prevails to where municipal performance requires intervention but to a lesser degree. It is proposed that a “triage” system be developed to assist in the allocation of support and other interventions to ensure that limited resources are used efficiently and target areas where a total municipal failure is imminent. In this regard, consideration should be given to joint planning between the key strategic partners to align priorities to the extent that it is possible. This should then create a single system and better coordination and alignment of priorities and ultimately eliminate duplication. In addition, MFMA Circular No. 88 was introduced to rationalise, better coordinate and standardise indicator planning, monitoring and reporting in metropolitan municipalities and across local government.

Figure 3: Identifying the location of the root causes of municipal performance failure

Proposed Classification system	Type of Intervention required	Resources to be deployed
3 or more pillars of sustainability at risk		
2 pillars of sustainability at risk		
1 pillar of sustainability at risk		
Municipal performance is satisfactory but requires monitoring of certain KPIs		
Municipality performs in terms of S152 of the Constitution		

There must also be a requirement in respect of a single monitoring system that all information collected gets published according to a fixed timetable on an appropriate website so that it is accessible to other role-players, and where appropriate that it also be made public.

Critical Success Factor 6: Establishment of a Steering Committee to oversee interventions

Progress made in interventions or capability building initiatives must not only be monitored but must be evaluated to determine whether they are successful in achieving the desired outcomes.

Interventions fail for a number of reasons. Currently, the main reason underpinning the widespread failure in the intervention process is the slow and partial implementation of the financial recovery plan by the affected municipality. Furthermore, most municipalities under the intervention process are not reporting as required on the implementation of their financial recovery plans. Where municipalities do report, it is often the case that reporting is a “copy and paste” from previous months and progress is inaccurately reflected in the report. It is important therefore that an oversight committee consisting of different role-players be formed to objectively evaluate the success or failure of interventions.

This committee can be the same committee that will be responsible for identifying the municipalities most in need. For mandatory interventions, it is the Provincial Treasuries that should be responsible for identifying the municipalities in need of an intervention and this

should be done mainly through the S71 monitoring process. However, placing a municipality under intervention is a responsibility of the Provincial Executive Council (PEC)/ Provincial Cabinet and not just the MEC for Finance.

There are three things that are important here: One, the criteria by which we measure the success/ failure of the intervention must be clearly specified upfront. What are the high-level indicators of success – for a mandatory intervention, the overall impact should be the resolution of the financial and service delivery problems, but how do we measure this at a high level periodically to make adjustments? Secondly, there must be some level of separation between those monitoring the FRP and those that measure the success/ failure of the intervention itself. Thirdly, from experience, it is ultimately the municipality who determines the success/ failure of the intervention.

Step 2: Using Existing Tools appropriately

There are a wide range of tools available to address poor performance in municipalities. However, the right tool must be employed for the right purpose and under the right circumstances to yield the desired outcomes.

This step of the strategy involves knowing what tools are available and how best to employ them under given circumstances:

Figure 4: Tools available to address poor performance in municipalities

Existing Tools	System-based reporting, legislative reporting and institutionalised engagements	Legislative Tools: Constitution & MFMA (Incl. Municipal financial recovery plan)	Cost containment regulations to strengthen fiscal discipline
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System-based reporting, legislative reporting and Institutionalised Engagements

The legislation, in this context referring to the Constitution, DoRA and the MFMA, provides extensively for monitoring and reporting of municipal (financial) performance. Reporting takes place at different stages of the municipal accountability cycle, allowing adequate opportunity for ex-ante and ex-post interventions when poor performance is identified.

The Local Government Database and Reporting System contains extensive financial and non-financial information. The database is the central repository for all local government data within the National Treasury.

In addition to the above, the processes of assessing municipal budgets before they are approved by the Council and the mid-year budget and performance assessment engagements are two well-institutionalised processes. Both these processes allow for the early identification of potential financial and service delivery problems. Sector departments are invited to attend these sessions, however, attendance by sector departments is very poor.

Monitoring and reporting systems are generally underutilised. There is limited capacity to use the information for review and giving feedback on the performance to municipalities. Often, data is analysed without considering how this influences the broader information and knowledge management within government. The silo approach to monitoring is still very prevalent where departments tend to monitor what is within their defined responsibilities without recognising the interdependence between the pillars and performance indicators.

The general capacity of most national and provincial departments to analyse and provide useful feedback to municipalities on their performance is currently very weak. Significant effort needs to go into building this capacity, as an essential tool in strengthening the monitoring and oversight of local government.

Legislative Tools

Similar to the above section which highlights the need to use the right tool for the right purpose, it is important to know which type of legislative provision to invoke for the different types and levels of municipal transgressions.

The legislation, in this context again referring primarily to the Constitution and the MFMA, makes provision for interventions ranging from a soft, supportive, capacity building type of approach towards adopting a harder stance in the form of invoking Section 216(2) of the Constitution which allows for the stopping of transfers to a municipality for repeated transgressions or transgressions of a more serious nature.

Constitutional remedies apply to NT, DCoG and the provincial structures of both departments.

Interventions required to remedy financial problems are also available in the MFMA. Of particular importance in this respect is the establishment of a Municipal Financial Recovery Service (MFRS).

A study into the efficacy of Section 139 of the Constitutional interventions was undertaken by the Public Affairs Research Institute (PARI) commissioned by the National Treasury. The results of the study were released in 2018 and revealed several fault-lines in the implementation of Section 139. The National Treasury was tasked to develop a credible programme of action to respond to serious financial problems in municipalities. The programme of action centred around four (4) basic tasks: role-player engagement and activation; strengthening the Municipal Financial Recovery Services unit; legislation and litigation and lastly, transparency and participation.

