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Local Government
Social Accountability Monitoring

A guide for municipal journalists and civic actors

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Preface

This guide was developed as part of a Rhodes University research project investigating the use of mobile phones as a tool for facilitating participation in local government processes. The MobiSAM project, based in the Department of Computer Science at Rhodes University, piloted the use of an innovative mobile phone polling application, MobiSAM, in Grahamstown, South Africa between 1 July 2011 and 31 December 2014.

This guide aims to provide municipal journalists and civic actors with an introduction to the Social Accountability Monitoring (SAM) methodology in order to help them understand, monitor and effectively participate in local government processes in South Africa. It is based on training conducted with *Grocott's Mail* staff, a local newspaper house based in Grahamstown, as part of the MobiSAM project.

This guide does not seek to duplicate the work of others who have produced excellent guides to assist activists engaging with their local government in South Africa, most notably Idasa's *Local Government Budget Guide* and the *Making Local Government Work: an Activist's Guide.* Both of these guides provide useful information for civic actors and municipal journalists, including detailed discussions of the legal framework governing local government, the responsibilities and powers of local government and citizen participation. Instead, this guide seeks to compliment these guides by introducing a particular approach to engaging with local government by using the social accountability monitoring approach.

I would like to thank the Ford Foundation for providing the funding that made this guide and the MobiSAM research project possible.

I would also like to thank Colm Allan, founder of the Public Service Accountability Monitor and originator of the Social Accountability Monitoring methodology described in this manual. This manual would not have been possible without his contagious, steadfast belief in the power of the SAM methodology to change the world or without his continual efforts to improve and refine the methodology, most notably through his recent work on the SAME framework for evaluating governance. Some of these developments in the SAM methodology are reflected in this manual.

About the Author

Debbie Coulson is a research associate at Rhodes University and the SAM mentor in the MobiSAM research project. Prior to this, she was the co-founding Programme Head of the Centre for Social Accountability's Regional Learning Programme from 2006 until 2009. In this capacity she was integrally involved in the design of CSA training programmes, including *The Fundamentals of Social Accountability Monitoring* short certificate course, and provided training on social accountability monitoring to the CSA's partners across the SADC region, including Tanzania, Mozambique, Malawi, Zimbabwe and Zambia. She developed a comprehensive Knowledge Management System mapping legislative provisions governing each of the five social accountability processes at provincial level in South Africa. Prior to her appointment as Programme Head, she worked as a researcher for the Public Service Accountability Monitor (PSAM), focusing on issues affecting the Eastern Cape Department of Education. She attained her Masters in Participation, Power and Social Change from the Institute for Development Studies at Sussex University in 2009 after receiving a Chevening Scholarship from the British Council.

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Local Government in South Africa

The South African Constitution (1996) makes municipalities responsible for delivering (among other things) basic services such as electricity, water, sanitation and refuse removal. Because of their proximity to citizens, they are also constitutionally mandated "to provide democratic and accountable government for local communities" and "to encourage the involvement of communities and community organisations in the matters of local government."[1] South African municipalities are therefore responsible for ensuring **service delivery**, **accountability** and **participation** at the local government level in order to realise meaningful developmental democracy.

Local government in South Africa (for the most part) falls far short of this mandate. Service delivery protests reflect the frustrations of South Africans not only with poor service delivery, but with their inability to effectively participate and influence local government processes.

Despite the numerous challenges, local government structures offer meaningful opportunities for increased citizen participation. The immediacy of people's needs and the proximity of government to those who elected them provide increased motivation for participation. The key to success, however, is to ensure **meaningful, informed and effective participation** of citizens in government processes, and to provide the mechanisms and skills to hold service providers to account for their performance in managing public resources and delivering services.

How can we engage with Local Government?

There are numerous ways in which we can engage with our local government. Civic actors may engage their municipality through formal or informal processes, with legal or illegal actions and with an approach anywhere from cooperative to adversarial. Strategies may include:

- Voting in municipal elections
- Becoming a Councillor
- Becoming a member of a Ward Committee
- Attending Ward Committee meetings
- Participating in an organised protest
- Submitting a formal complaint (petitions, letters, etc)
- Working with municipal officials to support them in their duties
- Monitoring municipal performance
- Influencing policies[2]

Because the challenges faced by municipalities are often systemic, complex and political, it can be difficult for civic actors to engage effectively with their local government. One way to begin monitoring and holding local government to account is to focus on individual service delivery projects for which the municipality is responsible. This hyper-monitoring allows civic actors a way to practically grasp the systemic issues which frustrate service delivery at the municipal level. However, it is critical that such monitoring is informed by an understanding of how local government works and a sound monitoring methodology.

Social Accountability Monitoring (SAM)

One of the most rigorous and successful methodologies is **Social Accountability Monitoring** (SAM), developed by the Public Service Accountability Monitor (PSAM) in South Africa and now used by civic actors in several SADC countries. The SAM methodology offers civic actors a rights-

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[1] Constitution of the Republic of South Africa (1996) Act No. 108 of 1996. Section 152.
[2] Derek Luyt (2012) Public Service Accountability Monitor.

based and evidence-based framework for understanding and participating in government service delivery processes. It is premised on the argument that **social accountability** is the:

> right to obtain justifications and explanations for the way in which public resources are managed (whether by public officials or private service providers) and to obtain justifications for the way in which these resources serve to progressively realise people's human rights (in particular their socio-economic rights). This definition requires that officials take corrective action in response to instances of the ineffective use or abuse of resources in order to prevent their recurrence.[3]

According to SAM, the way in which public resources can be effectively and accountably managed is through the implementation of a **social accountability system** consisting of five inter-dependent processes:

> Process 1: Resource Allocation and Strategic Planning
> Process 2: Expenditure Management
> Process 3: Performance Management
> Process 4: Preventative and Corrective Action
> Process 5: Accountability to Oversight

These five processes map onto the public resource management system. While municipalities need to effectively implement these five processes in order to deliver services, each process also represents an opportunity for civic actors to meaningfully participate in local government. For example, in order for a municipality to address on-going problems of access to and quality of municipal water, it needs to (1) allocate available resources to planned activities addressing whatever prevents access to clean and safe water, such as the maintenance of water pumps. In order to engage in this process, citizens should question how resources within the municipality have been allocated and whether the planned activities will contribute towards a safe and clean water supply to all municipal residents. By participating in budget and planning discussions, citizens can influence how available resources are prioritised against their most pressing needs.

The municipality then needs to (2) spend the resources allocated by (3) implementing its planned activities. It is unacceptable for allocated funds not to be spent (without clear justifications) or for allocated funds to be spent on unapproved activities (whether through corruption or mismanagement) as this undermines both service delivery and the role of oversight bodies who vote on and approve the plan and budget. Citizens should therefore demand justifications and explanations as to how funds were spent and whether planned activities were implemented. Where instances of corruption and maladministration hamper service delivery, corrective action should be taken (4) and, finally, (5) the municipality should account for its performance to oversight bodies.

The methodology describes tools and activities for citizens to engage in each process by interrogating the government documents the processes produce (including budgets, plans, financial reports, performance reports, audit findings and oversight committee minutes). Equipped with both findings and an understanding of how government processes (should) operate, citizens are able to engage in evidence-based advocacy, demanding justifications and explanations for government performance and, where necessary, corrective action. Furthermore, by engaging with each of the five processes over time, citizens can ensure systemic issues hampering service delivery are addressed. For example, should a municipality fail to deliver a service (despite available funds) due to a lack of suitably skilled staff, citizens can advocate that funds are allocated and plans developed to build capacity in the municipality (whether through training or recruitment) the following year to ensure that the service is delivered in subsequent years. By strengthening each of these five processes through active citizen participation, both service delivery and accountability are improved.

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[3] Centre for Social Accountability (2011) 'The CSA's rights-based approach' from www.icount.org.za

Overview of this Guide

The structure of this guide is designed to provide readers with a basic understanding of South African local government processes and how to apply the SAM methodology in order to effectively participate in decision-making, and to hold those responsible for service delivery to account. It is divided into two parts. **The first part** sets out a theoretical understanding of Municipal Social Accountability Monitoring in South Africa, and consists of seven chapters:

Chapter 1 describes how civic actors can participate in local government processes by introducing the SAM methodology. Each of the subsequent chapters further elaborates the methodology by focussing on one of the five social accountability processes.

Chapter 2 focusses on the first part of process 1: Resource Allocation. After introducing the concept of resource allocation, the chapter situates resource allocation within the Social Accountability System. It also sets out key legislation governing municipal resource allocation, describes key events in the municipal resource allocation process and municipal budgeting documents. Finally, it discusses how to read municipal annual budgets.

Chapter 3 covers the second part of process 1: Strategic Planning. The chapter introduces the concept of municipal strategic planning and situates it within the Social Accountability System. The chapter then describes the Integrated Development Plan (IDP) and the Service Delivery Budget Implementation Plan (SDBIP), the two most important municipal planning documents.

Chapter 4 introduces process 2: Expenditure Management, situating the process within the Social Accountability System and describing key legislation, key events and important documents in the municipal expenditure management process. Finally, the chapter discusses how civic actors and municipal journalists can evaluate municipal expenditure.

Chapter 5 focuses on process 3: Performance Management and describes municipal performance management before situating the process within the Social Accountability System. Key legislation and key events in the municipal performance management calendar are described, together with performance management documents. The chapter then describes how to evaluate municipal performance using performance management.

Chapter 6 introduces the concept of Preventative and Corrective Action, process four in the Social Accountability System. The chapter describes the process at municipal level and situates it within the Social Accountability System. It also describes key legislation governing this process at municipal level in South Africa as well as the documentation municipalities and other key actors are required to produce. The chapter concludes with a discussion of how to evaluate preventative and corrective action.

Chapter 7 looks at the final process in the social accountability system: Oversight. It describes the roles of various oversight bodies and shows how to use oversight reports and other municipal documents to engage in the process.

The second part of the guide explores how civic actors and municipal journalists can practically use the Social Accountability Monitoring approach to monitor municipal processes at local government level in South Africa. In order to explore this practical application, a fictional municipality has been created: **Siyazama Local Municipality**. Part two consists of one chapter which provides an example of how to use the SAM methodology, using a case study of roads service delivery in Siyazama Local Municipality.

How to use this Guide

In order to engage with the practical application of the SAM methodology (Part 2), you will need to download the relevant Siyazama Local Municipality documents for the 2010/11 financial year. These documents include:

- Siyazama Annual Budget 2010/11 – 2012/13
- Siyazama Integrated Development Plan Review 2010/11
- Siyazama Service Delivery Budget Implementation Plan 2010/11
- Siyazama Annual Report 2010/11
- Siyazama MPAC Oversight Report 2010/11

These documents can be downloaded from the MobiSAM website: www.mobiSAM.net .

The concepts set out in part one of the guide, together with the example set out in part two, will provide you with a practical understanding of how to engage in social accountability monitoring in your local South African municipality.

Further Study

Sometimes the most helpful way to learn something is to "learn by doing". In order to support your practical understanding of how to apply the SAM monitoring methodology, an online course has been designed. This course, which covers all the theory set out in this Guide, also provides opportunities to engage with the methodology through a series of practical activities, using the context of Siyazama Local Municipality. This free online course, Local Government Social Accountability Monitoring in South Africa, is available on the MobiSAM website: www.mobisam.net from November 2014.

1 Social Accountability Monitoring

Introduction

Social Accountability Monitoring (SAM) offers civic actors a rights-based and evidence-based framework for understanding how government service delivery processes work, as well as the skills and tools to engage with them effectively. There are three key concepts in SAM:

1. the right to social accountability
2. the five public resource management processes
3. the social accountability system

These three concepts are discussed in more detail below.

The Right to Social Accountability

The South African constitution mandates government to progressively realise within available resources the rights of all South Africans to housing, healthcare and education, amongst other things. In addition, public administration must be governed by the democratic values and principles enshrined in the Constitution: the efficient, economic and effective use of resources must be promoted; people's needs must be responded to; the public must be encouraged to participate in policy-making; public administration must be accountable; and, transparency must be fostered by providing the public with timely, accessible and accurate information. [4]

The right to social accountability builds on these values and principles by placing a further obligation of justification and explanation on those responsible for the management of public resources. Social accountability is the:

> right to obtain justifications and explanations for the way in which public resources are managed (whether by public officials or private service providers) and to obtain justifications for the way in which these resources serve to progressively realise people's human rights (in particular their socio-economic rights). This definition requires that officials take corrective action in response to instances of the ineffective use or abuse of resources in order to prevent their recurrence.[5]

Because these resources are *public* resources, collected mostly through taxation, civic actors have the right to obtain justifications and explanations for the way in which they are allocated and used. In addition, both public officials and private service providers who manage public resources must account for their decision-making and performance and where public resources have not been used effectively and efficiently to realise people's most pressing needs, they must take corrective action. This obligation to *justify and explain* decision-making and performance enables civic actors to participate in local government processes and to hold public service providers to account.

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[4] Constitution of the Republic of South Africa (1996) Act No 108 of 1996. Chapter 2 and Section 195.
[5] Centre for Social Accountability (2011) CSA's rights-based approach' from www.icount.org.za

The CSA's rights-based approach to social accountability

The Centre for Social Accountability situates SAM within a rights-based approach. This approach builds on the United Nations' human rights framework, which defines a human right as a 'universal legal guarantee protecting individuals and groups against actions and omissions that interfere with fundamental freedoms, entitlements and human dignity'.[6]

The socio-economic, political and civic rights guaranteed to all human beings are codified in international law and set out in seven international conventions making up the UN's human rights framework. This framework enables civic actors to monitor the compliance of signatory states with the realisation of people's human rights to which they are committed by virtue of signing and ratifying the international conventions.

While the UN human rights framework commits states to the progressive realisation of socio-economic, civic and political rights, the right to social accountability commits them to justify and explain the steps they have taken to achieve this. By adding the right to social accountability to this UN framework, the CSA argues that civic actors are able to become more actively involved in the governance and accountability processes necessary to realise human rights.[7]

Five Public Resource Management Processes

Public resources should be used to address the most pressing needs of South Africans. To collect, allocate and manage public resources, and to deliver services that meet people's most pressing needs, the state needs to implement five processes:

> Process 1: Resource Allocation and Strategic Planning
> Process 2: Expenditure Management
> Process 3: Performance Management
> Process 4: Preventative and Corrective Action
> Process 5: Oversight

These five governance and accountability processes make up the public resource management framework, which is necessary for states to convert public resources into services. Each of the five processes is discussed in more detail below.

