

Local Government: Achieving the elusive dream of sustainable turnaround and a clean audit

The aims of a democratic society and a growing economy can only be realised through a responsive, accountable, effective and efficient system of local government. If local government fails, South Africa fails.

Introduction

Seldom in the history of South Africa has the performance of our system of local government received such close scrutiny as in the last two years. Headlines are dominated by issues of service delivery failures and civil unrest, mismanagement, financial management challenges and poor audit outcomes, skills shortages, inadequate infrastructure planning, maintenance and investment, corruption and abuse, political infighting, labour unrest and various interventions by national and provincial government.

The state of local government

In its own very hard hitting and honest assessment of the state of local government in 2009, the Department of Cooperative Governance and Traditional Affairs (“CoGTA”) concluded that local government is in distress and that a comprehensive turnaround is needed. Their report *inter alia* referred to the challenges of huge service delivery backlogs, leadership and governance failures, corruption and fraud, poor financial management, insufficient capacity due to a lack of scarce skills, high vacancy rates, poor performance management and inadequate training. Cadre deployment without adequate assessment of skills during this process has further exacerbated the problem. SALGA also commented on the systemic under investment in people, the lack of technical, management and leadership skills and the need to also improve the skills of the political leadership of municipalities, the lack of defined minimum competencies for critical positions, and the impact of undue political interference in management decisions. SALGA also noted that more creative responses are needed, such as partnering with the private sector and looking at shared services options.

The above challenges contribute significantly to the current service delivery backlogs in South Africa. These are estimated at 19.3% in water backlogs, 32.6% in access to sanitation, 27.3% in access to electricity and 40.1% in access to refuse removal. Although the reasons for service delivery protests are often complex, these backlogs certainly contributed to the perceptions of poor service delivery and the consequent civil unrest as evidenced by more than 200 service delivery protests during the last 24 months.

A key contributing factor to service delivery challenges is the deteriorating state of infrastructure in many municipalities. This can at least partly be attributed to the exodus of engineering and technical professionals from municipalities. According to research conducted by Allyson Lawless, as early as in 2005 more than one third of local municipalities already did not have a single civil engineer, technologist or technician, and vacancies in local government for engineering practitioners exceeded 1000. Since then, the situation has deteriorated even further. She also noted the overall scarcity of engineering professionals in South Africa, a country with only half as many engineers as doctors. In contrast, Australia, America, Western Europe, China and India have a similar number of engineers to doctors.

Local government finances

A particular concern in the South African context is the poor state of financial management in municipalities, culminating in perennial poor audit outcomes based on the audits performed by the Auditor-General. This gave rise to Government's ambitious Operation Clean Audit, targeting clean audits for all municipalities by 2014.

The table below summarises the 2010-11 audit outcomes of the 300 municipalities and municipal entities (referred to as municipalities below) that were audited:

Audit outcomes	Municipalities		
	2010-11	2009-10	2008-09
Disclaimer of opinion	58	53	103
Adverse opinion	7	7	10
Qualified opinion	62	50	50
Financially unqualified with findings	156	120	113
Financially unqualified with no findings	17	7	4
Total number of audits reported on	300	237	280
Number of audit reports not issued by 31 Jan 2012	43	46	3
Total number of audits	343	283	283

Table 1: Summary of AG's Consolidated General Report on Local Government audit outcomes, 2010-11

The above tables suggest very modest progress in achieving the objectives of Operation Clean Audit. Although some improvement was recorded in certain municipalities, the following remain very concerning:

- Although more MFMA audits were completed in the last year, the number of disclaimers, adverse or qualified audit opinions increased from 110 to 127 during the last year
- 43 municipalities were not yet audited due to their failure to submit annual financial statements on time, with the majority of these unlikely to receive a favourable audit outcome
- Only 50% of municipalities achieved at least a financially unqualified audit opinion (up from 45% in the previous year)
- Only 17 clean audits in the country, i.e. fewer than 5% of municipalities achieving the required benchmark.