The National Treasury decided to strengthen the capacity in the Municipal Financial Recovery Services (MFRS) unit as well as that of the provincial treasuries by making funding available to improve the implementation of S139 interventions. A Chief Directorate has been established to deal with municipal financial recovery and the development of mandatory financial recovery plans. The unit is not fully capacitated but has made some inroads in assisting provinces and municipalities with intervention matters. The unit has also revised the approach to developing financial recovery plans to ensure easier and more focused implementation, better monitoring and by implication better intervention outcomes.

The step-by-step guide for MFMA interventions and recovery plans was reviewed. This provides for an opportunity to streamline the process for interventions and guide relevant stakeholders on the correct approach for this important task. In addition, the National Treasury in collaboration with DCoG convened roadshows in each Province to discuss the details of the S139 intervention process. These roadshows were conducted to provide role-players with basic information on the fundamentals and complexities of S139 interventions to ensure better implementation. Councillor inductions were also conducted for 43 municipalities that were identified to be in financial and service delivery crises.

Based on the outcome of a study into the efficacy of interventions and past implementation challenges, the National Treasury has revised its approach to the development of Financial Recovery Plans (FRPs). The new approach is phased with an emphasis on strategic indicators which can be easily measured and monitored. The three phases of the new approach help municipalities to better navigate between quick wins and solutions required for long-term sustainability. In addition, the National Treasury is in the process of amending the MFMA to

address duplications and to provide more decisive powers for the rapid implementation of Financial Recovery Plans. This process is at an advanced stage and there are planned stakeholder engagements once all the internal processes have been completed.

The National Treasury continues to quarterly publish the MFMA S139 triggers that indicate municipalities that continually fail to timeously pay creditors and MFMA S140 triggers (derived from paragraph 140(2)(c) of the MFMA) that indicates municipalities that fail to timeously pay debts which, in aggregate, amounts to more than 2 per cent of budgeted operating expenditure. This is an indicator of a serious material breach of financial commitments and municipalities that meet MFMA S140 triggers are in financial crisis and require mandatory intervention.

The MFIP placed ten (10) MFRS technical advisors at National Treasury who are responsible for providing technical assistance to carry out functions to assist municipalities with the resolution of financial problems. The workstream is responsible for the development of financial recovery plans (FRPs) within the legislated timeframes; monitoring the implementation of FRPs; and capacity building and technical support on the resolution of financial problems. In addressing the financial problems in municipalities, the MFRS work stream contributes to all (LGFM) game changers.

Cost Containment Regulations

On 7 June 2019, cost containment regulations were promulgated and published in Government Gazette No. 42514 by the Minister of Finance in accordance with the requirements of the MFMA.

The object of these regulations in line with Sections 62(1)(a), 78(1)(b), 95(a) and 105(1)(b) of the MFMA, is to ensure that resources of a municipality and municipal entity are used effectively, efficiently and economically by implementing cost containment measures.

These regulations must be enforced at local government level to improve fiscal discipline.

Step 3: Key Focus Areas of the Strategy

The key focus areas have been divided into two sections. The first section addresses the “game changers” which have been adopted by the national and provincial treasuries and presented previously to the Budget Council.

The second key focus area involves a review of the external environment to identify the factors that impede good municipal (financial) performance.

Key Focus Area 1: The Game Changers

The National and Provincial Treasuries have adopted 6 “game changers” approved by the Budget Council which will serve as streamlined focus areas to improve the capacity and financial performance of municipalities. These game changers will form the first set of key focus areas in this strategy. The game changers are identified below and represent the first part of this step:

Key Focus <u>Area 1:</u> 6 Game Changers	1 Funded Budget	2 Revenue Management	3 Municipal Std Chart of Accounts	4 Asset Management	5 SCM	6 Audit Outcomes
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Game Changer 1: The Funded Budget

The funded budget game changer is intended to ensure that budgets adopted by a municipal council are funded in terms of Section 18 of the MFMA, i.e. the anticipated revenue collections must be sufficient to finance the anticipated expenditure in that year. A funded budget, however, is dependent on the accuracy of revenue assumptions and the realisation of planned revenue depends on the fiscal effort applied by municipalities. Therefore, municipalities must prepare their budgets as accurately as possible and avoid overstating revenue sources or understating expenditure.

The overall objective of this game changer is to ensure that the municipalities are able to meet their financial obligations and have a positive cash position. In addition, improved financial sustainability over the medium to long term will facilitate improved service delivery.

Despite the results of the funding compliance assessment being consistently published as part of the annual MTREF budget publication and for the first time in the 2017 Budget Review, many municipalities are still adopting unfunded budgets, hence the importance of this item as a game changer.

When budgets are unfunded, recommendations are made to the administrators to elevate to Council to adopt a funding plan to correct the funding position, but these are not usually taken and are consequently not implemented. The MFMA provides for consequences in the case of non-compliance, however this is seldom pursued. The Municipal Council and its oversight committees must adopt funding plans and ensure that there are quarterly progress reports on the implementation thereof.

This game changer will focus on the coherent implementation of the assessment strategy by national and provincial treasuries and the implementation of the budget in line with the recommendations.

To facilitate the implementation of the funded budgets and revenue management game changer, the MFIP deployed 12 budget and revenue management and 41 municipal support technical advisors to NT (LGBA), PTs, and municipalities. The overall objective of the workstream is to provide support to improve revenue management practices and performance and to contribute to improved financial management performance through improved policy implementation and technical capacity support. If government wants to improve audit outcomes (which focus largely on challenges that occurred after the event), the challenge with planning and funded budgets has to be addressed upfront in order to make progress.