Process 1: Resource Allocation and Strategic Planning

The first process is made up of two interdependent sub-processes: resource allocation and strategic planning. Resource allocation involves the identification and collection of resources, the prioritisation of people's needs and the allocation of resources to meet these needs. In allocating resources, government departments and agencies responsible for service delivery must negotiate and draft a budget which is presented to Parliament, provincial legislature or municipal council for approval. In order for budgets to be meaningful documents, they must be based on strategic plans. Strategic planning should begin with a detailed needs analysis (in order to identify people's most pressing needs) and situational analysis (in order to identify any challenges hampering service delivery as well as internal capacity to delivery services). Those responsible for delivering services must then design and prioritise activities which, if implemented effectively, will address people's most pressing needs. The costing of these activities, grouped into programmes, should form the basis of the budget presented for approval. Planning, however, cannot happen in a vacuum. Since resources are limited, government departments or agencies must take into

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[6] United Nations (2006) Frequently Asked Questions on a Human Rights-Based Approach to Development Cooperation
[7] Centre for Social Accountability (2011) 'The CSA's rights-based approach' from www.icount.org.za

account anticipated resources when drafting their strategic plans. By costing detailed strategic plans, they may be able to motivate for additional resources, but if these resources cannot be secured, they must align their plans to the resources allocated to them.

Process 2: Expenditure Management

Expenditure management is concerned with budget implementation. It is effective when a service delivery department or agency's expenditure is managed and accounted for against the budget and complies with relevant regulations and legislative provisions. Financial reporting is a key component of expenditure management as the production of accurate and reliable financial information is critical for managers to make sound expenditure management decisions and to account for the use of public funds. Similarly important are financial controls and external and internal auditing processes to ensure the resources allocated to service delivery departments or agencies are used for approved purposes.

Process 3: Performance Management

Once strategic plans have been approved and resources allocated to them, they must be implemented through a performance management process. Performance management involves human resource management, monitoring and evaluation, internal controls and performance audits. An effective performance management process ensures the production of timely and accurate performance information. In-year performance reporting enables managers to identify potential and actuals risks to service delivery and to take immediate corrective action to ensure strategic plans are implemented. End-year performance reporting enables managers to account for their performance in implementing their strategic plans to oversight bodies (who approved the plans).

Process 4: Preventative and Corrective Action

The fourth process, Preventative and Correction Action, aims to prevent and correct the ineffective use or abuse of public resources. Corrective mechanisms include human resource directorates, disciplinary units and disciplinary databases. Preventive mechanisms which seek to limit conflicts of interest and corruption include registers for the declaration of private interests. Together, these mechanisms enable service delivery departments or agencies to prevent and address misconduct, inefficiency, maladministration, corruption and conflicts of interest.

Process 5: Accountability to Oversight

Oversight bodies play a crucial role in public resource management by monitoring and holding the executive to account for their decisions and performance. Oversight bodies in South Africa include Parliament (at national level, Legislature at provincial level and Council at municipal level) and the Auditor-General, as well as the public protector and the commissions for human rights and gender equality, amongst others. These oversight bodies are constitutionally mandated to hold the executive arm of government to account; simultaneously service delivery departments and agencies must account to oversight bodies for their performance in implementing the four public resource management processes discussed above.

Figure 1.1 below shows how each of these five processes make up the public resource management framework. Each process is dependent on the effective implementation of the previous processes and impacts the proceeding processes. For example, detailed and accurately costed strategic plans enable effective expenditure and performance management which increase public integrity and facilitate more accountable reporting to oversight bodies. Similarly, a poorly articulated, uncosted strategic plan results in arbitrary resource allocation (in process 1); this hampers expenditure management (process 2) and performance management (process 3) since it is unclear what activities officials should be implementing and how much has been allocated to them. This creates an enabling environment for maladministration and corruption (process 4) and

prevents service delivery departments and agencies from accounting effectively for their performance to oversight bodies (process 5). In turn, poorly performing departments may experience budget cuts, resulting in the delivery of fewer services.
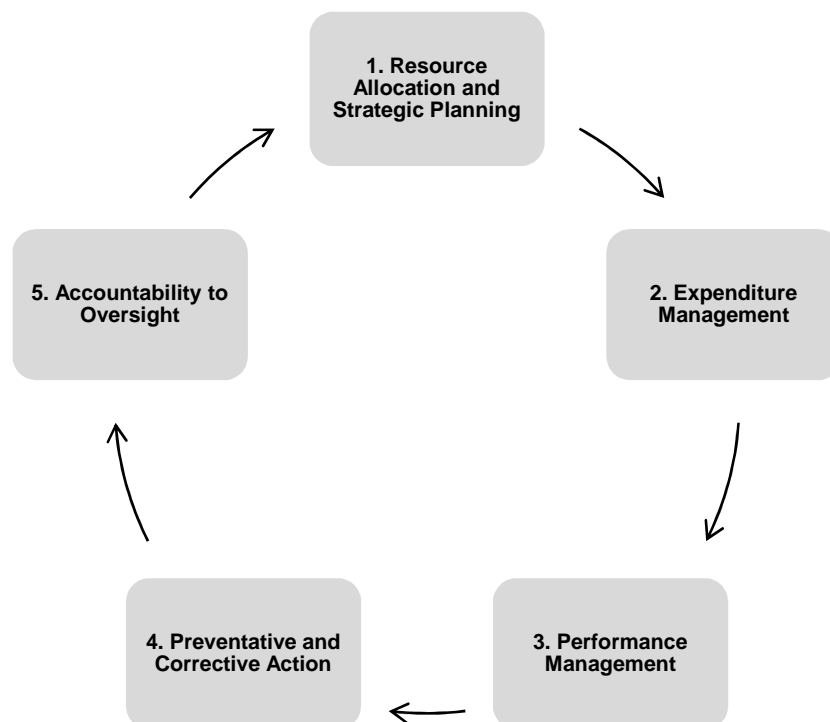
Figure 1.1: The Public Resource Management Framework

The Social Accountability System

While the implementation of the public resource management framework is important for service delivery and the effective management of public resources, the realisation of the right to social accountability requires this framework to be transformed into a social accountability system. This involves the transformation of each of the five processes into a social accountability process which institutionalises the right to social accountability. In other words, social accountability processes institutionalise meaningful civic participation by ensuring civic actors can obtain justifications and explanations for the decisions and performance of duty-bearers in response to their demands, and duty-bearers are able to provide these justifications and explanations and to take corrective action where required.

One way to achieve this transformation is to use the SAM methodology. The methodology makes use of official documentation routinely produced by each public resource management process as the basis for evidence-based engagement. The documents produced by each process and the way in which civic actors can use them for social accountability monitoring are set out below:

Process 1: Resource Allocation and Strategic Planning

Documents: Planning and budget documentation
Questions: What were the most pressing socio-economic needs? What resources were available to address pressing socio-economic needs? How did the municipality plan to use these resources?
SAM Tools: Budget Analysis; Strategic Plan Evaluation

Example: in order for a municipality to address on-going problems of access to and quality of municipal water, it needs to allocate available resources to planned activities addressing whatever prevents access to clean and safe water, such as the maintenance of water pumps or the building

of a reservoir. In order to engage in this process, residents should question how resources within the municipality have been allocated and whether the planned activities will contribute towards a safe and clean water supply to all municipal residents. In order to do this, they must access their **municipality's budget and plan** and interrogate these. Their analysis provides them with evidence to engage with their municipality in budget and planning discussions as they attempt to influence how available resources are prioritised against their most pressing needs.

Process 2: Expenditure Management

Documents: In-year and year-end reports; external financial audit reports
Questions: Were public funds effectively spent? Were public funds accounted for against the budget? Did spending comply with relevant legislative and regulatory provisions?
SAM Tools: Evaluation of expenditure and audit reports

Example: Once the municipality has planned to fix the problem with the water supply, and a budget has been approved by the Council to do so, the municipality then needs to spend the resources allocated by implementing its planned activities. It is unacceptable for allocated funds not to be spent (without clear justifications) or for allocated funds to be spent on unapproved activities (whether through corruption or mismanagement) as this undermines both service delivery and the role of oversight bodies who vote on and approve the plan and budget. Residents should obtain copies of the municipality's **expenditure reports** and compare spending against budget allocations. In our example, how much did the municipality spend on the new water pump? How much was spent on the construction of a reservoir? They can then use the evidence produced through their analysis to obtain justifications and explanations for the use of public funds.

Process 3: Performance Management

Documents: In-year and year-end performance reports; external performance audit reports
Questions: Did the municipality implement their strategic plan? Where they did not, did they provide justifications and explanations for their performance? Did the services address people's most pressing needs?
SAM Tools: Evaluation of performance and audit reports

Example: Although it is important for residents to find out if allocated funds were spent, it is equally important for them to discover what the money was spent on. In other words, whether the municipality implemented the activities set out in their strategic plan. Remember that those activities were identified as the way in which the water problem would be resolved. Residents should obtain copies of the municipality's **performance reports** and compare their performance with their planned activities. In our example, was the new pump purchased and installed? Was a reservoir built in the planned location and to planned specifications? Using the evidence produced by their analysis, they can engage with their municipality to obtain justifications and explanations for the implementation of planned activities.

Process 4: Preventative and Corrective Action

Documents: Auditor-General reports; reports on corrective action in response to cases of misconduct, inefficiency, maladministration, corruption and conflicts of interest.
Questions: Did the municipality take steps to prevent or correct cases of misconduct, inefficiency, maladministration, corruption and conflicts of interest?
SAM Tools: Case monitoring; evaluation of preventative and corrective mechanisms.

Example: What happens if the water pump was not purchased? Or the contract for the reservoir was awarded to an unqualified councillor's spouse? Residents can engage with their municipality's preventative and corrective action mechanisms by requesting registers of private interest and by requesting details of disciplinary cases. By demanding justifications and explanations from the municipality, residents pressurise them to implement effective preventative and corrective action.

▋ Process 5: Accountability to Oversight

Documents: Reports of oversight bodies (particularly Auditor-General reports) and minutes from oversight meetings (particularly council committee meetings).

Questions: Did those responsible for the management of public resources adequately account for their decisions and performance to oversight bodies?

SAM Tools: Analysis of oversight reports

Example: Although there is a blurring of accountability at municipal level in South Africa, residents need to engage with their municipal council in order for municipalities to be held accountable for their performance and decision-making. By providing evidence of the municipality's performance in the previous four processes and by engaging with local government oversight reports, residents increase local government accountability.
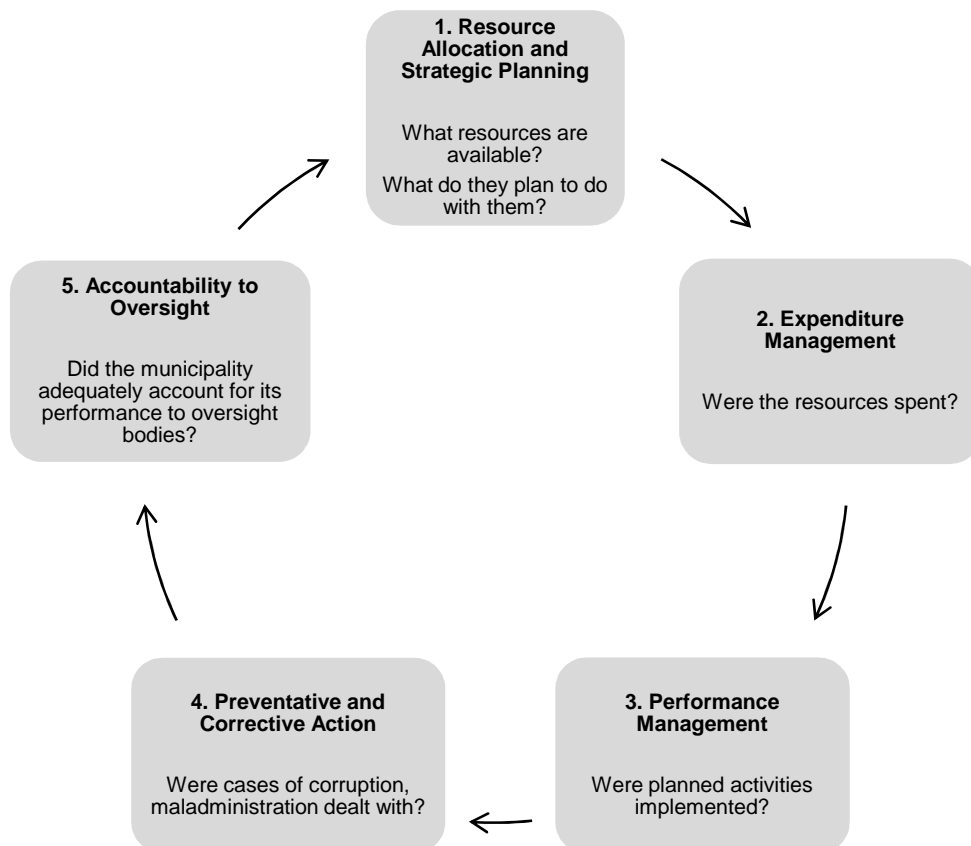
Figure 1.2: The Social Accountability System

SAM requires that civic actors (1) understand how the various processes (should) operate, (2) are able to access the relevant government documents produced by each process; and, (3) are able to interrogate these documents as a basis for (4) evidence-based engagement in each process. To bring about lasting social change, the methodology also requires on-going, systemic engagement with all five social accountability processes. For example, where a department failed to implement an activity due to a lack of capacity one year, civic actors will need to engage with the strategic planning and resource allocation process in subsequent years to ensure capacity building is planned and budgeted for in order to address the (often systemic) issues hampering service delivery.

The methodology maintains that by accessing and interrogating these documents, civic actors can strengthen each of the five social accountability processes through evidence-based participation.

> The assumption is that duty-bearers (including the various managers of public resources and the Executive) need to ensure the production of rigorous and detailed

financial and performance reports, which require the prior-production of rigorous and detailed planning and budget documents, in order to be able to track and subsequently justify their performance to civic actors and constitutionally appointed oversight bodies. Consequently, public access to, and rigorous scrutiny of, the content of these documents will create, at least in part, the necessary pressure to ensure not only that they are produced but that there is a progressive improvement in their quality and detail.[8]

In this way, SAM aims to improve service delivery that addresses people's most pressing needs, increase accountability and facilitate meaningful participation of civic actors in government processes.

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[8] Centre for Social Accountability (2010) Handout: Session 2 from the *Fundamentals of Social Accountability Monitoring Short Certificate Course*.

2 Process 1 - Resource Allocation

Introduction

Municipalities are responsible for delivering (among other things) the following basic services: electricity, water, sanitation and refuse removal. Because of their proximity to citizens, they are also constitutionally mandated "to provide democratic and accountable government for local communities" and "to encourage the involvement of communities and community organisations in the matters of local government." (Constitution, 1996) Service delivery, accountability and participation are all necessary for meaningful developmental democracy.