The graph below provides a breakdown of provincial performances, with KwaZulu-Natal leading the way with 87% of its 68 municipalities achieving unqualified or better audit opinions. Gauteng and the Western Cape both achieved 76% in this regard. North West, on the other hand, had the worst performance with only 11% unqualified audit outcomes and 61% of its municipalities not submitting financial statements on time.

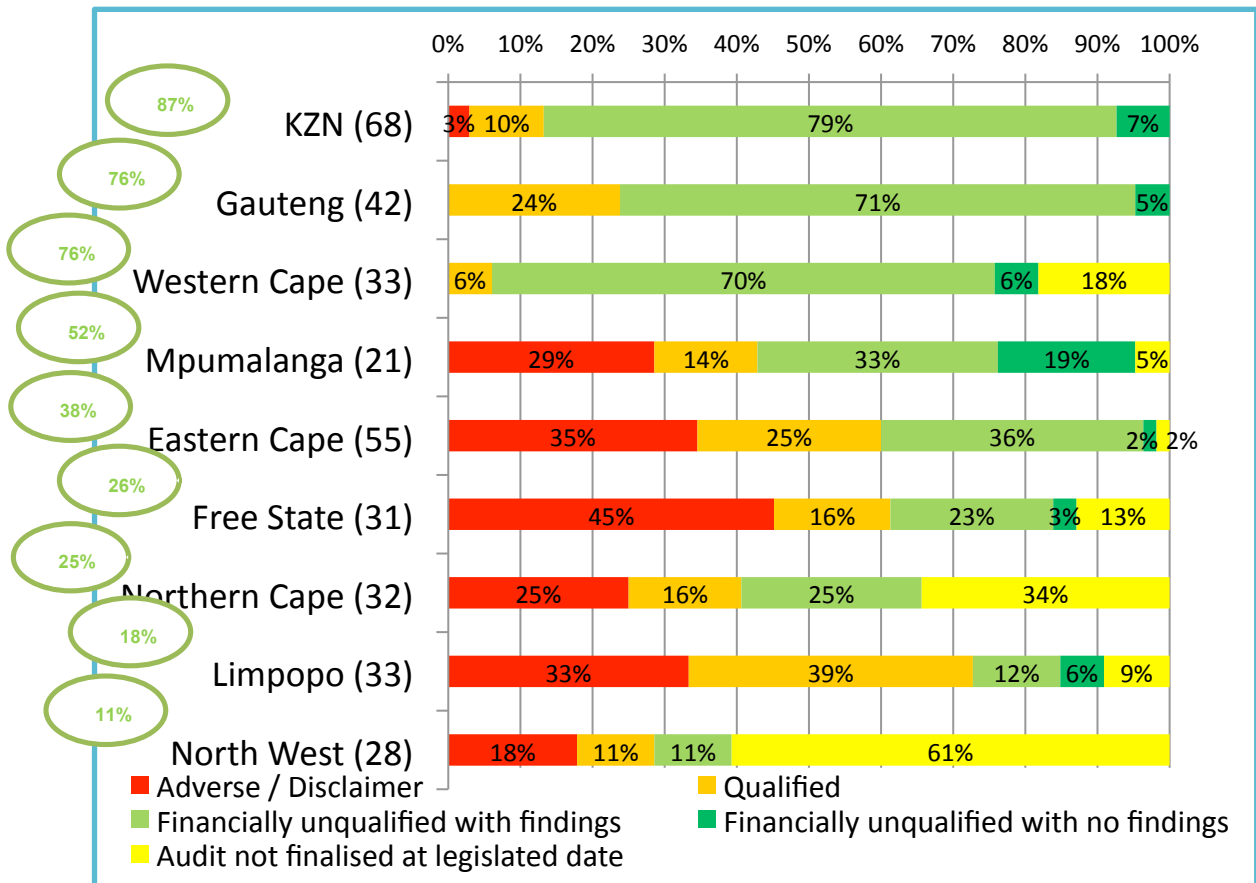


Figure 1: Provincial breakdown of AG's Consolidated General Report on Local Government audit outcomes, 2010-11

The “ideal municipality”

In the run up to, and following, the adoption by Cabinet of the Local Government Turnaround Strategy (“LGTAS”), the concept of the “ideal municipality” was often mooted. LGTAS, as well as CoGTA’s Operation Clean Audit, were conceptualised to create such “ideal municipalities”. Further support programmes, including the establishment of the Municipal Infrastructure Support Agency, have since been rolled out to render further support to municipalities in their quest to achieve sustainable turnaround and operational improvement.