Game Changer 2: Revenue Management

The focus of the revenue management game changer is to ensure that the revenue base of municipalities is complete, that they are able to bill accurately for property rates and all services provided and effectively administer policies associated with revenue management, such as the tariff policy, indigent policy, debtors control policy, and the creditors control policy. Overarching, the revenue management game changer aims to ensure the integration of critical revenue management components across municipal functions, including town planning, valuations, the technical department for the measurement of consumption, the management/

reduction of distribution losses, the maintenance of revenue generating assets, and finance for the billing system; etc.

Initiatives to date supporting revenue management in municipalities include: the research and piloting of the simple and integrated revenue management framework in each province for municipalities, linking the individual municipal socio-economic profiling of all 257 municipalities to understand the revenue potential within the municipal jurisdiction, complete the Economic- and Financial Viability Studies in 4 provinces or a re-useable model for future use, ongoing revenue management master classes, the implementation of the transversal tender-RT29 for smart metering, a smart meter grant, debt relief (electricity and water (WIP)), placing budget- and-revenue management advisors in all provinces through the MFIP to support particularly municipalities participating in debt relief, completing baseline and other revenue management related assessments to identify critical areas and specific municipalities requiring hands-on support, and the development and implementation of various support tools, including to assess the credibility of budget funding plans, tariff tool, property rates reconciliation tool, and a revenue management assessment tool and the ongoing strengthening and automation of these support tools; etc. All revenue related work and initiatives are carried out under the auspices of the Municipal Revenue Management Improvement Programme.

Revenue Management is a highly contested issue when it comes to determining roles and responsibilities. Collaborating with DCoG and SALGA selected municipalities were assisted with either revenue management plans or cost-of-supply studies. In addition, other work on revenue management was commissioned such as tariff setting, etc. NT and DCoG agreed in principle to a single integrated approach to revenue management that must be implemented in municipalities. However, due to the various staff turnover in DCoG, this necessitates a revisit and confirmation of this agreement at a Director-General level to facilitate the holistic revenue management function and an integrated NT/ DCoG approach in the areas of tariff setting, credit control, debt collection, indigent policies and the standardisation of the valuation roll and other processes underpinning property rates and other tariffs. Assisting with establishing a revenue committee at the municipality with a revenue champion to lead (preferably someone outside the BTO that reports directly to the municipal manager).

Lastly, the collection of revenue by municipalities is key to their financial recovery and sustainability. Until the Electricity Regulation Act, 2006 (as amended) is corrected to remove the prohibition on Eskom to assist municipal collection in Eskom supplied areas, the majority of municipalities (also cities), are not able to optimise their collection of revenue to the NT best practise norm of 95 per cent. In the area of organs of state debt, year-on-year national and provincial MTEFs under-provide for municipal rates and tariffs. A differentiated approach to national and provincial budgeting and enforcement thereof is needed particularly for the department of Public Works to facilitate the resolve of the increasing arrear debt owed by organs of state to municipalities.

A national solution for municipal revenue collection is required that includes resolution of these issues, coupled with exploring the collection of property taxes by SARS or a separate mechanism on behalf of municipalities and a national database of persons in the service of the state to facilitate and enforce payment to municipalities by all such. In addition, measures must be put in place to ensure that national and provincial departments pay municipalities. The resolution of this issue of municipal revenue collection must be given priority.

The Municipal Debt Relief Programme has been put in place with a SMART Meter project to support municipalities that are in distress.

Game Changer 3: The Municipal Standard Chart of Accounts (mSCOA)

While significant progress has been made with reporting in terms of the Municipal Finance Management Act, 2003 (Act. No.56 of 2003) (MFMA) and its Regulations (2009), there were still several challenges with the quality, reliability and overall credibility of municipal information.

In response to this challenge, the Minister of Finance approved the publication of the Municipal Regulations on a Standard Chart of Accounts (*mSCOA*) (Notice No. 37577) on 22 April 2014. *mSCOA* is the uniform classification framework that must be used by municipalities and their entities to capture transactions in their financial systems.

Importantly, *mSCOA* is an organisational and business change reform that affects all business units within a municipality and not just a financial reform, making it one of the biggest and most complex financial reforms ever implemented in the country. It is also not limited to a standardised financial classification, but incorporates the:

- a) Modernisation of Local Government business processes (regulation of minimum business processes and system specifications);
- b) Application of basic processes and procedures for the daily operation of the municipality; and
- c) Improvement of the municipal ICT and control environment.

After the promulgation of the Regulations, municipalities and their entities had a three-year preparation period to comply with the Regulations by 01 July 2017. All municipalities have implemented *mSCOA* by 01 July 2017, but the level of implementation differs. Municipalities are required to submit a roadmap to the National and respective Provincial Treasury to indicate how the municipality will become *mSCOA* compliant if the minimum level of *mSCOA* implementation has not been achieved as yet.

Extensive support on *mSCOA* implementation was provided to municipalities (to improve implementation) and provincial treasuries (to improve oversight). These support initiatives included the issuing of circulars and provision of training. An eLearning *mSCOA* course was developed and is hosted by the National School of Government (NSG), while monthly master classes to municipalities on relevant technical topics are hosted by Chartered Institute of Government Finance Audit and Risk Officers (CIGFARO). Training provincial treasuries on the analysis of the *mSCOA* data strings submitted by municipalities is provided quarterly to improve the accuracy of the strings.