In order to fulfil this constitutional mandate, municipalities must allocate resources to prioritised services set out in a detailed strategic plan. This process is called "resource allocation and strategic planning" and is the first process in the Social Accountability System. This chapter provides a brief introduction to the first part of this process, including:

- Municipal Resource Allocation
- Resource Allocation in the Social Accountability System
- Key Legislation
- Key events in the resource allocation municipal calendar
- Municipal budgeting documents
- How to read a municipal budget

Chapter 3 will look at the second part of this process, strategic planning.

Municipal Resource Allocation

Resource allocation is the process of identifying available resources, prioritising people's most pressing needs and allocating available resources accordingly. The process consists of two phases: a formulation phase followed by an approval phase. During the formulation phase, a budget is drafted setting out how the municipality proposes to use anticipated resources (or revenue) to address prioritised needs. This draft budget is negotiated and aligned with national and provincial priorities and directives before it is finally presented to the Council who consider the budget and either approve or reject it.

During the resource allocation process, budget documentation is produced. This documentation is critical for an effective process and, in particular, participation. The final budget, approved by Council, is the outcome of the resource allocation process, and is important for both service delivery and accountability. It is a policy document, because it sets out the municipality's key policies. It is also a management tool, as the budget will guide expenditure in the upcoming financial years. Finally, it is a legal document authorising the municipality to spend public funds only against the approved allocations. These functions of the budget need to be balanced against each other: there must be enough flexibility for managers to effectively implement the budget and enough control to ensure public funds are spent according to the purposes for which they were allocated.

Resource Allocation in the Social Accountability System

1. Resource Allocation and Strategic Planning

What resources are available?
What do they plan to do with them?

5. Accountability to Oversight

Did the municipality adequately account for its performance to oversight bodies?

Social Accountability Monitoring Methodology

2. Expenditure Management

Were the resources spent?

4. Preventative and Corrective Action

Were cases of corruption, maladministration dealt with?

3. Performance Management

Were planned activities implemented?

Figure 3.1: The Public Resource Management Framework

Resource allocation and strategic planning, while logically distinct sub-processes, are described as one process in the social accountability system because they are inextricably interlinked in their implementation. When undertaking strategic planning, a municipality needs to identify the most pressing needs of its residents, articulate activities to address these needs and provide a costing for each activity. This planning, however, must be guided by indicative allocations. In other words, municipalities cannot create 'wish-list' plans that do not take into account the resources they are likely to receive. Once the budget is finalised, the municipality must adjust its plans accordingly to ensure the cost of planned activities aligns with the total budget. This will enable the municipality to manage its resources effectively.

Simultaneously, strategic planning influences resource allocation. Draft plans with costed activities are used to motivate for additional resources by demonstrating how resources will be used. In addition, Councils should only approve budgets on the basis of detailed and costed plans if they

are to make an informed vote and if they are to hold the municipality accountable for the use of public funds.

Resource Allocation influences the following processes:

Expenditure Management

Expenditure is made and accounted for against the budget as the budget authorises the municipality to spend public resources. A detailed budget enables the municipality to track its expenditure accurately and, therefore, to account properly for all public funds at the end of the financial year.

Good expenditure management should improve resource allocation in subsequent financial years by providing detailed expenditure information to assist in the costing of future planned activities. In addition, municipalities that demonstrate an ability to manage their available resources are more likely to secure additional funds in the future.

Conversely, poor expenditure management has a negative impact on resource allocation. Overspending must be compensated for either in the use of contingency reserve funds or future year's allocations and may be exacerbated by interest charges. Unjustified under-spending or consistent overspending undermines confidence in the municipality's ability to effectively manage public resources which may result in less funds being allocated to it.

Process 1 and Preventative and Corrective Action

Detailed budgets and strategic plans need to clearly indicate what activities should be implemented, by whom and at what cost. This enables public officials to identify problems with implementation and performance, especially instances where public resources are misused or abused, and take corrective action to prevent further misuse and abuse of funds. Effective public integrity management should also identify the training needs for poorly performing officials. These training needs should be included in subsequent strategic plans in order for resources to be allocated and the training implemented. Failure to do so will result in on-going poor performance by incapacitated public officials.

Process 1 and Accountability to Oversight

Detailed budgets supported by costed plans enable informed voting by the Council, who are able to interrogate and evaluate whether available resources will be allocated in such a way as to ensure the prioritisation of the most pressing needs and effective service delivery. Furthermore, detailed budgets enable detailed financial reports which allow effective oversight of expenditure. The municipal Council should oversee the entire resource allocation and strategic planning process, including the formulation phase, to ensure the municipality adheres to relevant legislative provisions and facilitates effective participation.

Each process of the social accountability system effects subsequent processes; for this reason, it is crucial for municipalities to effectively implement an effective Resource Allocation and Strategic Planning process. Failure to do so will have an enormous impact on their ability to implement subsequent processes, impacting their ability to deliver services and account for the use of public funds.

Key Legislation

The following legislation and guidelines govern the production and approval of municipal annual budgets:

All documents available on http://mfma.treasury.gov.za/

- Municipal Finance Management Act (2003) Act No. 56 of 2003.
- Municipal Budget and Reporting Regulations (2009) Government Gazette No. 32141
- MFMA Budget Formats Guide: Municipalities (2010)

- Annual Division of Revenue Act
- Municipal Structures Act (1998) Act No. 117 of 1998, as amended
- Municipal Systems Act (2000) Act No. 32 of 2000, as amended
- Municipal Property Rates Act (2004) Act No. 6 of 2004, as amended
- Municipal Fiscal Powers and Functions Act (2007) Act No. 12 of 2007
- MFMA Circular 12: Definition of Vote in MFMA
- MFMA Circular 42: Funding a Municipal Budget
- MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF
- MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF
- MFMA Circular 54: Municipal Budget Circular for the 2011/12 MTREF
- MFMA Circular 55: Guidance to municipalities for the preparation of 2011/12
- Local Government Capital Asset Management Guideline

National Treasury has developed a number of documents to assist municipalities in complying with the regulations and guidelines set out in the documents above. These include **Municipal Budget and Reporting Regulations** (2009). To translate these regulations into practical outcomes, Treasury developed 'user-friendly' templates for municipalities. **Schedule A** includes an excel worksheet and a **Budget Format Guide** for how to produce the annual budget in the correct format. In addition, a **Dummy Budget Guide** was produced in 2011, providing an example of a completed template and a "good" municipal budget for municipalities to learn from. The Dummy Budget includes a guide, the budget and all excel data for an imaginary municipality. The relationship between some of these key documents is set out in the diagram below.
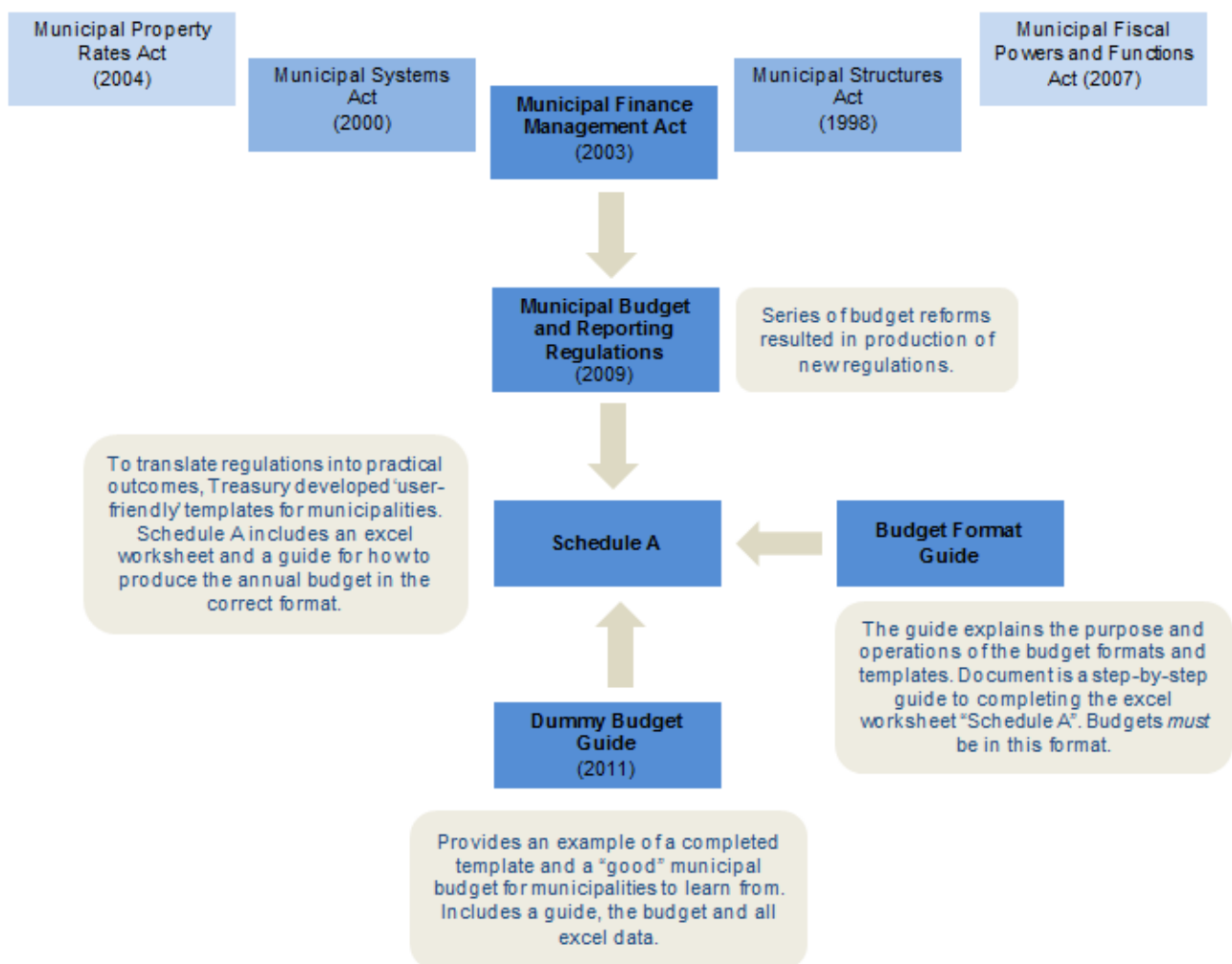

Figure 3.2: Key Municipal Resource Allocation Legislation in South Africa

Key events in the Resource Allocation municipal calendar

The resource allocation and strategic planning process at local government level is made up of key events which are set out in various pieces of legislation. Before we map these key events onto a timeline, it is critical to understand two concepts: financial years and the three-year Medium Term Expenditure Framework (MTEF).

Financial Year

A calendar year, which runs from January to December. A municipality, however, operates using a 'financial year' which runs from 1 July to 30 June each year. The 2012/13 Municipal Budget is for the *financial year* starting 1 July 212 and finishing 30 June 2013. Because it can be confusing working with multiple financial years, it is important to map the resource allocation process at local government level in order to understand what the municipality is (or should be) doing, when key documents are produced and when you can intervene effectively in the process.

The Medium Term Expenditure Framework

Because of the long-term nature of much of government's service delivery commitments and mandates, it is generally recognised as international best practise to budget and plan within in a multi-year framework. South Africa has adopted a three year 'Medium Term Expenditure Framework' (MTEF). Although budgets and plans are approved by Council for the upcoming financial year, the municipality is also required to provide estimated figures and/or planned activities for the following two years.

Three year MTEF period		
Year 1	Year 2	Year 3
Budget year	Budget year + 1	Budget year + 2
	Two outer years of the MTEF period	

It is argued that this longer-term view to planning and budgeting facilitates cooperation between various government departments and different tiers of government and allows municipalities to focus on longer term solutions to challenges which cannot be addressed in an ad hoc manner on a year-by-year basis. It is also argued that the MTEF enhances stability, encourages investment and improves transparency.[9]

Although the budget is tabled three months before the start of the financial year, the process of drafting that budget begins nine months earlier in July. From 1 July, the municipality should review their Integrated Development Plan (the municipality's five year plan) and all budget-related policies (including tariffs, rates, credit control and supply chain management policies, as well as cash management/investment policies). This review process must include consultation with the public and the Mayor must table in Council a time schedule of key deadlines in the budget review process in order to facilitate public participation. The schedule should also be advertised.[10]

The first draft of the budget and budget-related policies must be drafted by the 30th of October for Council to discuss. From the 1st of November, the municipality should begin consulting communities and stakeholders on the draft budget, review their inputs and adjust the budget based on resource allocation decisions. Further Council and management discussions and debates are held. By the 31st of January, the draft budget should be finalised in the prescribed format. [11]

The key events in the municipal budgeting calendar are summarised in the table below:

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[9] See Idasa's "What is the Medium Term Expenditure Framework?" available at http://www.idasa.org/media/uploads/outputs/files/intro2.pdf

[10] See the Municipal Finance Management Act (2003) Act No. 56 of 2003, Sections 21(1); 62(1)(f) and 79(1)(c); 21(1)(b) and 53(1)(b).

[11] MFMA Budget Formats Guide: Municipalities (2010)

Timeframe	Event	Relevant Legislation
September	Mayor must table a schedule outlining key deadlines for the preparation, tabling and approval of the annual budget and any consultative processes.	MFMA 21(1)(b)
2 April	Mayor must table annual budget at a council meeting at least 90 days before the start of the budget year	MFMA 16(2)
	The annual budget and supporting documentation tabled may be in the format in which it will eventually be approved by the council and be credible and realistic such that it is capable of being approved and implemented as tabled.	MBRR[12] 14(1)
Early April	Immediately after an annual budget is tabled, the accounting officer (municipal manager) *must make the budget and all supporting documents public* and *invite* the local community to submit representations in connection with the budget	MFMA 22(a)
	The municipal manager must also make public any other information that the council considers appropriate to facilitate the budget consultation process, including summaries of the annual budget and supporting documentation in alternate languages predominant in the community; and information relevant to each ward in the municipality.	MBRR 15(1)
April - May	When the budget has been tabled, the municipal council *must* consider any views of the local community. After considering all budget submissions, the council must give the mayor an opportunity to respond to the submissions and, if necessary, revise the budget and table amendments for consideration by the council.	MFMA 23(1)(a) and (2)
1 June	At least 30 days before the start of the budget year, the mayor must table in the council a report summarising the local community's views on the annual budget; any comments on the budget received from the National Treasury, the relevant provincial treasury and any other stakeholders.	MBRR 16(1)
1 June	Council must consider approval of the budget at least 30 days before the start of the budget year	MFMA 24(1)
30 June	Council must approve an annual budget before the start of the financial year	MFMA 16(1) and 24(1)(a)
1 July – 30 June	Budget Implementation	
10 July	Within 10 working days after the council has approved the annual budget, the municipal manager must make public the approved annual budget and supporting documentation.	MBRR 18(1)
	All documents that must be made public must be conveyed to the local community by displaying the documents at the municipality's head and satellite offices and libraries and by displaying the documents on the municipality's official website.	Municipal Systems Act[13] 21A(1)

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[12] Municipal Budget and Reporting Regulations (2009) Government Gazette 32141.
[13] Municipal Systems Act (2000) Act No. 32 of 2000, as amended

Municipal Budgeting Documents

The Annual Municipal Budget is the key resource allocation document for this process at local government level. It is helpful to read this document together with the municipality's Service Delivery Budget Implementation Plan (SDBIP) which is covered in Chapter 3.