These initiatives by Government are welcomed and should be lauded. In fact, Government has probably not received sufficient credit for these ambitious interventions to improve accountable, transparent and sustainable local government. The primary reason for this lack of recognition is the inadequate execution and slow progress in achieving the objectives of LGTAS and Operation Clean Audit. The reasons for the slow progress are complex, but probably include:

- Insufficient skills and capacity within municipalities to execute such a turnaround – the patient is often required to not only diagnose, but also cure himself, and to do so with its own limited resources!
- Lack of sufficient dedicated funding for the required interventions
- Challenges related to CoGTA’s own restructuring and consequent internal focus during the critical initial roll-out of LGTAS

- Insufficient coordination and support by national and provincial government. This included insufficient coordination and integration of various support interventions and the deployment of support teams which did not always have the requisite skills, mandate or funding to ensure sustainable change
- Political instability and diverted focus
- The focus on finding quick solutions and achieving compliance with minimum requirements, rather than developing a long term, sustainable solution with an appropriate execution plan and scientific change management
- Many municipalities are simply not economically viable given their economic base, demographics, location, history, access to skills and resources, etc. These municipalities are primarily reliant on grants and any attempt at “turnaround” would invariably yield only modest success
- Transformation intervention fatigue. In our experience many municipalities were sceptical about “yet another intervention”, and this scepticism then became a self fulfilling prophecy.

One might argue that there is no such thing as an ideal municipality, but South Africa also has a number of examples of effective, efficient and sustainable municipalities. Our country has produced remarkable leaders that are committed to the ideals enshrined in our Constitution and to ensuring effective service delivery for all our people – leaders that wish to serve rather than be served. These leaders have shown that adversity can be overcome and that solutions can be developed for any challenge.

The question must therefore be asked: what is the recipe for sustainable turnaround and, in that process, also achieving a clean audit? In our view, there are at least five key priorities to address:

- **Leadership and strategic HR:** recruit, retain and develop the best available talent and skills, especially the best possible leadership
- **Performance management:** create an environment of responsiveness, high performance and clear accountability. Rewards and remuneration must be linked to performance. Set the tone at the top
- **Culture:** establish a people centred culture of service delivery and customer care along the Batho Pele principles. Being a municipal employee should be about serving our citizens, not about entitlement and power. Encourage and reward innovation and initiative that improve service delivery
- **Planning and governance:** ensure planning, governance structures, people, processes, systems, infrastructure and oversight mechanisms are optimal and aligned to the mandate, as defined by a realistic Integrated Development Plan (“IDP”) and applicable legislation
- **Financial sustainability and management:** ensure economic and financial viability and prosperity of the municipality, recognising its developmental mandate to help facilitate growth of the local economy and the creation of jobs. Ensure sound financial management

These priorities can be implemented within the framework set out below.

Framework for sustainable turnaround

Below are the key elements suggested for achieving sustainable turnaround in municipalities.

Execution principles

There are a number of non-negotiable principles that guide our proposed approach to municipal turnaround or organisational transformation. The ones listed below are just some of them:

- **Strong, visionary leadership is not negotiable.** Nor is a strong understanding of organisational transformation. This also means that municipal leadership (political and administrative) must take ownership of the process; turnaround cannot be outsourced
- Within the above context, the essence of the proposed approach is a relationship and **ethos of true partnership** between the municipality and its specialist service providers. Both parties must share risk and there must be an alignment of interests
- A strong focus on **regional, district-wide solutions** is suggested, ensuring cooperation, mutual support, economies of scale and greater collaboration between district and local municipalities. Solutions must be scalable
- Deliverables, milestones and **demonstrable value for money** must be clearly defined upfront. The measurement of success must be clearly defined – by way of example, the turnaround must ultimately pay for itself and there must be penalties for the service provider for failure to achieve an unqualified audit
- There must be a **clear transformation journey strategy** and plan to ensure alignment and support of all key stakeholders. Political leadership and management need to sing from the same hymn sheet
- An absolute **focus on sustainability**. There might be quick wins, but not quick fixes. Sustainable transformation requires years to bed down. Any intervention must recognise the **central role of skills and capacity building**
- The turnaround strategy must be **holistic and integrated**. Achieving a clean audit or financial recovery in isolation will be insufficient to ensure service delivery or sustainability. The transformation must take cognisance of interdependencies and address all underlying root causes of poor performance – there must be no holy cows. The design of the intervention must involve experts from various fields, including accountants, civil engineers, municipal planners, economic development specialists, project managers, change management experts, funding specialists and municipal experts. There must also be labour and community involvement
- **Planning is critical.** As is **monitoring and evaluation** of progress. Accurate feedback mechanisms and access to relevant management information are essential. Where needed, the IDP should be overhauled to reflect realities.

Execution mechanism

It is suggested that the design and establishment of a tailored Programme Management Office (“PMO”) in the Office of the Municipal Manager is the most optimal vehicle to execute the turnaround. It is critical to utilise such a special purpose vehicle with dedicated resources and accountability. Making the turnaround execution someone’s “second job” is counterproductive and places the success of the transformation at risk.

The role of the PMO is to design, plan, coordinate, execute and monitor the implementation of the turnaround plan. The PMO therefore needs to be capacitated by experts from required fields such as accounting, engineering, HR, project management, change management, skills development, etc. Required work streams in the PMO must be agreed, must be led by subject matter experts and should be aligned to priority areas for the affected municipality.

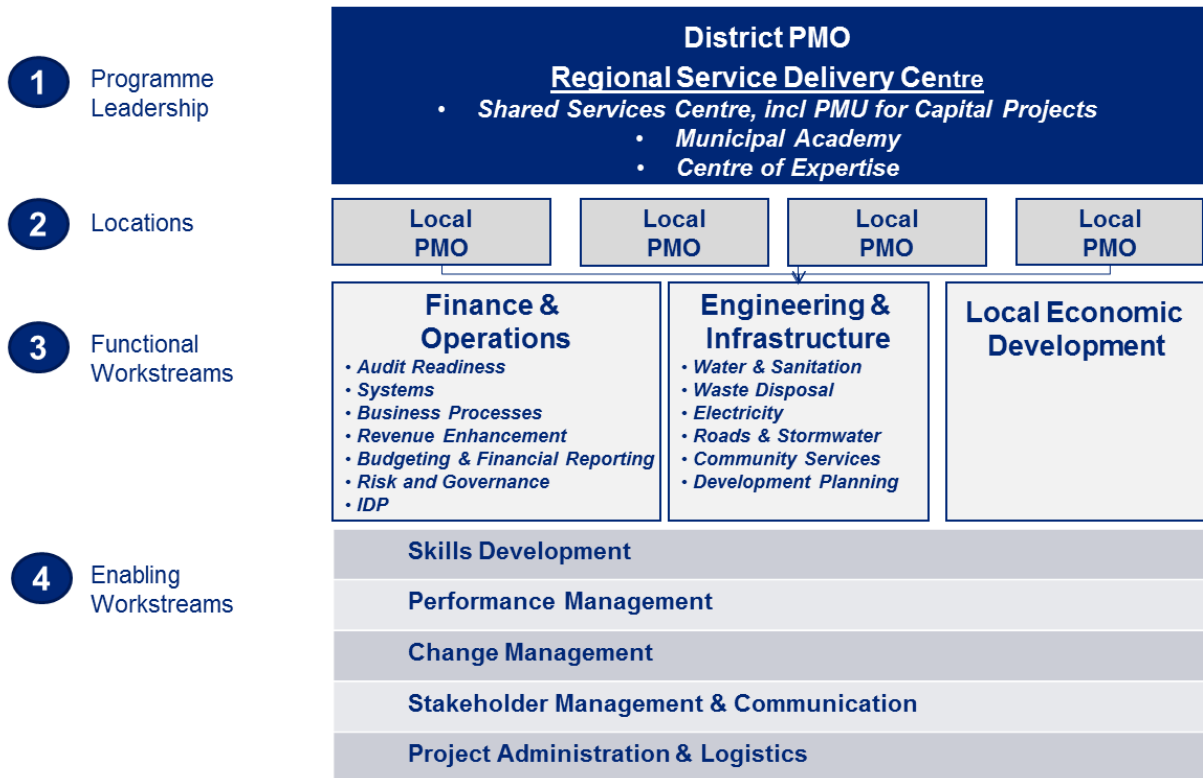
We also propose the establishment of a **Regional Support Centre** or “**Service Delivery Centre**”, under the guidance of a regional PMO. Where possible, it is recommended that a district municipality and its local municipalities join forces in the setting up of such a centre. Where this is done, and a district wide solution is developed, a dedicated PMO also needs to be set up in each participating municipality as described above.