The National Treasury also developed and issued an illustrative *mSCOA* Specimen Annual Financial Statements for 2023/24 for municipalities with the support of the Office of the Accountant General (OAG) to facilitate seamless alignment of municipal budget and the AFS data strings. This was the fifth issue of the specimen AFS which now includes the Parent and Consolidated Specimen and is aligned to version 6.7 of the chart.

During the 2022/23 financial year, *mSCOA* compliance audits were conducted at 17 municipalities across all financial systems to determine the level of the *mSCOA* implementation at these municipalities. The national *mSCOA* strategy was reviewed based on the audit findings and lessons learnt since 2017. The key focus areas of the national *mSCOA* strategy for the period 2023 to 2025 are:

- Following a targeted approach to improve the credibility of *mSCOA* data strings;
- Ongoing technical training;
- Issue Regulations on Minimum *mSCOA* business process and system specifications requirements and specimen AFS;

- Monitor and respond to system related challenges; and
- Deal with persistent non-complying municipalities.

The audit also identified the need to review and regulate the business processes and system specifications articulated in MFMA Circular No. 80. The National Treasury is currently in the process of this review which includes extensive consultations with all relevant stakeholders.

*m*SCOA is one of the key game changers to address municipal performance failures. Ultimately the aim is to get to a point where all municipalities' planning, budgeting, transacting, preparing of Section 71, Annual Financial Statements and Annual reports are done directly in and from the core financial system.

The MFIP placed 12 *m*SCOA technical advisors at the National Treasury and various PTs with the aim of building capacity of National and Provincial Treasuries to support municipalities to implement *m*SCOA.

Game Changer 4: Asset Management

The purpose of asset management as a game changer is to ensure improved asset maintenance and timely replacement of municipal assets. This will enable a municipality to ensure both the quality and availability of basic municipal services. Proper asset management is also a prerequisite for protecting a municipality's asset base through ensuring fewer interruptions in the delivery of billable services.

The National Treasury is in the process of developing the equivalent of the IDIP (IDMS) reform for local government. There are initiatives to strengthen the infrastructure reporting using *m*SCOA and aligning it with the rest of government. Furthermore, the Cities Infrastructure Development Management System (CIDMS) was developed for metros and piloted in Cape Town and eThekweni. The draft Local Government IDMS Toolkit was developed for the rest of municipalities through the Procurement Infrastructure Knowledge Management (PINK) programme and was piloted in eight municipalities, two PTs and National Treasury. The Local Government Framework for Infrastructure Delivery and Procurement Management was issued for implementation since July 2021. Municipalities were trained on the LG IDMS Toolkit and CIDMS respectively.

The NT has issued the Standard for Infrastructure Procurement, which is now under review, the Office of Accountant General issued a framework for moveable assets (GIAMA), the MFIP commissioned work on asset registers in 21 municipalities which should be regarded as best practices and assisted 3 provinces (MP, KZN and WC) with the roll out of the asset management game changer, baseline assessments were completed to identify critical support areas and specific municipalities requiring hands-on support.

The MFIP has currently deployed asset management advisors in nine (9) provinces with the overall objective of assisting PTs and their related municipalities to improve the asset management practices and performance. Key focus areas are institutional support, asset management policies and SOPs, asset accounting and internal controls.

As part of the municipal budget assessment process the following indicators are considered:

- a) Spending on renewal and upgrading of existing assets; and
- b) Spending on repairs and maintenance in relation to Property, Plant and Equipment (PPE).

National Treasury has also introduced the metro trading services reform given the deterioration in these core municipal services that underpin municipal financial sustainability and enable economic growth. These are services for which service charges are levied (water and sanitation, electricity, solid waste management) and determined with the intention of making a surplus on

the delivery of the services. The metro trading services reform entails introducing a new conditional grant with a performance incentive component to strengthen transparency, accountability and institutional capability, financial performance and increased investment in trading services, and improved service delivery. The reform seeks to radically change the level and funding of investment in metro trading services, ensuring that investment plans are informed by robust financial models for the trading service. These financial models and investment plans will build from and complement the Long-Term Financial Plans that must be developed by municipalities to enable financial sustainability and infrastructure financing in addressing the gaps in infrastructure investment. The trading services reform will be piloted with metropolitan municipalities and will be extended to other municipalities based on the lessons learned. The first phase of the metro trading services reform will commence in 2025/26 and will run until 2030/31.

Game Changer 5: Supply Chain Management

The purpose of SCM as a game changer is to ensure improvements in SCM processes and procedures. Functional Bid Committees will eliminate delays and leakages in the system to ensure that the funding for projects is not diverted from the poor through poor SCM processes and that value for money is obtained in each project.

Initiatives to date include the new **Public Procurement Act**, which was assented to by the President on 23 July 2024, which seeks to create a single regulatory framework of public procurement and eliminate fragmentation in South African laws which deal with public procurement. A **Central Supplier Database** (CSD) was introduced which maintains a list of organisations, institutions and individuals who can provide goods and services to the government. The purpose of a centralised government supplier database is to reduce duplication of effort and cost for both the supplier and government while enabling electronic procurement processes.

In addition, the **e-Tender portal** was also introduced to provide a single point of access to information on all tenders made by all public sector organisations in all spheres of government. A review of existing good practices on contract management in KwaZulu-Natal was undertaken which informs the generic contract management guidelines.

SCM Toolkits were institutionalised to improve governance, preventative control and to minimize risk by way of Circulars. In addition, there must be continuation of established webinars for SCM.