Accessing information
In theory (and in law), municipal budgets and plans must be made publically available, physically and electronically (on the municipality's website). In practise, these documents are seldom easily available and civic actors will need to be persistent in accessing final approved versions within a useful timeframe. It will be important for you to know when the documents should be available, rather than waiting for them to be 'released' by the municipality.

Good places to start:
- Attending the council meetings when documents are approved – it may be possible to access copies at these events
- The municipal spokesperson
- The person responsible for drafting the budgets and plans – although ensure you know whether the version you have is a draft or final one.
- Councillors
- Managers
- Personal assistants of any of the above

Alternatives:
- Treasury website
  o http://mfma.treasury.gov.za/
- Other researchers, journalists or civic actors who may have come across a copy

How to Read a Municipal Budget

In order to improve our ability to understand municipal budgets, we need to know three things:
1. What content a municipal budget should contain
2. How budget information is presented (budget classification)
3. How to analyse budget information

Each of these is discussed in more detail below.

1. The content of a municipal budget
According to section 9 of the 2009 Municipal Budget and Reporting Regulations, "the annual budget and supporting documentation of a municipality must be in the format specified in Schedule A and include all the required tables, charts and explanatory information". The municipality, in complying with this requirement, must take into account the Budgets Format Guide published by Treasury on the Treasury website http://mfma.treasury.gov.za/.

Schedule A sets out very clearly the format and content of municipal annual budgets and supporting documentation. The document requires annual budgets and supporting documentation to include the following information in the correct sequence:

> Part 1 – Annual Budget
> - Mayor's report
> - Resolutions
> - Executive summary
> - Annual Budget tables
>
> Part 2 – Supporting Documentation
> - Overview of annual budget process

- Overview of alignment of annual budget with IDP
- Measurable performance objectives and indicators
- Overview of budget-related policies
- Overview of budget assumptions
- Overview of budget funding
- Expenditure on allocations and grant programmes
- Allocations and grants made by the municipality
- Councillor and board member allowances and employee benefits
- Monthly targets for revenue, expenditure and cash flow
- Annual budgets and service delivery and budget implementation plans – internal departments
- Annual budgets and service delivery and budget implementation plans – municipal entities and other external mechanisms
- Contracts having future budgetary implications
- Capital expenditure details
- Legislation compliance status
- Other supporting documents
- Annual budgets of municipal entities attached to the municipality's annual budget
- Municipal manager's quality certification

Schedule A of the 2009 Municipal Budget and Reporting Regulations, together with the **Budget Formats Guide**, provides detailed information on what municipalities should include under each of the headings above. The **Dummy Budget** provides an example of a 'good' budget and includes all the information required. By using these three documents, civic actors can create a "compliance checklist" and compare how their municipality's annual budget and supporting documentation compares with the requirements and best practise set out by National Treasury.

Required Information	Explanation	[name of municipality]	
		Scoring Yes = 2 Partial = 1 No = 0	**Evidence**
Part 1 – Annual Budget			
Mayor's report	Must provide a summary of: service delivery objectives and the associated financial implications contained in the budget; linkages between the budget, the IDP and the national, provincial, district and local political priorities; infrastructure development objectives; material amendments made to the annual budget after the consultation process; and, any other information considered relevant by the mayor.		
Resolutions	Resolutions dealing with at least the following matters must be included: approval of the annual budget of the municipality, and specifically appropriating the amounts for the different votes; noting the consolidated annual budget where a municipality has municipal entities; approval of all rates, taxes and tariff for services provided; approval of measurable performance objectives for the annual budget and for each year of the MTREF; approval of the transfer of funds to a separate bank account for purposes contemplated in section 12 of the MFMA; approval of all budget-related policies or amendments to such policies.		
Executive summary	Must cover at least the following: • If a municipality has municipal entities or uses external mechanisms for service delivery, a summary of the total service delivery package and associated financial implications as reflected in the budget		

	• Financial, service delivery, rate and tariff implications of the budget over the MTEF • Past performance and a summary of service delivery, financial, rate and tariff outcomes for at least the previous year and the expected for the current year • The consolidated financial position and summary MRE strategy • The municipality's priorities and linkages to the IDP • Key amendments to the IDP • Alignment with and achievement of national, provincial and district priorities • Key amendments to budget-related policies • Key demographic, economic and other assumptions; and, • Progress with the provision of basic services and financial implications for the MTREF and long-term sustainability		
Annual Budget tables	The ten tables set out as templates in Schedule A (A1 – A10). Supporting information, charts and explanations of trends and anomalies must be presented for each table where such presentation will assist with understanding the information contained in the tables.		
Part 2 – Supporting Documentation			
Overview of annual budget process	Must at least provide an overview of the process used to prepare the annual budget, the SDBIP and the review of the IDP; address the planning process; detail the consultation process with the community and key stakeholders and present a summarised list of community hearings and key stakeholders consulted; and include the schedule of key deadlines as originally approved by the mayor and an explanation for any deviations.		
Overview of alignment of annual budget with IDP	Must at least provide: • Details of any proposed amendment to the IDP • A breakdown of all the revenue, operating expenditure and capital expenditure aligned to the goals and action plans of the IDP		
Measurable performance objectives and indicators	Must include at least: • Key financial indicators and ratios dealing with borrowing management; safety of capital; liquidity; debtors' and creditors' management; the mix of expenditure type; the mix of revenue source; and unaccounted for losses in respect of services rendered • Measurable performance objectives for revenue for each vote and each revenue source and for operating and capital expenditure for each vote. Measurable performance objectives for the provision of free basic services in respect of property rates, water, sanitation, waste management and electricity must give details of – the amount in rand value of each of the free basic services; the level of service to be provided free; the number of households to receive each of the free basic services; the total budgeted cost of providing each free basic service; and the total budgeted revenue foregone by providing each free basic service.		
Overview of budget-related policies	Must include at least a list of the budget-related policies of the municipality including a reference of where the public can locate them and the proposed amendments to the budget-related policies taken into account in preparing the annual budget explaining the service delivery and financial implications for the MTEF.		

Overview of budget assumptions	Must provide a summary explanation of the budget assumptions, including those relating to demographic, economic and service delivery trends where applicable. It must also highlight any significant changes in assumptions since the last budget or adjustments budget. And it must include at least the targets for the key financial indicators and rations; the basis and methodology for forecasting budget projections; and, alignment to generally recognised accounting practice.		
Overview of budget funding	Must explain how the annual budget is to be funded, which must include at least a narrative summary of the funding of operating and capital expenditure, financial plans, reserves, fiscal sustainability of the municipality and the overall impact on rates and tariff. It must also include particulars of: • funding measures used to determine whether operating and capital expenditure are funded; particulars of property valuation, rates, tariffs and other charges; • the debtors' collection levels that have been estimated; • particulars of planned savings and efficiencies shown over the MTREF; • particulars of the municipality's monetary investments by type and maturity date; • particulars of contributions and donations in cash or in-kind planned to be received; • particulars of planned proceeds from the sale of assets and the lease of assets; • particulars of the planned use of previous years' cash backed accumulated surplus; • particulars of proposed future revenue sources and the use of any bank overdrafts and reasons therefore; • particulars of all existing and new borrowing proposed to be raised; and • particulars of budgeted allocations and grants		
Expenditure on allocations and grant programmes	Must provide particulars of planned expenditure against each allocation and grant in the same format as the information on allocations and grant receipts and a reconciliation of allocations, receipts and unspent funds.		
Allocations and grants made by the municipality	Must include particulars of any allocations and grants by the municipality to other municipalities, any municipal entities and other external mechanisms assisting the municipality, any other organs of state, and any organisations or bodies outside any sphere of government.		
Councillor and board member allowances and employee benefits	Must include a summary of: • councillor allowances • employee benefits for the municipal manager and senior managers • employee benefits for other municipal employees • allowances for board members of municipal entities • employee benefits for CEOs and senior managers as well as other employees of municipal entities • the cost to the municipality for the budget year of the salary/wage, pension and medical aid contributions, other benefits and allowances of each political office-bearer of the municipality detailed separately, councillors of the municipality collectively, the municipal manager and each senior manager detailed separately, and all other staff collectively.		

	• The number of councillors • The number of personnel employed by the municipality • The number of personnel employed by each municipal entity		
Monthly targets for revenue, expenditure and cash flow	Must include: • A consolidated projection of revenue by source and expenditure by type for the budget year broken down per month for the budget year and following two years • A consolidated projection of revenue and expenditure by municipal vote broken down per month for the budget year, and shown in total for the following two years • Where the municipal vote is different to the standard classification, a consolidated projection of revenue and expenditure (and capital expenditure) by standard classification broken down per month for the budget year and following two years • A consolidated projection of capital expenditure by vote broken down per month for the budget year, and shown in total for the following two years • A consolidated projection of cash flow for the budget year setting out receipts by source and payments by type, both operating and capital, broken down per month for the budget year, and shown in total for the following two years.		
Annual budgets and service delivery and budget implementation plans – internal departments	Internal departments must provide an executive summary of the SDBIP for each internal department. Where internal departments cover more than one vote, detail must be provided for each vote. Each departmental executive summary must include at least: • a reference as to where the public can locate the detailed departmental SDBIP; • a brief description of the services provided which may include the level and standard of service provided to each customer group • a description of senior management capability and structure • an explanation of how the department's performance objectives and indicators relate to the IDP • a description of the changes to service levels and standards over the period covered in the MTREF • commentary on the past year's performance and the impact on future performance objectives • a summary of revenue by source and operating and capital expenditure by type • a summary of any risks to achieving revenue projections, any expected major shifts in revenue patterns and any planned alternative sources of revenue • a description of the major features of expenditure including highlighting discretionary and non-discretionary expenditure • a brief narrative on the departmental capital programme in the context of the overall capital programme of the municipality		
Annual budgets and service delivery and	Must include at least – • a list of entities and other external mechanisms • the aggregated annual budget of all entities • an executive summary of the annual budget and		

budget implementation plans – municipal entities and other external mechanisms	multi-year business plan of each existing and proposed municipal entity, or external mechanism providing a substantial amount of a municipal service		
Contracts having future budgetary implications	Must include a table of all contracts which will impose financial obligations on the municipality beyond the three years covered in the annual budget which includes the names of all contracting parties, information on expenditure on each contract for the last three years, if any, the total expenditure on each contract to date, the planned expenditure on each contract for the budget year and the following two years, and an estimate of the total future budgetary implications of each contract.		
Capital expenditure details	Must include a summary of budgeted capital expenditure by class and sub-class; a summary of the financial implications of the capital expenditure budget; a list of capital programmes and projects grouped by municipality and each municipal entity aligned to the goals of the IDP of the municipality; and a list of capital programmes or projects delayed form previous financial years grouped by parent municipality and each municipal entity.		
Legislation compliance status	Must provide a brief summary of the status of the implementation of legislation applicable to municipalities, including progress made or delays experienced in implementation.		
Other supporting documents	Any other supporting documents not covered in Schedule A if such documents are necessary to fully explain the impact of the annual budget on service delivery and the state of financial affairs of the municipality including its municipal entities.		
Annual budgets of municipal entities attached to the municipality's annual budget	Give a list of the municipal entity annual budgets attached to the annual budget.		
Municipal manager's quality certification	An annual budget and supporting documentation must be covered by a quality certificate in the format described in the regulations.		

2. Budget Classification

Budget classification refers to the different ways in which financial information is set out in budget documentation. Because different stakeholders require budget information for different purposes, it is important for municipal budgets to set out budget information in different ways. Remember that although the budget data may appear different when different classifications are used, it is all ways of representing the same whole.

There are two main categories of budget data in municipal budget documentation:

1. **Revenue**
   This refers to the municipality's annual income.

2. **Expenditure**
   This refers to what the municipality plans to spend in the upcoming financial year. It is further divided into two categories:

2.1 Operational Expenditure

Operational (or current) expenditure refers to expenditure on things which are quickly used up and do not last for a long time (normally under a year). These are on-going costs involved in municipal day-to-day operations and include things like salaries, rents, stationary, etc. It also includes repairs and maintenance, which reflects the important relationship between operational expenditure and capital expenditure.

2.2 Capital Expenditure

This refers to expenditure on assets that last for more than one year. Examples include roads, buildings, vehicles, equipment, etc.

The 2009 Municipal Budget and Reporting Regulations require municipalities to include 10 tables in their annual budget. Because the tables classify budget information in different ways, each table offers the municipal journalist or local civic actor different insight into how the municipality has allocated available resources.

In each table, municipalities are required to present a seven year view, consisting of 10 columns. This view may be confusing or overwhelming but provides a lot of

Table Titles

Note that the number of tables A1 – A10 is Treasury's way of referring to these tables. They may have different numbers in your municipality's budget. Look for the name or title of the table ("budget summary" or "budgeted cash flows") rather than for this numbering.

important information for budget analysts. The last three columns set out the budget for the upcoming three financial years (the medium term revenue and expenditure framework). The "budget year" is the one which Councillors will vote on to approve. The "budget year +1" and "budget year +2" are *indicative* figures and represent what the municipality hopes to receive in revenue or spend in the two years following the budget year. It gives us a view of their longer-term plans. These amounts are not voted on by the Municipal Council.

2010/11	2011/12	2012/13	Current Year 2013/14				2014/15 Medium Term Revenue and Expenditure Framework		
Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2014/15	Budget Year + 1 2015/16	Budget Year +2 2016/17

The four columns preceding the Medium Term Revenue and Expenditure Management Columns provide information on the "Current Year". Municipalities must include the "original budget" as well as the "adjusted budget"[14] and the "Full Year Forecast", also called the "Estimated Outcome"[15], in their annual budgets. The "pre-audit outcome" column is not included in the annual budget; the figures in this column represent spending or revenue collection for the 12 months of the current year, which would not have been completed at the time the budget is drafted or approved.

The first three columns of the table provide audited outcomes for the three financial years preceding the current year. The figures in these columns are actual expenditure and actual revenue collected, as audited by the Auditor General. This historical performance information helps us to evaluate the allocations proposed for the upcoming years (the Budget Year and the two years following it).

The ten tables are discussed in more detail below.