The Regional Support Centre should comprise the following three key components:

- **Regional Shared Services Centre:** optimal and standardised systems and processes must be developed to execute shared, non-core functions. Available resources must be optimised with the objective of achieving economies of scale and leveraging best practice and scarce skills. Areas to consider for inclusion in such a shared services centre include billing, debtor management and credit control, procurement, aspects of infrastructure asset management and capital projects, internal audit, financial management and reporting, call centre, IT support and HR administration.
- **Centre of Expertise:** whereas the shared services centre should use primarily available, in-house resources of the participating municipalities, this suggested Centre of Expertise is a vehicle to access professional services and scarce skills on a just-in-time basis, i.e. there is central procurement of these services in advance, ensuring immediate access to specialist skills as and when needed on a basis that ensures better value for money than for each municipality to do so on its own. Such expertise could include civil engineers, town planners, tax experts, GRAP experts, actuaries, forensic accountants, risk and governance specialists, data analytics specialists, attorneys, funding experts, human capital specialists, etc
- **Municipal Academy:** to ensure sustainability, it is critical that a central theme of the turnaround is skills development. For this reason, each participating municipality’s PMO must have a dedicated skills officer that must assist with the design, execution and monitoring of individual skills development plans for key staff. A municipal academy must be set up and resourced for the district to facilitate skills development in such areas as leadership, management and planning, project management, financial management (including GRAP), technical training such as infrastructure asset management and other areas of municipal compliance and operations. Training must be for both officials and councillors.

Figure 2 below is a graphic depiction of the proposed execution mechanism.

Execution Mechanism



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Figure 2: Graphic depiction of proposed execution mechanism

Execution process

We recommend broadly a three phase approach to the execution of such a turnaround. The three phases comprise the lifecycle of the suggested turnaround model:

- Red Phase – crisis management, where required.
- Amber Phase – stabilise and move towards sustainability.
- Green Phase – entrench growth and performance.

Figure 3 below highlights some of the typical actions to be carried out in each of these three phases.