The full complement of (nine) 9 supply chain management technical advisors were procured and placed in PTs and NT (OCPO) by the MFIP. The overall objective of the work stream is to work with NT (OCPO), provincial treasuries and municipalities to improve supply chain management practices and performance. Key focus areas of support include institutional support, SCM policies and SOPs, contract management, SCM compliance and value for money procurement.

Game changer 6: Audit Outcomes

The purpose of this game changer is to improve governance by implementing proper internal controls and standard operating procedures (SOPs) to eliminate the root causes of the audit findings.

There was an agreement that Audit Outcomes will be the responsibility of National and by extension Provincial Treasuries. The other areas of agreement reached relate to the consolidation of the legal framework on establishment and financial management of municipal entities.

The National Treasury issued an Unauthorised, Irregular, Fruitless and Wasteful Expenditure (UIFWE) Reduction Strategy. The Strategy was developed and issued as a response to the 2019 – 2024 Medium Term Strategic Framework which set a target for government to reduce Irregular, Fruitless and Wasteful Expenditure by 75 per cent and 100 per cent, respectively. The strategy focusses on three key measures to assist municipalities to reduce and prevent UIFWE; which are:

- Addressing the historical UIFWE in terms of section 32 of the MFMA which requires municipalities to recover IFWE or to declare it irrecoverable and write it off following an investigation by the Municipal Public Accounts Committee (MPAC);
- Developing and implementing preventative measures to prevent the incurrence of UIFWE; and
- Implementing consequence management.

The National Treasury issued the Consequence Management and Accountability (CMA) Framework which outlines a number of key processes and procedures that must be in place for the successful implementation of consequence management by municipalities and municipal entities, in relation to financial misconduct and financial offences as defined in Chapter 15 of the MFMA. The latter framework also supports the implementation of the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, which the Minister of Finance promulgated in May 2014.

Besides the UIFWE Reduction Strategy and the CMA Framework, the National Treasury has also taken various steps to assist municipalities in addressing and preventing UIFWE through:

- Issuance of various circulars: Providing clear guidance and standards for financial management and reporting aimed at reducing instances of UIFWE, including focusing on consequence management; increasing accountability;
- Training Programs: Enhancing the capacity of financial officers, MPACs, Disciplinary Boards, and other relevant municipal officials through targeted training sessions; and
- Direct Support and Oversight: Implementing support programs in municipalities identified with high levels of UIFWE, involving direct support from National Treasury officials.

The measures that will be key to municipalities reducing and preventing UIFWE include strengthening internal controls, improving procurement processes, enhancing capacity building and technical training, and hands-on support to municipalities on reduction of UIFWE.

During the current phase of the MFIP, (nine) 9 accounting and audit support advisors were assigned to NT (OAG) and PTs. These technical advisors are instrumental in improving the audit outcomes. The overall objective is to work with PTs and their related municipalities to improve accounting and audit related support, including accounting practices, internal governance and controls, compliance with the MFMA and its supporting regulations, support in developing legislation and policies, reducing UIFWE and promoting consequence management. The roles within accounting and audit support consist of specialist technical advisors in legislative and policy reform, IT specialist ,internal audit and audit committees and accounting support.

Key Focus Area 2: Review of the External Environment

There needs to be an ongoing process of reviewing factors in the external environment to ensure that any obstacles to municipal performance are removed and these external factors create appropriate incentives to support municipal performance.

Key Focus Area 2: Review of the external environment	Review of the structure and functions of LG	Reconsider policy options that impact on LG	Address weaknesses in the legislative framework	Review of the LG Fiscal Framework
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Review the structure and functions of local government

The following changes need to be considered:

- a) The housing function needs to be devolved from provincial government to municipalities with the capacity to undertake the function so as to ensure better integration of plans and capital programmes relating to the built environment;
- b) Many local municipalities are simply too small to realise economies of scale in their Governance and Administration functions and in other operations. Consideration should be given to consolidating certain local municipalities to form larger local municipalities. This process may also involve reviewing the need for districts;
- c) The allocation of the electricity, water and sanitation functions needs to be clarified, rationalised and stabilised. One option is to deal with it by consolidating small municipalities as suggested above. Failing which, the alternative is to allocate these functions to the districts in those areas where the municipalities are too small;
- d) The role and functions of districts need to be reviewed and clarified;
- e) The Municipal Demarcation Board's (MDB) annual process, required in terms of section 85 of the Municipal Structures Act, of recommending the re-allocation of functions between local municipalities and districts needs to be re-evaluated, and possibly replaced by a process that happens only once every five or ten years; and
- f) It is noted that DCoG has initiated the process to review sections 84 and 85 of the Municipal Structures Act, 1998 (Act No. 117 of 1998).

Reconsider policy positions that impact on local government

The following changes or refinements to existing policy positions need to be considered:

- a) The Free Basic Services policy needs to be reviewed so it is clear what municipalities are *required* to provide in terms of national policy.
- b) The promotion of the *universal provision* of Free Basic Services needs to be reviewed. Firstly, it is not clear that this is a government policy position in respect of all basic services. Secondly, why should households that can afford to pay for services be given free services? Such an approach undermines the redistributive intent of providing Free Basic Services, and means the lost revenues have to be raised elsewhere else in the system.
- c) It is noted that DCoG has started the process to review the National Framework on indigent policies and Guidelines for implementation.
- d) There is a need to review practices with regard to the implementation of the Employment Equity Act in municipalities to ensure that an appropriate balance is maintained between the need to fill vacancies with competent employees and the objectives of the Act. Particularly problematic is the practice of not making an appointment because a suitable affirmative action candidate could not be found – particularly in areas where skills are scarce.