Table A1: Budget Summary
Table A1 provides a concise overview of the proposed budget from all the major financial perspectives.

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[14] Municipalities are able to table an adjustments budget during the financial year. This is discussed in more detail in Chapter 4.
[15] The estimated outcome combines the most up-to-date expenditure/revenue collection information (after third quarter reports) with projections for the final quarter of the financial year.

Table A2: Budgeted Financial Performance (Revenue and Expenditure by 'standard classification')
This table sets out the municipality's operational budget by 'Standard classification' and describes how much the municipality will raise in revenue or spend on different functions. This table is useful for civic actors and municipal journalists because it provides us with information on the municipality's operational expenditure for key functions such as the provision of water, electricity, sanitation, etc.

The first part of Table A2 sets out the municipality's **revenue** collection performance and plans by Standard Classification. The second part of Table A2 sets out the municipality's (operational) **expenditure** performance and plans by Standard Classification. It also calculates whether the municipality will have a surplus (i.e. whether it will raise more revenue than it plans to spend) or deficit (i.e. whether it plans to spend more money than it will raise). By providing a seven year horizon, we are able to determine trends in spending and revenue collection over time.

 "Standard Classification" refers to a modified IMF Government Finance Statistics (GFS) reporting structure. Also referred to as classification by function or policy, it is one of the most useful ways of classifying budget information for the budget analyst. Treasury wants municipalities to set out their financial information by standard classification because it allows them to compare municipal revenue and expenditure across municipalities.

It is important to note that Table A2 (and Tables A3 and A4) does not represent the municipality's entire expenditure. The tables provide for **Operational** expenditure, which excludes **Capital** expenditure. In order to calculate the total expenditure for these functions, we will need to add operational expenditure with capital expenditure for each function. Operational expenditure information is set out in Table A5 which sets out expenditure by Standard Classification and by Vote.

National Treasury identifies 15 functions for municipalities, grouped into five categories:

1. Governance and administration.
2. Community and Public Safety
3. Economic and Environmental services
4. Trading Services
5. Other

The functions that are included under these categories are set out in the line items of the first column of Table A2. Further detail as to what is included in each function is set out in Table A2A (the supporting table for Table A2 included in Treasury's municipal budget template – Schedule A1)[16]. In addition, National Treasury published in 2013 draft municipal regulations for a Standard Chart of Accounts (SCOA) for public comment. The aim of the regulations is to provide a classification framework for local government, to enable uniform expenditure classifications across all three spheres of government, thus assisting National Treasury in compiling consolidated national accounts. The SCOA (2013) explains in more detail what should be included under each line item.

Table A3: Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)
Table A3 presents the Municipality's budget and past performance in relation to the organisational structure of the municipality. Each "Vote" represents a department/organisational entity. Sometimes, these departments align with a particular function. Where this is the case, there will be alignment between Table A3 and Table A2. But this is not always so – sometimes municipal departments are responsible for more than one function or a function is divided between municipal

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[16] To download National Treasury's most recent template for municipal budgets (Schedule A1), go to http://mfma.treasury.gov.za/RegulationsandGazettes/Municipal%20Budget%20and%20Reporting%20Regulations/Pages/default.aspx

departments. Where Table A2 allows National Treasury to compare spending across municipalities, Table A3 allows municipalities to present their revenue and expenditure taking into consideration their organisational uniqueness. Table A3 also enables municipalities to assign responsibility for the revenue and expenditure recorded against each vote to particular senior managers. Again, the expenditure described in this table is the municipality's operational expenditure. For the total expenditure per vote, we will need to add capital expenditure (as set out in Table A5).

The SCOA (2013) cannot help us to understand what is included in each of these functions, as they are particular to this municipality. In order to produce this table, municipalities must complete the template for Table A3A which includes the sub-votes for each vote. Municipalities do not have to include table A3A in their budget documentation, but it is very helpful if they do as it will help us understand what falls under each vote. An organogram or other municipal documentation (such as plans and annual reports) may also be useful where table A3A is not accessible. Alternatively, you can contact your municipality for further clarification.

Table A4: Budgeted Financial Performance (Revenue and Expenditure)
This table sets out revenue by source and operational expenditure by type; these are the categories against which the municipality must report revenue collection and operational expenditure at the end of the year, so it is important that this table is included in the original budget for approval by the Council. Treasury's key aim for this table is to facilitate comparison between the municipality's annual results and the original budget to assess performance.

This table is useful for local civic actors and municipal journalists because it sets out sources of revenue, including revenue the municipality raised or plans to raise through the delivery of services such as electricity, water, sanitation and refuse. In setting out operational expenditure by type, we can also see how much the municipality spent or plans to spend on employees or councillors. Again, this table presents operational expenditure by type, and not the municipality's total expenditure. Capital expenditure is not included in this table and should be added to represent the municipality's total spending.

Table A4 is supported by information set out in Table SA1. Referring to Table SA1 can help us to understand in more detail what is included in each of the line items in Table A4. For example, Table SA1 reveals that included in "employee related costs" are basic salaries and wages, pension and UIF contributions, medical aid contributions, overtime, performance bonuses, allowances and other benefits, as well as payments in lieu of leave, long service awards and post-retirement benefit obligations.

Table A4 separates operating revenue from three other sources of revenue:
1. Transfers recognised – capital
   Transfers from National or Provincial Government, or a District Municipality for capital expenditure only
2. Contributions recognised – capital
3. Contributed assets
   An 'assets-in-kind' transfer to the municipality, often from property developments[17]

This revenue information is displayed beneath total operational expenditure. It is important to note that this does not represent all capital revenue – Table A5 includes "borrowing" and "internally generated funds" for sources of capital funding. When we analyse budgets, one of the most important questions to ask is "how much money is available". Table A4 and Table A5 help us to answer this question because Table A4 sets out total operational revenue and Table A5 sets out total capital funding. Adding these two together gives us the total budget for the municipality and answers the question of how much money is available to the municipality.

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[17] MFMA Budget Formats Guide: Municipalities (2010)

Table A5: Budgeted Capital Expenditure by Vote, Standard Classification and Funding

Table A5 sets out the municipality's **capital** budget. Tables A2 – A4 have all described the municipality's **operational** expenditure. In this table, the municipality needs to set out capital expenditure by municipal vote, by standard classification and the funding sources necessary to fund the capital budget.

There are three main parts to Table A5:
1. Capital Expenditure by Vote (multi-year and single year appropriations)
   The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. The format of Table A5 allows for the capital budget to be approved as a multi-year appropriation, as a single year appropriation (with two additional years of indicative estimates) or as a combination.[18] To calculate total capital expenditure by Vote, add multi-year and single-year allocations. To calculate total expenditure for each vote, add the single-year amount, with the multi-year amount and the operational allocation in Table A3 for each vote.

2. Capital Expenditure by Standard Classification
   This view enables us to identify how much the municipality has spent or plans to spend on particular municipal functions, such as water, electricity, etc. By adding these totals with those in Table A2, we can calculate the overall budget for each function. With these totals, we can also calculate what percentage of each function's budget is allocated for operational and capital costs (see section 3 below for more on calculating percentages).

3. The Funding Sources necessary to fund the capital budget
   Total capital funding must balance with total capital expenditure. There are four main sources of funding identified in Table A5: (1) Transfers recognised – capital, which include transfers from national and provincial government, as well as district municipality and other transfers and grants; (2) public contributions and donations; (3) borrowing; (4) internally generated funds.

The Municipal Council should consider this table, together with the supporting Table A5A, Table A9 (Asset Management), Supporting Table SA35 (Future financial implications of the capital expenditure budget) and Supporting Table SA37 (Projects delayed from previous financial years) before approving the municipality's capital budget.[19]

Table A6: Budgeted Financial Position

This table sets out the municipality's assets and liabilities. **Assets** are anything owned by the municipality that has a cash value, including property, goods, savings or investments. Assets are divided into current and non-current assets. **Current assets** are the municipality's assets that are reasonably expected to be realised in cash, sold or consumed during one year. These include cash, receivables and money due usually within one year. **Non-current assets** are tangible assets that are not easily converted into cash, such as property, plant and equipment. **Liabilities** are obligations of the municipality arising from past transactions and include borrowing, creditors, unspent conditional transfers which must be returned, etc. **Current liabilities** are those liabilities which the municipality aims to satisfy within one year, while **non-current liabilities** are those which the municipality aims to satisfy over a longer period of time (for example, long-term municipal loans). This table may be more useful to local civic actors with financial management experience in the private sector.

Table A7: Budgeted Cash Flows

This table is a summary of all the cash payments and cash receipts that occurred in previous financial years and all the cash payments and cash receipts that the municipality plans to occur in upcoming financial years. There are three sections to the cash flow statement: operating, investing and financing. The table summarises in a single view the municipality's cash inflows and outflows.

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[18] *Ibid*
[19] MFMA Budget Formats Guide: Municipalities (2010)

Again, this table may be more useful to local civic actors with financial management experience in the private sector.

Table A8: Cash backed Reserves / Accumulated surplus reconciliation
This table aims to answer three questions: (1) What are the predicted cash and investments that are available at the end of the budget year? (2) How are those funds used? (3) What is the net funds available or funding shortfall?

Table A9: Asset Management
This table brings together the core financial elements of asset management. The objective is to provide a complete picture of the municipality's asset management strategy. This table should be read together with Table A5 on capital expenditure and funding. In order to complete this table, the municipality needs to complete Supporting Tables A34a – A34d. It is useful to look at these supporting tables as a way of understanding Table A9 better.

Table A9 is very useful to local civic actors as it describes important elements of asset management such as repairs and maintenance as well as spending on new or renewing existing assets. If we were interested in municipal water, for example, we could learn from this table not only how much the municipality plans to spend on water infrastructure, but also how much of this would be on new assets and how much would be on the renewal of existing assets. We can also determine how much the municipality plans to spend on the repair and maintenance of water infrastructure. This information is critical when evaluating how the municipality is prioritising spending on municipal infrastructure and whether this is sustainable.

Table A10: Basic service delivery measurement
This table is included in municipal budgets in order to ensure basic service delivery targets aligned to national priorities are approved by Council in the budget. This table is very useful for local civic actors and municipal journalists. Table A10 focuses on four basic services: water, sanitation/sewerage, energy and refuse. The municipality must describe under each service the number of households who receive the minimum service level and above and the number of households who are below the minimum service level. The total number of households should be the same for each service and should represent, as close as possible, the number of households in the municipality.

> "Growth in the number of households generally drives service delivery demand and it is crucial that growth forecasts are estimated in the development of the budget. Frequently it is the case that municipal information relies on census data, but this is too out of date to drive servicing delivery implementation planning. Municipalities are advised to use the most recent data on demographic trends within the municipal area to determine the number of households to be serviced. This could include any comprehensive surveys undertaken by the municipality or other institutions such as Stats SA's 2007 Community Survey. The municipality should then project forward from there, based on what the municipality knows about on the extension of services that have taken place, or are planned."
> MFMA Budget Formats Guide, p. 28

Table A10 can tell us the number of households who do not receive the minimum level of service delivery in terms of water, sanitation/sewerage, energy and refuse. But it can also tell us if this number is decreasing over time and whether the number of households that receive acceptable levels of service delivery is increasing.

Table A10 also sets out the cost of Free Basic Services (the municipality's 'social package") both in terms of what it costs the municipality to provide these services (Cost of Free Basic Services) and the loss of revenue that could have been raised through these services should they have been charged for (Revenue Cost). This enables us to evaluate the impact of the municipality's social package on its financial position and whether the package is sustainable.

3. How to analyse budget information

Although budget analysts use many different formulas to engage with financial information, there are two simple but powerful calculations municipal journalists and civic actors can use to interrogate their municipality's budget:

- Addition
- Percentages

Addition

Adding figures in tables may not feel very sophisticated, but these basic calculations often destroy the credibility of municipal budgets, where line items do not add up to totals, or where totals represented in different views do not align. One of the first things we should do is double check our municipal budget to ensure all the figures add up the way they should. Sometimes the most powerful budget analysis tools we can use are a ruler and a calculator. Where figures don't add up, this calls into question the accuracy of the budget as well as the rigour with which the budget was reviewed before being approved by Council.

Ensure the allocations in individual line items add up to sub-totals and that sub-totals add up to totals. Also compare different views of the same budget – do the totals for revenue and expenditure align when the budget is presented by standard classification (A2) or municipal vote (A3)?

Another simple but important calculation to perform is to add up the total of costed activities in the SDBIP and compare these with the totals in the budget. For example, compare the total budget for the municipal department of water with the total cost of all planned water-related activities.

Calculating Percentages

The second tool we can use to analyse a municipal budget is to describe what portion of the total budget is allocated to each line item. This will show us which line item receives the biggest portion and therefore the municipality's priorities. Calculating percentages is a simple but effective tool that is central to budget analysis.

A percentage is a relationship between two numbers – the share and the total of which it is a part. The formula we use to calculate percentages is:

Share / total x 100 = %

In the example below, we can see how the municipality has prioritised the 2014/15 budget for Trading Services by calculating what percentage of the total budget for trading services has been allocated to electricity (5,406,037 / 8,052,417 x 100 = 67%), water (1,493,920 / 8,052,417 x 100 = 19%), waste water management (404,410 / 8,052,417 x 100 = 5%) and waste management (748,050 / 8,052,417 x 100 = 9%). Electricity, with 67% of the budget for trading services, receives the biggest portion and is therefore the municipality's priority within trading services.

	2014/15 financial year			2014/15 financial year	
Electricity	5 406 037		Electricity	5 406 037	67%
Water	1 493 920		Water	1 493 920	19%
Waste Water Management	404 410		Waste Water Management	404 410	5%
Waste Management	748 050		Waste Management	748 050	9%
Trading Services	**8 052 417**		**Trading Services**	**8 052 417**	**100%**

It is important to articulate very clearly what is being compared when describing percentages. Remember that a percentage is a relationship between two numbers. If one number changes, the percentage will change. In the example above, we compared electricity, etc with the total for

trading services. But if we compared these line items with the total budget, our percentages would look very different:

	2014/15 financial year	
Electricity	5 406 037	37%
Water	1 493 920	10%
Waste Water Management	404 410	3%
Waste Management	748 050	5%
Other	6 627 507	45%
Total Expenditure	**14 679 924**	**100%**

Here we see that Electricity will receive 37% of the municipality's total operational budget. Note that we have included another line item ("other"). This line item represents the totals of all the other municipal functions other than Trading Services. This is important to ensure the accuracy of our calculations.