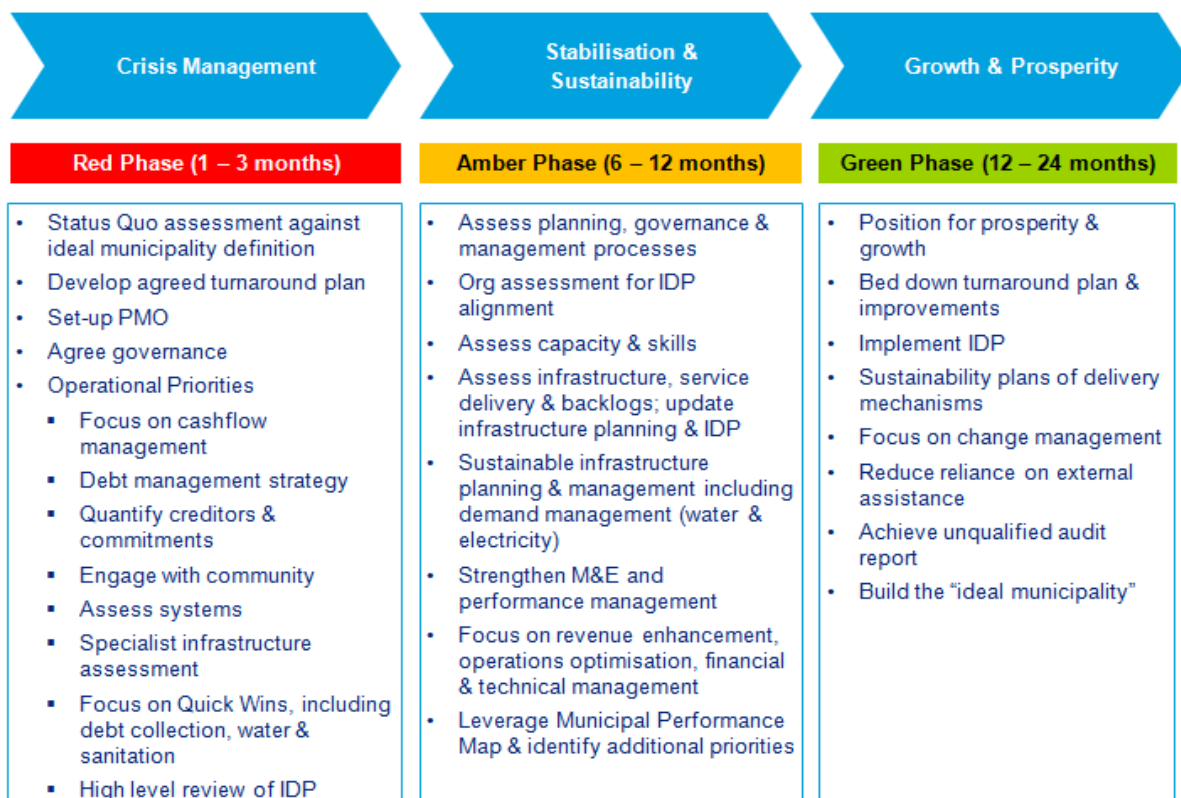


Figure 3: The Lifecycle of the Turnaround Model

Execution partnerships and funding

A comprehensive intervention like that suggested above, will naturally require significant funding and the alignment of many stakeholders. The question must therefore be raised whether such an intervention is realistic given the financial constraints of municipalities. Even though the question can equally be posed whether any struggling municipality can afford not to embark on such a journey, it is suggested that there are a number of options available to municipalities that will not only make such an intervention affordable, but will, in fact, make the turnaround self funded.

Factors and mechanisms for consideration to fund such an intervention include:

- Given the economies of scale of such an intervention, the costing model for the support provided by the service provider must be adjusted to ensure significantly reduced fees compared to traditional hourly based fees
- Redirecting existing consultant expenditure in such areas as accounting, engineering, training and other support services that will now be provided under the suggested mechanism. A considerable portion of the required cost is already spent on an annual basis and will simply be redirected while achieving greater value for money
- The shared services model will ensure greater synergies, economies of scale and reduced cost of procurement
- The mandate of the turnaround team must include best practice revenue enhancement and cost optimisation interventions. Most municipalities have considerable potential for improving cash flow, which in some cases could fund the whole intervention

- The use of contingency and hybrid models can be expanded to link payment of consulting fees to the achievement of agreed deliverables. One example is the following: if the participating municipalities fail to achieve at least an unqualified audit within an agreed timeframe, the service provider supporting them should be liable to the payment of a significant penalty. The key issue is alignment of interests between the service provider and municipality to ensure a relationship of partnership, rather than client and consultant
- With access to grant funding experts, many municipalities can access increased grant and donor funds to fund some of the key interventions suggested
- Where possible, financial support should be sought from the district municipality, provincial and national government, development finance institutions like the DBSA, as well as local stakeholders, linked to the specific turnaround and clean audit execution plan.

In short, wherever possible, the turnaround and clean audit plan must be underpinned by a funding strategy in such a way that it pays for itself and generates positive cash flow for the municipality in as short a period as possible.

In conclusion

Despite its many detractors, local government in South Africa is not doomed to fail. It would be naive and irresponsible to gloss over the very significant challenges facing this sector. However, with the right leadership, plan, partners, buy in, political will and perseverance, municipalities can achieve the elusive dream of sustainable turnaround and clean audit.

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