- e) The reconfiguration of the powers and functions within the two-tier system of local government needs to be reviewed to ensure better sustained service delivery within municipalities.
- f) The 1998 White Paper on Local Government made assumptions of a system of local government which is no longer relevant today and needs to be revisited. Is the current decentralised system of local government still working within the current context? Has the time come to consider a hybrid model of local government with elements of centralisation and decentralisation? DCoG is in a process of reviewing the White Paper on Local Government.
- g) The quality of political leadership entering local government is posing a significant risk to stability at local government. There is therefore an urgent need for a framework for appointing competent councillors after each election including a legislative framework for coalition governments within municipalities.

Address weaknesses in the legislative framework

There needs to be an ongoing awareness and willingness to review the existing legislative framework in the light of practical experience with its implementation. To start with, the following areas need to be re-examined:

- a) Review of the structures and functions of municipalities which may require amendments to the Municipal Structures Act;
- b) Greater attention needs to be given to the proper implementation of legislation. In this regard, more attention needs to be given to ensuring municipalities implement the governance, public consultation and accountability arrangements set out in the Municipal Finance Management Act and Municipal Systems Act;
- c) Attention needs to be given to the implementation of the Code of Conduct for Councillors and Officials by providing greater powers to the National Minister of CoGTA and to an extent Minister of Finance as well. At the moment too much powers are given to the MECs who are closer to the local politics and more often than not, reluctant to act. The General Laws Amendment Bill that is currently in the public domain for public comment addresses this matter by giving the Minister powers when the MECs fail to act. The Municipal Systems Act was amended to enable the appointment of managers directly accountable to the municipal manager on a permanent basis.
- d) Certain chapters in the Municipal Systems Act and the Municipal Structures Act, as well as the Municipal Property Rates Act deal with matters that fall directly within National Treasury's mandate. Consideration should be given to amending this legislation to consolidate the National Treasury's oversight of municipal finances; and
- e) The provisions governing the establishment of municipal PPPs are very onerous and an obstacle to municipalities utilising this mode of service provision. As a result, the National Treasury has drafted amendments to the National Treasury Regulations 16 and key elements of municipal legislation in line with the recommendations of the completed review of the Public Private Partnerships (PPP) framework. The amendments to the National Treasury Regulation 16 and the Municipal PPP Regulations were published for public comments.

Review of the local government fiscal framework (LGFF)

The whole local government fiscal framework is designed to fund local government, and not just one component of it such as own revenues or the equitable share. How the local government fiscal framework provides for the funding of municipalities must be looked at

holistically, taking into account the real differences between municipalities. The Constitution expects municipalities to show fiscal effort to raise revenues commensurate with their fiscal capacity.

Over the 2024 MTEF, the National Treasury will be reviewing the LGFF. The focus of this review is to assess the alignment of the LGFF with the constitutional assignment of powers and functions designated to the local sphere of government. This review further aims to critically examine the viability of the LGFF and identify key factors influencing its effectiveness, stability, and long-term sustainability. This will be achieved by conducting an in-depth examination of existing policies, practices, and mechanisms governing the allocation, management, and utilisation of fiscal resources at the local government level.

Review of the conditional grant system

The National Treasury has successfully completed the data collection and synthesis phase, during which interviews were conducted with 325 participants from the system, including 77 representatives from local government. In light of the emerging preliminary findings and recommendations, the National Treasury is actively engaging with various stakeholders to facilitate a comprehensive consultation process. This engagement is expected to be concluded by September 2024, in preparation for the forthcoming 2024 Medium Term Budget Policy Statement.

Most of the proposed reforms are designed for long-term implementation within the 2027 Medium Term Expenditure Framework (MTEF), while certain initiatives will be executed in the medium term, specifically within the 2026 MTEF, with preparatory work commencing in the 2025 MTEF period.

Among the key reforms are the following:

- **Enhancing the Alignment of Built Environment Grants:** This will be achieved through the establishment of clear coordination structures grounded in district and municipal development plans. The introduction of performance-based criteria for sustainable infrastructure management, alongside the establishment of Memorandums of Agreement (MoA) between the various implementing spheres, will promote integrated planning and transparency. These measures aim to reduce fragmentation, clarify project roles, and incentivise consistent performance over time;
- **Introducing Greater Asymmetry and Differentiation in the Grant System:** This initiative seeks to address the growing reliance on grants by metropolitan areas while providing enhanced support to municipalities with lesser capacities. The aim is to tackle service delivery challenges and locational issues that are pertinent to the diverse types of municipalities; and
- **Rationalising the Number of Grants:** A critical aspect of the reforms involves streamlining the number of grants allocated to each municipality. This approach addresses the observed duplication of certain grants and mitigates the unintended consequences associated with the proliferation of grants, such as increased reporting requirements and administrative burdens.

Through these strategic reforms, the National Treasury aims to foster a more efficient and effective system that enhances service delivery and promotes sustainable development across all municipalities.

Municipalities largely use internally generated own revenues and external finance (for economic infrastructure), in addition to infrastructure conditional grants (for social infrastructure), to finance infrastructure costs. Reforms are underway to support municipalities to mobilise resources from the private sector. Although development charges have the

potential to play a significant role in financing the upgrading and expansion of municipal infrastructure, they have not been fully utilised by municipalities due to legal and regulatory uncertainties. The Municipal Fiscal Powers and Functions Act (2007) has been amended and enacted to incorporate the regulation of development charges. Municipal long-term borrowing is regulated through the Municipal Finance Management Act and the Updated Policy Framework for Municipal Borrowing and Financial Emergencies, was adopted by Cabinet in 2022. The objective of the Updated Policy Framework for Municipal Borrowing and Financial Emergencies is to expand the scope of prudent municipal borrowing by clarifying alternative financing mechanisms that can be used to leverage borrowing and to create an environment that attracts more players (e.g. insurers, pension funds, institutional investors and international DFIs) in the municipal debt market space.