Budget Analysis Tips
- Check totals (the municipality's and your own!)
- R'000 – always ensure you know whether you are talking about thousands, millions or billions. Getting this wrong will undermine your credibility as a budget analyst.
- Never look at tabled information in isolation. Read the entire budget from cover to cover. Consider all the information available. Each table in the template helps tell us more information and can help to strengthen our analysis.
- Link financial (budget figures) information with non-financial information. Sometimes the narrative sections of the budget help us to understand the figures set out in the budget tables. Sometimes, there appear to be contradictions (promises to prioritise water service delivery are not reflected in the budget tables where water does not receive a significant percentage of available funds. It is important to highlight such discrepancies.
- Does it make sense? Always double check your figures and check your calculations against those of the municipality.

There are several other budget analysis tools which you may want to use to analyse your municipality's budget, including:

- Adjusting for inflation (calculating whether allocations keep up with inflation)
- Per capita budget amounts
- Percentage change in the budget over time

These tools have been well described in other South African local government budget guides, in particular Chapter 14 of Idasa's *Local Government Budget Guide* available for free download on http://www.polity.org.za/article/idasa-local-government-budget-guide-february-2006-2006-02-23.

Conclusion

In this chapter, we have looked at the first part of Process 1: Resource Allocation and Strategic Planning. We have described municipal resource allocation and its role in the Social Accountability System, particularly its impact on expenditure management (process 2), preventative and corrective action (process 4) and oversight (process 5). We have also looked at key legislation governing municipal budgets and set out a calendar of events in the municipal resource allocation calendar. Finally, we have looked at municipal budgeting documents and how to read a municipal budget.

In the next chapter, we will look at the second part of Process 1 – strategic planning.

3 Process 1 – Strategic Planning

Introduction

In order to fulfil their constitutional mandate to deliver basic services, municipalities must allocate resources to prioritised services set out in a detailed strategic plan. This process is called "resource allocation and strategic planning" and is the first process in the Social Accountability System. Chapter 2 focussed on the first part of this process, Resource Allocation. This Chapter provides an introduction to the second part of this process, Strategic Planning, including:

- Municipal Strategic Planning
- Strategic Planning in the Social Accountability System
- The Integrated Development Plan (IDP)
    - Key Legislation
    - The IDP Process
    - How to read an IDP
- The Service Delivery Budget Implementation Plan (SDBIP)
    - Key Legislation
    - The SDBIP Process
    - How to read an SDBIP

Municipal Strategic Planning

The outcome of an effective strategic planning process is a detailed strategic plan setting out how the municipality will use available resources to address the most pressing needs of the people it serves. It is helpful to think of the process as both a 'bottom-up' and a 'top-down' process. Planning from the bottom-up involves:

1. Identifying the most pressing needs of those the municipality serves
2. Prioritising these needs
3. Evaluating the municipality's internal organisational context and their ability to meet these needs
4. Understanding the external service delivery environment, in particular the challenges facing service delivery in the municipality
5. Identifying clear strategic objectives which the municipality aims to achieve as well as detailed, costed activities setting out how they will achieve them
6. Consultation with internal and external stakeholders

This bottom-up process is critical for meaningful participation and accountability at the local government level. However, strategic planning also involves (and, in practice, is often dominated by) a top-down process involving:

1. Aligning prioritised needs, as well as planned objectives and activities with wider planning frameworks (for example, provincial and national policy objectives).
2. Ensuring objectives and activities align with conditions set out for conditional grant allocations
3. Aligning planned activities with final budget allocations

An effective strategic planning process must have both bottom-up and top-down processes, and yet the two often seem to be in conflict with one another. It is important to realise that strategic planning is not an *easy* process; difficult decisions must be made throughout the process. However, an effective process will ensure meaningful consultation, negotiation and participation by *all* stakeholders and will ensure neither bottom-up nor top-down pressures dominate. Most importantly, it will provide justifications and explanations for strategic planning decisions.

Strategic Plans as Road Maps for Service Delivery
"The analogy of a road map is useful in understanding the importance of strategic planning for service delivery. The destination should be the realisation of socio-economic rights such as housing, education, healthcare and social assistance. A rigorous needs analysis identifies the current location – where we are now (i.e. the need for these services). The strategic plan maps out how to get from the current location to the destination. The budget tells us how much we have available to get there. If a road map does not cover the entire distance between the starting point of a journey and its destination, it is unlikely that its user will reach the destination. Effective strategic planning should result in effective service delivery if sufficient resources are allocated and the strategic plan is properly implemented."
Centre for Social Accountability, 2010

Strategic Planning in the Social Accountability System

1. Resource Allocation and Strategic Planning

What resources are available?
What do they plan to do with them?

2. Expenditure Management

Were the resources spent?

3. Performance Management

Were planned activities implemented?

4. Preventative and Corrective Action

Were cases of corruption, maladministration dealt with?

5. Accountability to Oversight

Did the municipality adequately account for its performance to oversight bodies?

Social Accountability Monitoring Methodology

Figure 3.1: The Public Resource Management Framework

Resource allocation and strategic planning, while logically distinct sub-processes, are described as one process in the social accountability system because they are inextricably interlinked in their implementation. When undertaking strategic planning, a municipality needs to identify the most pressing needs of its residents, articulate activities to address these needs and provide a costing for each activity. This planning, however, must be guided by indicative allocations. In other words,

municipalities cannot create 'wish-list' plans that do not take into account the resources they are likely to receive. Once the budget is finalised, the municipality must adjust its plans accordingly to ensure the cost of planned activities aligns with the total budget. This will enable the municipality to manage its resources effectively.

Simultaneously, strategic planning influences resource allocation. Draft plans with costed activities are used to motivate for additional resources by demonstrating how resources will be used. In addition, Councils should only approve budgets on the basis of detailed and costed plans if they are to make an informed vote and if they are to hold the municipality accountable for the use of public funds.

Strategic Planning influences the following processes:

Performance Management

Performance management is the process through which the municipality implements its strategic plan. Municipal performance, therefore, is monitored against the objectives and activities set out in the strategic plan. Effective internal and external monitoring of service delivery is only possible where detailed strategic plans are developed setting out specific, measurable and timebound activities. Strategic planning documents are both important management tools for municipal managers who can use performance information to reflect on service delivery approaches and reassess priorities, activities and costs. This performance information should feed back into the social accountability system by influencing the planning process for subsequent financial years. Failure to develop detailed strategic plans prevents this opportunity to produce meaningful performance information.

Process 1 and Preventative and Corrective Action

Detailed budgets and strategic plans need to clearly indicate what activities should be implemented, by whom and at what cost. This enables public officials to identify problems with implementation and performance, and take corrective action to prevent further misuse and abuse of funds. Effective preventative and corrective action should also identify the training needs for poorly performing officials. These training needs should be included in subsequent strategic plans in order for resources to be allocated and the training implemented. Failure to do so will result in on-going poor performance by incapacitated public officials.

Process 1 and Accountability to Oversight

Detailed budgets supported by costed plans enable informed voting by the Council, who are able to interrogate and evaluate whether available resources will be allocated in such a way as to ensure the prioritisation of the most pressing needs and effective service delivery. Furthermore, detailed budgets enable detailed financial reports which allow effective oversight of expenditure. Similarly, detailed strategic plans enable detailed performance reports which strengthen oversight. Council should oversee the entire resource allocation and strategic planning process, including the formulation phase, to ensure the municipality adheres to relevant legislative provisions and facilitates effective participation.

Each process of the social accountability system effects subsequent processes; for this reason, it is crucial for municipalities to effectively implement an effective Resource Allocation and Strategic Planning process. Failure to do so will have an enormous impact on their ability to implement subsequent processes, impacting their ability to deliver services and account for the use of public funds.

The Integrated Development Plan

Introduction

The production of Integrated Development Plans by municipalities was made a legal requirement in 1996. The Municipal Systems Act (2000) requires municipalities to plan to:

- achieve the objects of local government (as set out in section 152 of the Constitution);
- give effect to its developmental duties (as set out in section 153 of the Constitution); and,
- Realise human rights, including specifically environmental rights, property rights and the right to housing, healthcare, food, water and social security and education (as set out in the Constitution, Chapter 2)

Municipalities are to achieve this using the Integrated Development Planning framework which should produce **a five year planning document called an Integrated Development Plan (IDP)**. The IDP sets out the vision and development objectives of the municipality for the elected term of the council. It articulates where the municipality wants to go and how it plans to get there over the next five years.

According to section 35(1) of the Municipality Systems Act, "An integrated development plan adopted by the council of a municipality is the principal strategic planning instrument which guides and informs all planning and development, and all decisions with regard to planning, management and development, in the municipality." It also "binds the municipality in the exercise of its executive authority, except to the extent of any inconsistency between a municipality's integrated development plan and national or provincial legislation, in which case such legislation prevails". Furthermore, a municipality "must give effect to its integrated development plan and conduct its affairs in a manner which is consistent with its integrated development plan" (Municipal Systems Act, section 36).

Key Legislation

The following legislation governs the production of IDPs by municipalities:

- **Local Government Transition Act (1996)**
  Made IDPs a legal requirement, although offered a limited conception of what the IDP process should entail or what the document should include.

- **White Paper on Local Government (1998)**
  Identifies the main steps in producing an IDP.

- **Municipal Systems Act (2000)**
  Provides more information on the process, content and authority of the IDP.

- **IDP Guide Pack**
  Six guides produced by the Department of Provincial and Local Government (DPLG) in 2003 to assist municipalities in the production and implementation of IDPs. The six guides include:
    1. Guidelines
    2. Preparation
    3. Methodology
    4. Toolbox
    5. Cross-sectoral issues
    6. Implementation management

The overview of this IDP Guide Pack (Guide 0) is a very useful introduction to Integrated Development Planning and is well worth reading. The Guide Pack can be downloaded from the COGTA website: http://iphone.cogta.gov.za/subwebsites/publications/idp/

- **Supplementary Guide**
  The DPLG subsequently produced a supplementary guide to complement the guide pack, providing municipalities with a more practical guide.

- **IDP Format Guide (2008)**
  A guide developed to assist municipalities produce credible IDPs. It includes a description of the IDP section by section.

▌ The IDP Process

Before the IDP process can begin, the process must be set out in writing to guide the planning, drafting, adoption and review of the IDP. The Mayor has overall responsibility for the production of the IDP, while the Municipal Manager is responsible for implementing and monitoring the IDP process. The process plan must include a programme specifying the timeframes for the different planning phases (see more below) and appropriate mechanisms, processes and procedures for consultation with and participation of local communities, organs of state, traditional authorities and other stakeholders in the IDP process. The plan must also identify all plans and planning requirements binding on the municipality in terms of provincial and national legislation. The municipality must notify the local community of the particulars of the process it intends to follow.[20]

There are five phases in the IDP process:

Phase 1: Analysis
Municipalities analyse the existing problems faced by people in their specific municipal area and the cause of these problems. Key development needs are prioritised and available and potential resources to address these needs are identified.[21]

Phase 2: Strategies
Strategies are the municipality's plan to get from where it is (based on the analysis in phase 1) to where it wants to be (articulated in its vision and mission). In this phase, the municipality must articulate its long-term vision as well as development objectives (based on issues prioritised in phase 1) and strategies for how it will achieve these objectives. The municipality must also identify projects, the implementation of which should result in the achievement of the municipality's development objectives. [22]

Phase 3: Projects
This phase involves the design of specific and concrete project proposals. The municipality needs to define indicators for each objective. Each project needs to have identified outputs (or deliverables), with targets and locations. Major activities must have timeframes and responsible agencies identified so that it is clear who will do what when. Finally, the project proposal must set out cost estimates and budgets with sources of finance for all projects. This helps to show whether the project is affordable and where the money for funding it is supposed to come from. While developing these strategies, the municipality should consult the residents, communities and stakeholders interested in or affected by each project.[23]

Phase 4: Integration
In this phase, the multiple project proposals are integrated into one "Integrated Development Plan". The result of this phase should be an operational strategy, which should include revised project proposals; consolidated sector plans for each sector; a five-year financial plan; a five year capital investment programme; a five year action programme; an integrated monitoring and performance management system; an integrated spatial development framework; an integrated poverty reduction/gender equity programme;

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[20] Municipal Systems Act (2000), Act 32 of 2000, Chapter 5.
[21] For more information, see Guide 3.1 of the DPLG's IDP Guide Pack which describes in detail this phase.
[22] For more information, see Guide 3.3 of the DPLG's IDP Guide Pack.
[23] For more information, see Guide 3.4 of the DPLG's IDP Guide Pack.

an integrated environmental programme; an integrated local economic development (LED) programme; an integrated institutional programme; an integrated HIV/AIDS programme; and, a disaster management plan. These integrated plans, together with the revised project proposals, form the draft IDP.[24]

Phase 5: Approval
The draft IDP is commented on by the Department of Cooperative Governance Traditional Affairs (formerly the Department of Provincial and Local Government); the local community; and, the district. There is a strong emphasis on participation and comment on the draft document prior to its approval. The Final IDP is adopted by Council.[25]

How to Read an IDP

There is no template for the IDP document. The Municipal Systems Act (Section 26) requires the following information to be included in a municipality's IDP:

- Vision
- Situation Analysis
- Development priorities and objectives
- Development strategies
- Spatial development framework
- Operational strategies
- Disaster management plans
- Financial plan (a three year budget projection)
- Key performance indicators and targets for measuring performance

The IDP Format Guide requires the following components to be included in the IDP:

- **Section A: Executive Summary**
  The executive summary should give a concise overview of the municipality, its current situation, key challenges and opportunities, as well as the priority strategies of the municipality to improve its situation over the five year term of the IDP.

- **Section B: Situational Analysis**
  The municipality must conduct a "detailed, deep and rigorous analysis of the status quo of the municipality with respect to the internal and external environment needs" with inputs from the community, community organisations, business, non-state actors, sector departments and state owned enterprises. According to the IDP Format Guide (2008), the "following are considered key components of the analysis" and must be included in this section:

  - *Prioritised community needs per ward, local and district annually (in a table format)*
  - *Alignment with policy and strategy*
  - *Brief profile of priority areas*
  - *Institutional and financial viability assessment*
  - *SWOT analysis*
  - *Assessment of existing and envisaged backlogs and service delivery status*
  - *Spatial Analysis*
  - *Problem statement, Challenges and recommendations.*[26]

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[24] See Guide 3.5 Integration for more information.
[25] See Guide 3.6 Approval for more information.
[26] MFMA Budget Formats Guide (2008) pp.6-7.

This section is useful for understanding the current situation in our local municipality with regard to service delivery challenges as well as the municipality's capacity to address these challenges over the next five years. It should conclude with the identification of priority issues in relation to: demographic, economic, infrastructure and environmental issues. This section should also reflect which entity is responsible for what service in terms of the municipality's powers and functions.[27]

- **Section C: Vision**
  This should be short, succinct, long-term and forward-looking, based on the values and principles of the municipality.