6.2 Implementation of the Strategy

The implementation of the strategy in the previous years has proven to be a challenge because not all the key success factors were achieved. The various tools were developed in an attempt to improve municipal financial performance. However, the following key factors were not achieved subsequently compromising the successful implementation of the strategy:

- a) Clarifying the roles and responsibilities between National Treasury and DCoG which would be cascaded to provinces;
- b) Providing political solutions to political problems such as invoking the correct mode of intervention in dysfunctional municipalities; and
- c) Addressing the structural challenges in local government.

Therefore, it is critical that the new administration prioritises resolving the above outstanding issues to ensure successful implementation of the strategy also noting the legislative review process undertaken by DCoG and the MFMA amendments. The process for these legislative amendments must be supported to ensure timeous finalisation and implementation.

The structural challenges which include, amongst others, the review of the weaknesses in the legislative framework will be addressed through the Operation Vulindlela phase II.

This strategy will coincide with the term of the Budget Council (2024 – 2029).

The following strategic focus areas were adopted by the Technical Committee on Finance at the Lekgotla on the 18 to 19 June 2024:

Key priorities	Action	Timeframe
Revenue management		
<i>Debt relief programme</i>	Monitor compliance with the conditions of the debt relief programme in terms of MFMA Circular No. 124.	2024 - 2027
<i>Smart meter grant</i>	Administer a new Conditional Grant for smart pre-paid meters targeting the municipalities that are part of the Debt Relief programme.	2024/25 financial year onwards (for the duration of the grant)
<i>Simple and integrated revenue management framework</i>	Research and piloting of the simple and integrated revenue management framework in each province. Implement a single integrated approach to revenue management.	Ongoing
Funded budgets	Review and improve monitoring of Budget Funding Plans (BFPs) to ensure that they are not open-ended (municipalities must adhere to the targets that were set in the initial council approved BFP e.g. achieving a funded budget in a period of 3 years). Continuous support to municipalities that adopted funded budgets to ensure that they remain funded	2025/26 – 2027/28 Ongoing
Infrastructure investment		
<i>Metro Trading services reform</i>	Introduce a new grant with an incentive performance to increase investments, change management and governance structures, promote professional management and ensure transparency starting with metros.	2025/26 – 2030/31
<i>Long-Term Financial Plans</i>	Provide guidance on the Long-Term Financial Plans that must be developed by municipalities to enable financial sustainability and infrastructure financing.	2025 calendar year
Capacity building (Implementation of the Capability Development Programme)	To enhance financial management and service delivery within municipalities while also informing the redesign of other government support initiatives, contributing to a comprehensive local government capacity-building system.	March 2027

Key priorities	Action	Timeframe
<i>Redesign of the MFIP programme</i>	Implement the changes that are needed for MFIP to align with the CDP principles and provide more appropriate support to National Treasury (NT), Provincial Treasuries (PTs) and Municipalities.	2026/27 FY- (Implementation of the redesigned programme)
Review of the fiscal framework		
<i>Review of the conditional grants system</i>	Implement the key reforms based on the preliminary findings and recommendations from the study on the review of the conditional grants system.	2025/26-2027/28 FY (Implementation of the recommendations in different phases)
<i>Review of the Local Government Fiscal Framework (structure, components and inefficiencies in LG)</i>	Explore measures to optimise the current fiscal allocation to local government	Completion-March 2027
Section 139 Interventions	<p>S139(5) interventions must be invoked by Treasuries where a municipality persistently meets the criteria for a mandatory intervention.</p> <p>The MFRS unit will in future only prepare mandatory financial recovery plans. Voluntary and discretionary financial recovery plans can be prepared by the Provincial Treasuries or any other suitably qualified person.</p> <p>The monitoring and implementation of existing interventions and financial recovery plans must be strengthened at provincial level.</p>	Ongoing
Consequence management	<p>Political support must be provided to invoke the correct mode of intervention when required.</p> <p>Treasuries will invoke Section 216(2) in all areas of non-compliance to legislation.</p> <p>Municipalities must effectively implement consequence management.</p>	Ongoing

6.3 Resourcing

Based on the above discussion it is advisable that a Blended, Agile and Bespoke (BAB) approach is proposed to ensure that the Strategy to Address Municipal Performance Failures (A Financial Sustainability and Interventions perspective) is resourced in an effective and integrated manner. This BAB approach would entail the following key elements.

- Support on municipal interventions (discretionary and mandatory) through the MFRS and PTs should be aimed at the resolution of financial problems in the short- to medium-term (6 to 24 months) with a view of turning around and stabilising the finances of affected municipalities within the shortest possible period;
- The resourcing and implementation of the “Game Changers” should provide a more medium- to long-term focus towards greater financial sustainability based on a key set of financial indicators;
- Ensuring better alignment of priorities and focus areas of both national and provincial (internally and externally funded) capacity support programmes in support of the implementation of the adopted game changers; and
- Implementation of a district-based approach to supporting municipalities through PTs on both municipal interventions and the game changers to align with the DCoG district model. Further, that capacity support to PTs and districts should, *inter alia*, be based on an assessment of existing institutional capacity, PTs ability to fund in-house support programmes, prevalence of municipalities that are financially distressed, municipalities with poor audit outcomes, municipalities with serious financial problems, etc.

ANNEXURE A: WHAT CONSTITUTES A FUNCTIONAL, WELL-PERFORMING LOCAL MUNICIPALITY?

Regarding the first dimension, section 152(1) of the Constitution sets out the objects of local government as being:

- a) to provide democratic and accountable government of local communities;
- b) to ensure the provision of services to communities in a sustainable manner;
- c) to promote social and economic development;
- d) to promote a safe and healthy environment; and
- e) to encourage the involvement of communities and community organisation in the matters of local government.

Section 153 of the Constitution is more explicit and states that “a municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community and participate in national and provincial development programmes.”

Section 156 of the Constitution identifies the functions which municipalities are responsible for as those listed in Part B of Schedules 4 and 5. In 2005 the Municipal Demarcation Board (MDB) released a report which ranks each function according to the importance attached to the delivery of the service. Priority 1 functions were regarded as of high importance and must be delivered by municipalities. Priority 2 functions were seen as having moderate importance and should be delivered while Priority 3 functions were regarded as low importance, and only to be delivered if funds were available. The following table sets out the MDB’s priority ranking of local government functions:

Table 1: MDB’s priority ranking of local government functions

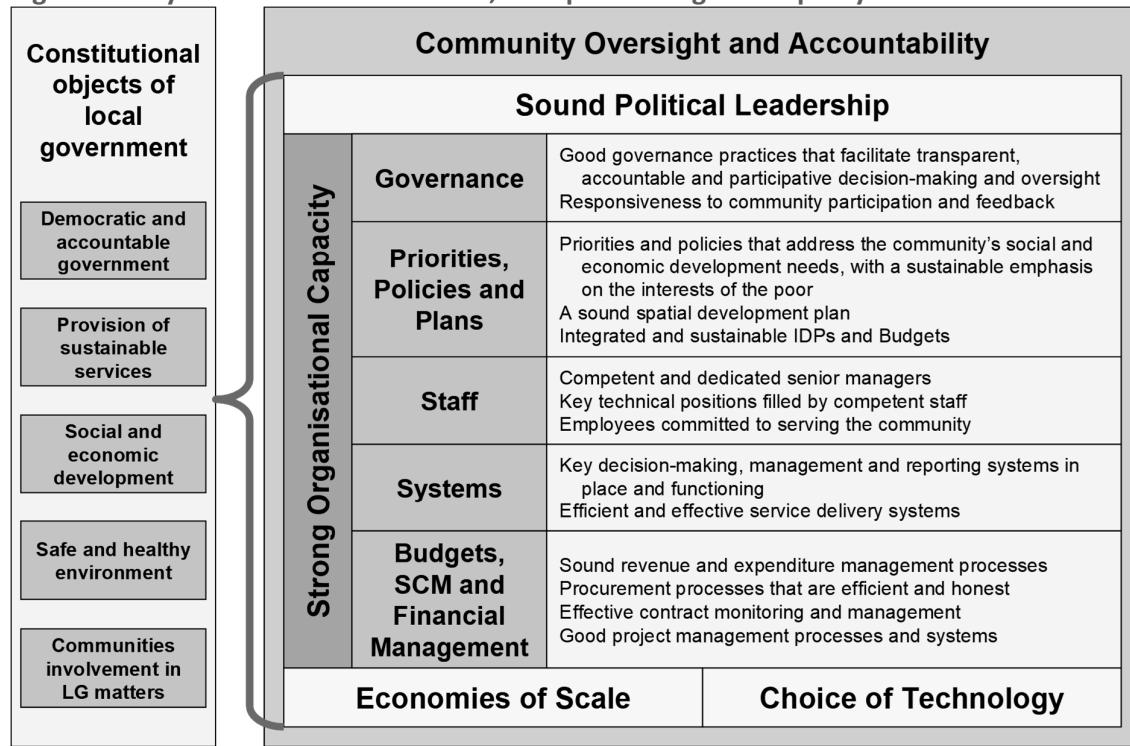
Priority 1 functions	Priority 2 functions	Priority 3 functions
<ul style="list-style-type: none"> • Water (Potable) • Municipal roads • Sanitation • Refuse removal, refuse dumps and solid waste disposal • Municipal Planning • Storm water • Cemeteries, funeral parlours and crematoria • Electricity reticulation • Municipal Health Services • Fire Fighting • Traffic and parking 	<ul style="list-style-type: none"> • Cleansing • Building regulations • Street lighting • Licensing and control of undertakings that sell food to the public • Street trading • Trading regulations • Control of public nuisance • Fencing and fences • Noise pollution • Pounds • Air pollution • Beaches and Amusement facilities • Municipal public transport • Pontoons and ferries 	<ul style="list-style-type: none"> • Local sport facilities • Municipal parks and recreation • Public places • Local tourism • Billboards and the display of advertisements in public places • Local amenities • Licensing of dogs • Municipal airport • Control of undertakings that sell liquor to the public • Child care facilities • Facilities for the accommodation, care and burial of animals • Markets • Municipal abattoirs

Source: MDB, 2005, *Local Government Powers and Functions – Definitions, Norms and Standards*.

A municipality that achieves the above constitutional objects consistently by performing these functions within its financial and administrative capacity could be described as a functional, well-performing municipality.

Regarding the second dimension, the following figure illustrates the key elements that are necessary to enable a municipality to continue delivering the desired outcomes on a sustainable basis.

Figure 1: Key elements of a functional, well-performing municipality



**ASTRATEGY TO
ADDRESS MUNICIPAL
PERFORMANCE FAILURES**
(A SUSTAINABILITY PERSPECTIVE)

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