- **Section D: Mission**
  This should also be a short and succinct description of what the municipality hopes to achieve in the medium-term in line with their vision.

- **Section E: Strategic Objectives**
  Here the municipality should identify what the municipal council hope to achieve by the end of its term of office.
  This section is important for identifying the municipality's key focus areas over the next five years.

- **Section F: Development Strategies**
  This section should identify what strategies the municipality needs to adopt so as to meet its objectives and mission, and should include long-term growth and development goals. Development strategies should be structured into five Key Performance Areas, or KPAs: Basic Service Delivery; Local Economic Development; Municipal Transformation and Organisational Development; Municipal Financial Viability and Management; and, Good Governance and Public Participation. These are the five KPAs of the five year Local Government Strategic Agenda. Spatial Analysis and Rational forms a sixth KPA. The KPAs are discussed in detail in the IDP Format Guide. The Service Delivery KPA must describe how the municipality is planning to deliver services to residents and is an important area for participation and analysis for local civic actors and municipal journalists.

- **Section G: Projects**
  In this section, municipalities should set out a:
    o **Five year programme** – which sets out projects with definable outputs that can be realised over a five year period. Some financial information should be included in this programme.
    o **Three year plan** – projects in the next three years of the five year period must be set out in more detail, with financial and other resources allocated to them.
      This detailed multi-year plan should provide important information on the municipality's plans to address a particular service delivery issue over the medium-term.
    o **Annual plan** – this cover the first year of the five year period and should be very detailed and correspond to the Service Delivery Budget Implementation Plan (SDBIP) It should set our quarterly objectives, activities and outputs in a simple, log-frame format. This annual plan is important for performance management.
  Each of these should be reviewed annually.

Sections C, D, E and F are sometimes grouped together under "Development Strategies" in the IDP document. The IDP Format Guide also suggests that the IDP include the following information after Section G:

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[27] Budget Format Guide (2008) p. 14

- **Financial Strategy (Financial Plan)**
  A multi-year budget with a three year commitment and a strategy for municipal revenue generation over the medium to long term. The Annual Budget should be confirmed and adopted with the IDP.
- **Organisational Performance Management System**
  This should set out Key Performance Indicators for each objective and the Annual Performance Report of the previous year.

The following Annexures to the IDP should be included for some (but not all[28]) municipalities:

- Detailed spatial development framework
- Detailed disaster management plan
- Land use management framework
- Land use management system
- Coastal Zone management plan
- Waste management plan
- Water service development plan; water resources plan; forestry plan
- Integrated transport plan
- Housing plan
- Energy master plan
- Local economic development plan
- Infrastructure investment plan
- Area based plans (land reform)
- Anti-corruption strategy

The IDP should help us to understand in more detail the service delivery issue we are investigating. For example, it should provide a detailed needs analysis of the municipality's capacity and provision of water. It should also set out clear strategies the municipality has adopted to address water service delivery backlogs and other challenges.

The Service Delivery Budget Implementation Plan

Introduction

The Service Delivery Budget Implementation Plan (SDBIP) is a "detailed plan approved by the mayor of a municipality… for implementing the municipality's delivery of municipal services and its annual budget" (MFMA, chapter 1). The SDBIP covers one financial year and is a **management, implementation and monitoring tool**. It should give effect to the IDP and the Budget and provide the basis for measuring performance and holding the municipality to account for performance a financial year. The performance agreements signed by municipal staff must be consistent with the SDBIP.[29] The SDBIP enables "the municipal manager to monitor the performance of senior managers, the mayor to monitor the performance of the municipal manager, and for the community to monitor the performance of the municipality."[30]

Key Legislation

The following legislation governs the production of SDBIPs by municipalities:

- **Municipal Finance Management Act (2003)**
  Chapter 1 defines the SDBIP.

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[28] This is based on the classification of the municipality as either (1) a low and medium capacity municipality that is predominantly rural, or (2) a high capacity local municipality with large urban areas. IDP Format Guide (2008), p. 8.
[29] Municipal Finance Management Act (2003) Act No 56 of 2003, Section 53(1)(c)(iii).
[30] MFMA Circular No. 13 (31 January 2005), p. 2.

Section 53(1)(c)(ii) makes it the responsibility of the Mayor to ensure the municipality's SDBIP is approved within 28 days after the approval of the budget.

Section 54 requires the Mayor to ensure the budget is implemented in accordance with the SDBIP and make any revisions to the SDBIP, if necessary, provided that revisions to service delivery targets and performance indicators in the plan are approved by the Council following the approval of an adjustments budget. Any revisions to the SDBIP must be made public promptly.

- **MFMA Circular No. 13**

  This 14-page document provides guidance and assistance to municipalities in the preparation of their SDBIPs. It explains the concept of the SDBIP and describes five SDBIP components:
  1. Monthly projections of revenue to be collected for each source
  2. Monthly projections of expenditure (operational and capacity) and revenue for each vote
  3. Quarterly projections of service delivery targets and performance indicators for each vote
  4. Ward information for expenditure and service delivery
  5. Detailed capital works plan broken down by ward over three years.

  The document also describes the timing and methodology for preparing the SDBIP and the format of departmental SDBIPs.

The SDBIP Process

Although not a legal requirement, best practice suggests that the senior managers of each municipal department draft their departmental SDBIPs in the early stages of the planning and budget preparation process. These departmental SDBIPs, which will be aggregated to form the municipality's draft SDBIP, may contain more detailed information than the draft SDBIP.[31] The draft SDBIP should influence the drafting of the budget.

In April, municipality's table their draft budget before the Council. It is best practice for municipalities to include their draft SDBIPs as supporting documentation with the budget to assist budget hearings. Since this is not a legal requirement, municipalities may choose to submit draft departmental SDBIPs (approved by the mayor) with the budget documentation. At the very latest, the complete draft SDBIP must be submitted to the Mayor by 1 May.

Section 57(1)(b) requires the accounting officer (municipal manager) to submit the final SDBIP to the mayor for approval 14 days after the budget has been approved by Council (no later than mid-July). This allows time for the municipal manager to amend the SDBIP based on the Budget amended/approved by Council where necessary. In turn, the annual performance agreements of the municipal manager and all senior managers are amended to align with the final SDBIP which must be approved by the Mayor 28 days after the approval of the budget, the end of July.[32]

Whereas Council approves the IDP, the Mayor is responsible for approving the SDBIP which the Municipal Manager prepares. The SDBIP is, however, tabled in Council and must be made publicly available no later than 14 days after its approval. [33]

The SDBIP may be amended during the course of the financial year, but these amendments must be approved by Council (not the Mayor) following approval of an adjustments budget.[34] This is to ensure the SDBIP targets are not adjusted downwards to accommodate poor performance.

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[31] MFMA Circular No. 13 (31 January 2005) describes what information senior managers should include in their draft departmental SDBIPs.
[32] Municipal Finance Management Act (2003) Act No 56 of 2003, Section 53(1)(c)(ii)
[33] *Ibid,* Section 53(3)(a)
[34] *Ibid,* Section 54(1)(c)

How to Read an SDBIP

As with the IDP, there is no template for the SDBIP. Chapter one of the MFMA requires the SDBIP to indicate:

- **Projections for each month of revenue to be collected, by source**
  This enables in-year monitoring of revenue collection and corrective measures to either improve revenue collection or lower expenditure targets through the passing of an adjustments budget.
- **Operational and capital expenditure, by vote**
  This enables in-year monitoring of expenditure and corrective measures to avoid over- or under-expenditure;
- **Service delivery targets and performance indicators for each quarter**
  Here there is a focus on outputs rather than inputs. Service delivery targets set out the level and standard of service to be provided and include reductions in backlogs of basic services. Indicators should focus on services to be delivered and not on how the municipality will deliver them. These targets and indicators must be approved in the budget. There should be measurable performance objectives for each vote.

MFMA Circular No. 13 (31 January 2005) provides more guidance for municipalities and focuses on five components which must be included in the final SDBIP. Each of these five components is briefly discussed below. For more information, please refer to the Circular.

1. Monthly projections of revenue to be collected for each source

In the SDBIP, the municipality must set out monthly revenue targets for each source of revenue. National Treasury has defined a number of sources of revenue which the SDBIP should reflect. In the diagram below, Treasury provides a suggested format for monthly projections of revenue by source.[35]

Monthly Projections of Revenue by Source

Monthly Projections of Revenue by Source	July Rev R'000	August Rev R'000
Regional Levies	x	x
Property Rates	x	x
Property Rates - Penalties Imposed & Collection Charges	x	x
Electricity Revenue from Tariff Billings	x	x
Water Revenue from Tariff Billings	x	x
Sanitation Revenue from Tariff Billings	x	x
Refuse Removal from Tariff Billings	x	x
Grants	x	x
Interest & Investment Income	x	x
Rent of Facilities and Equipment	x	x
Interest Earned Outstanding Debtors	x	x
Fines	x	x
Licenses and Permits	x	x
Income from Agency Services	x	x
Other	x	x
Total Revenue By Source (Balanced to Cash Flow)	x	x

Including this information in the SDBIP helps the municipality to keep track of actual revenue collection and ensure that expenditure does not exceed actual income. The municipal manager must report monthly on whether the revenue projections set out in the SDBIP have been achieved. Monitoring actual revenue collection against projections on a monthly basis also enables the

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[35] Note that this diagram shows projections for two months, while the SDBIP will show twelve months of projections.

municipality to (1) adjust spending downwards if necessary where revenue collection is below the target, and (2) take corrective steps to improve revenue collection.

2. Monthly projections of expenditure (operating and capital) and revenue for each vote
Here, Treasury requires the municipality to set out revenue and expenditure by vote. In the SDBIP, the "vote" refers to a function (e.g. Health; Refuse Removal). By showing revenue and expenditure by vote, the municipality provides a more complete picture of what money is coming in and how it will be spent. The municipality will have to report against this information on a monthly basis. Treasury suggests the following format for the monthly projections for revenue and expenditure by vote:

Monthly Projections of Revenue and Expenditure by Vote

	July			August		
	Opex R'000	Capex R'000	Rev R'000	Opex R'000	Capex R'000	Rev R'000
Expenditure and Revenue by Vote						
Department - Municipal Managers Office						
Vote: Executive and Council	x	x	x	x	x	x
Department - Chief Finance Officer						
Vote: Finance & Administration (Finance)	x	x	x	x	x	x
Department - Corporate Services						
Vote: Finance & Administration (HR, IT, etc)	x	x	x	x	x	x
Department - Planning & Development						
Vote: Planning and Development	x	x	x	x	x	x
Vote: Environmental Protection	x	x	x	x	x	x
Department - Community Services						
Vote: Community & Social Services	x	x	x	x	x	x
Vote: Sport & Recreation	x	x	x	x	x	x
Vote: Housing	x	x	x	x	x	x
Vote: Public Safety	x	x	x	x	x	x
Vote: Health	x	x	x	x	x	x
Vote: Refuse Removal	x	x	x	x	x	x
Department - Water & Sanitation						
Vote: Water	x	x	x	x	x	x
Vote: Waste Water Management	x	x	x	x	x	x
Department - Electricity						
Vote: Electricity (Electricity Distribution)	x	x	x	x	x	x
Depatment - Roads						
Vote: Road Transport	x	x	x	x	x	x
Vote: Electricity (Street Lighting)						
Total By Vote	x	x	x	x	x	x

3. Quarterly projections of service delivery targets and performance indicators for each vote
The first two components, described above, focus on monthly financial targets. This component requires municipalities to set out non-financial measurable performance objectives in the form of service delivery targets and other performance indicators. Here municipalities should focus on outputs – what do they hope to achieve in terms of service delivery. The projections should be for one year, broken down into quarters.

This information is very useful for social accountability monitoring because it identifies the municipality's service delivery undertakings for the upcoming financial year. Unfortunately, Treasury only require municipalities to share these service delivery outputs in the publicly available SDBIP. According to Circular No. 13: "The public information should deal with service delivery, rather than on how a municipality organises itself to do so… Internal or management performance indicators, suitable to manage lower-layer managers, should generally not be made public."[36] This means that although the SDBIP may tell us what services the municipality plans to deliver, it may not provide sufficient detail for "micro-monitoring" or social auditing.

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[36] MFMA Circular No. 13, 31 January 2005, p. 8.

4. Ward information for expenditure and service delivery

This component requires information on service delivery and expenditure to be broken down by wards, as this is helpful for councillors and the community. Municipalities may choose to present this information by breaking down sub-function service delivery targets by ward, for example:

> Director Technical Services
> > Electricity Distribution
> > > New electricity connections (overall)
> > > > Ward 1 connections
> > > > Ward 2 connections
> > > > Ward 3, etc

Treasury would prefer, however, for councillors to be given a separate quarterly report showing service delivery information by ward for this component.

5. Detailed capital works plan broken down by ward over three years

Although the SDBIP is an annual plan, it must include a three-year capital works plan. This is to ensure sufficient detail to measure and monitor the delivery of infrastructure projects. The municipality must include the following information for each infrastructure project:

- Ward
- Project number
- Name
- Short description of what the project will deliver
- Planned start date
- Actual start date
- Planned completion date
- Actual completion date
- Capital costs timed per month
- Reasons for variances including if the project was completing but did not deliver to specification
- Responsible senior manager

The SDBIP must also include a summary of capital projects, broken down into quarterly projections, for each responsible manager, by vote.

Conclusion

In this chapter we have looked at municipal strategic planning, the second sub-process in Process 1: Resource Allocation and Strategic Planning. We have looked at the importance of strategic planning in the social accountability system and the two main municipal strategic planning documents: the IDP and the SDBIP.

In the next chapter, we will look at Process 2 – expenditure management.

4 Process 2 – Expenditure Management

Introduction

Chapters 2 and 3 looked at why municipalities must allocate resources to prioritised services set out in detailed strategic plans in order to fulfil their constitutional mandate. This, however, is only the first step. Once resources have been allocated, they must be spent in line with the approved budget and in accordance with laws governing the use of public funds. This is called expenditure management and it is the second process in the Social Accountability System. Session 2 will provide a brief overview of this process, including:

- Municipal expenditure management
- Expenditure management in the Social Accountability System
- Key legislation
- Key events in municipal expenditure management
- Expenditure management documents
- Evaluating municipal expenditure

Municipal Expenditure Management

Expenditure management is the process of spending allocated resources against approved budgets and justifying and explaining spending decisions and performance.

Once the municipal council approves the budget and Service Delivery Budget Implementation Plan (SDBIP), the municipality must begin to implement planned activities and begin spending against the approved budget line items.

All expenditure must be made in accordance with the budget approved by council. It must also comply with relevant legislation and regulations. In managing their expenditure, municipal officials need to ensure that all revenue and expenditure information is captured onto a **financial management information system** throughout the financial year. The MFMA requires every municipality to have and maintain a 'management, accounting and information system' that is able to recognise revenue when it is earned and expenditure when it is incurred.[37] In order to achieve this, thousands of spending transactions and payments must be captured on a digital accounting system by municipal line managers.[38] Simultaneously, source documents (such as invoices, vouchers, etc) must be stored for easy retrieval. This enables the municipality to justify and explain expenditure to auditors and oversight bodies.

In-year and **year-end reports** should be based on aggregated information from the financial management information system. Municipalities are required to produce the following financial reports:

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[37] Municipal Finance Management Act (2003) Act No 56 of 2003 Section 64(2)(e).
[38] Colm Allan, Report on Findings: Pilot Testing of SAME Indicators in the Health Sector in Mozambique, March 2014.

- Monthly financial reports
- Quarterly financial reports
- A Mid-year budget and performance assessment report
- An Annual Report

Each of these reports is discussed in more detail later.

The mayor of a municipality is expected to use monthly, quarterly and mid-year financial reports to ensure that the municipality's approved budget is implemented in accordance with the SDBIP and that spending of funds and revenue collection proceed in accordance with the budget. These reports should help the mayor identify any financial problems facing the municipality, including emerging or impending financial problems. The mayor is required to promptly respond to serious financial problems by initiating remedial or corrective steps proposed by the accounting officer.[39] These steps may include the tabling of an **adjustments budget**.

Adjustments Budget

Section 28 of the MFMA allows municipalities to revise an approved annual budget through the tabling of an adjustments budget. Remember that the municipality tabled its budget at the beginning of the financial year, but started drafting it many months before that. An adjustments budget allows the municipality to amend the budget to accommodate additional revenue that may have become available, or to adjust projected expenditure downward because less revenue was collected than originally planned. An adjustments budget also allows the municipality to shift unspent funds from one vote to another to prevent over- or under-spending. It may also authorise the use of unspent funds in a previous financial year (called roll-overs). The municipality is also able to correct any errors in the annual budget through the adjustments budget.

Only the mayor may table an adjustments budget before the municipal council. When it is tabled, the mayor must justify and explain the need for and the impact of the adjustments.

At the end of the financial year, the municipality must account for its use of public funds. In doing so, municipal officials need to justify and explain their spending decisions and their performance.

Expenditure Management in the Social Accountability System

As the second process in the social accountability system, Expenditure Management has a significant impact on (and is impacted by) all four other processes.

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[39] Municipal Finance Management Act (2003) Act No 56 of 2003, Section 54.
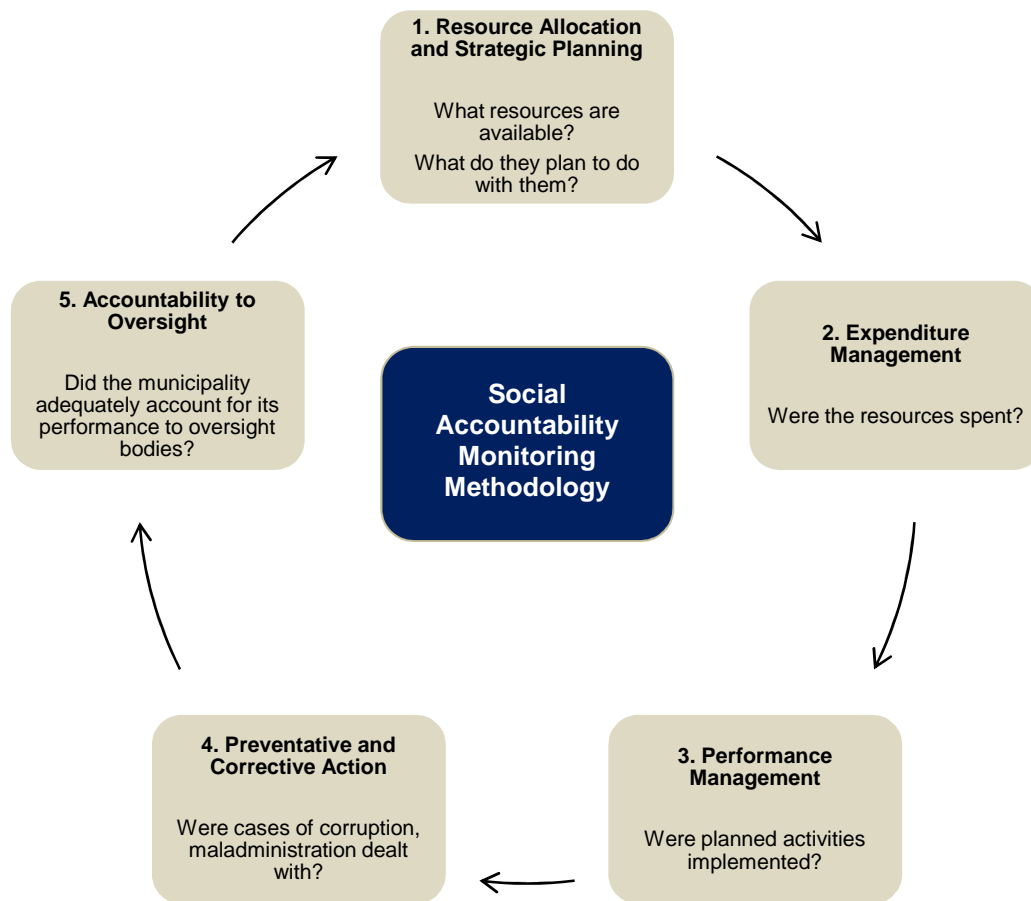
Figure 4.1: The Public Resource Management Framework

Expenditure Management and Resource Allocation

The first and second processes of the Social Accountability System are interconnected. Spending should only occur against approved line items in the budget and can only be evaluated if compared to the original or adjusted budget. Expenditure management influences the allocation of resources in three key ways. Firstly, over expenditure must be compensated for, either by using contingency reserve funds or by using the following year's resources. Continuous over spending of public resources may lead to deficits, which will result in increased costs due to interest charged on borrowed funds. This means that more resources will be spent on debt repayments, leaving fewer resources available for the delivery of services in subsequent years. Secondly, poor expenditure management (whether over or under expenditure) impacts the allocation of resources to municipalities. It is less likely that additional resources will be allocated to municipalities unable to demonstrate their ability to effectively, efficiently and economically manage financial resources. Finally, good expenditure management should feed back into the social accountability system by feeding back information, in the form of justifications and explanations on the use of public funds, into future *planning and budgeting processes*. Poor expenditure management prevents this feedback of information making it significantly more difficult to take past financial performance into account when planning and budgeting for the future

Expenditure Management and Performance Management

In order to implement their strategic plans, municipalities need to be able to spend money. Service providers, contractors and employees all need to be paid, and equipment and supplies need to be bought if the strategic plan is to be implemented effectively. In order to ensure this expenditure is incurred for the purposes it was allocated, strict financial controls must be in place. Similarly, performance needs to be carefully managed to prevent under or over expenditure. Costly mistakes when implementing strategic plans, for example, may cause over expenditure, while the non-implementation of strategic plans may result in under expenditure.

Expenditure Management and Preventative and Corrective Action

In order to ensure public funds are spent on the purposes for which they were allocated, municipalities need to take steps to prevent the misuse and abuse of funds. For example, municipal officials responsible for managing or overseeing public funds need to declare their private interests before they exercise control over these resources. Any potential conflicts of interests must be identified and steps taken to ensure public funds are not used for private gain. Where funds are misused or abused, corrective action must be taken to ensure the maintenance of an organisational environment which prevents or impedes the misuse and abuse of funds. Effective preventative and corrective action strengthens expenditure management and the use of funds for the purposes they were allocated.

Expenditure Management and Oversight

Oversight bodies, such as municipal councils, are tasked with holding the executive arm of the municipality accountable for the use of public funds. The ability of the municipality to accurately record and account for spending, as well as their ability to provide justifications and explanations for spending decision-making and performance, is critical for effective oversight. Municipal councils are responsible for approving budgets and are responsible for ensuring public funds are used for the purposes for which they were allocated.

Key Expenditure Management Legislation

The following legislation and guidelines govern expenditure management at municipal level in South Africa:

- Municipal Finance Management Act (MFMA) (2003)
  The most important piece of legislation for Expenditure Management at municipal level, the MFMA sets out rules for adjusting budgets; unforeseen and unavoidable expenditure; unspent funds; unauthorised, irregular or fruitless and wasteful expenditure; and, reporting, amongst other things.

- Modernising financial governance: implementing the Municipal Finance Management Act, 2003. Updated Edition (August 2004)
  The first in a series of publications developed by National Treasury to help municipalities and other important stakeholders implement the changes brought about by the introduction of the MFMA.

- MFMA Circular No. 11: Annual Report: Guidelines
  Provides guidance on the preparation of annual reports, including a description of what content should be included under the various headings.

- Annual Report Template (July 2012)
  A template to be used by municipalities when producing annual reports. Detailed, step-by-step guidance on how to fill in each section.

- MFMA Circular No. 63: Annual Report - update
  Provides guidance on the preparation of annual reports using the new Annual Report Format.

- Section 71 Reporting Guideline (July 2013)
  Summarises new reporting requirements for 2013/14 and describes how information should be submitted to the National Treasury.

The above can be accessed on the Treasury's website for local governance: www.mfma.treasury.gov.za

■ Key events in municipal expenditure management

The municipal expenditure management process begins with the financial year on 1 July as municipalities begin spending their approved allocations. After each month, the municipality must produce a monthly expenditure report and a quarterly expenditure report must be tabled before Council every three months. In addition, the municipality must report on all expenditure for the first half of the financial year in a mid-year budget and performance assessment report. At the end of the financial year, the municipality must account for all expenditure by producing Annual Financial Statements, which must be audited by the Auditor General. These statements, together with the Auditor General's audit report, must be included in the municipality's Annual Report. The production of these reports represents the key events in municipal expenditure management. The timeframes for these reports are set out below.

Timeframe	Event	Relevant Legislation
30 June	Council must approve an annual budget before the start of the financial year	MFMA 16(1) and 24(1)(a)
1 July	Start of the financial year	MFMA 1(1)
Mid-August	July monthly report (m1)	MFMA 71
Mid-September	August monthly report (m2)	MFMA 71
Mid-October	September monthly report (m3)	MFMA 71
End October	Quarterly report (q1) tabled before Council	MFMA 52(d)
	Publication of consolidated quarterly report by Provincial Treasury	MFMA 71(7)
Mid-November	October monthly report (m4)	MFMA 71
Mid-December	November monthly report (m5)	MFMA 71
Mid-January	December monthly report (m6)	MFMA 71
25 January	**Mid-year budget and performance assessment report**	MFMA 72
End January	Quarterly report (q2) tabled before Council	MFMA 52(d)
	Publication of consolidated quarterly report by Provincial Treasury	MFMA 71(7)
Mid-February	January monthly report (m7)	MFMA 71
Mid-March	February monthly report (m8)	MFMA 71
Mid-April	March monthly report (m9)	MFMA 71
End April	Quarterly report (q3) tabled before Council	MFMA 52(d)
	Publication of consolidated quarterly report by Provincial Treasury	MFMA 71(7)
Mid-May	April monthly report (m10)	MFMA 71
Mid-June	May monthly report (m11)	MFMA 71
30 June	End of the financial year	MFMA 71
Mid-July	June monthly report (m12)	MFMA 71
End July	**Quarterly report (q4) tabled before Council**	**MFMA 52(d)**
	Publication of consolidated quarterly report by Provincial Treasury	MFMA 71(7)
31 August	Municipality must submit financial statements to the Auditor-General	MFMA 126(1)
30 November	Auditor-General must audit the municipality's financial statements and submit an audit report to the accounting officer within three months of receipt of the statements.	MFMA 126(3)
31 January	**Annual Report must be tabled before Council** "Immediately after an annual report is tabled in the council…the accounting officer…must…make public the annual report and invite the local community to submit representations in connection with the annual report" MFMA 127(5)	**MFMA 127(2)**
February - March	Council meetings are held to discuss the Annual Report. These	MFMA 130(1) and

	meetings "must be open to the public" and "a reasonable time must be allowed for the discussion of any written submissions received from the local community…on the annual report; and for members of the local community…to address the council". Representatives of the Auditor-General are entitled to attend, and to speak at, these council meetings.	(2)
31 March	**Council must consider the Annual Report and produce an oversight report on the Annual Report.**	**MFMA 121(1)** **MFMA 129(1)**
Mid-April	The accounting officer must make public the council's oversight report on the Annual Report within seven days of its adoption.	MFMA 129(3)

█ Expenditure Management Documents

There are four key expenditure management documents produced by municipalities:
1. Monthly financial reports
2. Quarterly financial reports
3. A Mid-year budget and performance assessment report
4. An Annual Report

Each of these is briefly discussed below.

█ Monthly Financial Reports[40]
The accounting officer (municipal manager) must submit monthly budget statements to the mayor no later than 10 working days after the end of each month. These reports must also be submitted to the relevant provincial treasury. Monthly budget statements must include the following information for that month and for the financial year up to the end of that month:
- Actual revenue, per revenue source;
- Actual borrowings;
- Actual expenditure, per vote;
- Actual capital expenditure, per vote;
- The amount of any allocations received; and,
- Actual expenditure.

Where necessary, the municipality must explain any material variances from the municipality's projected revenue by source, and from the municipality's projected expenditure per vote. The municipality must also explain any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

The monthly budget statement must also include a projection of the municipality's revenue and expenditure for the rest of the financial year, and any revisions from initial projections.

The reported amounts in the monthly budget statement must align with the corresponding amounts in the municipality's approved budget.

Monthly budget statements must be placed on the municipality's website (MFMA 75(1)(a)).

█ Quarterly Reports
It is the responsibility of the mayor to submit a report, within 30 days of the end of each quarter, to the council on the implementation of the budget and the financial state of affairs of the municipality (MFMA 52(d). These quarterly reports must be placed on the municipality's website (MFMA 75(1)(k). The provincial treasury must, within 30 days after the end of each quarter, make public a consolidated statement in the prescribed format on the stat of municipalities' budgets per municipality (MFMA 71(7)). Given the delay in the production, auditing and publication of Annual

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[40] Section 71 of the Municipal Finance Management Act (2003) Act No 56 of 2003 covers monthly financial reports.

Reports, the fourth quarter report is an important document for civic actors monitoring the expenditure of municipalities as they are able to analyse expenditure for the entire year six months before the annual report is tabled before Council. However, it is important to note that the fourth quarter spending results are unaudited – corrections may be made to the final financial statements submitted to the Auditor-General.

▌ Mid-year budget and performance assessment

It is the responsibility of the accounting officer (municipal manager) to assess the performance of the municipality during the first half of the financial year. In doing so, s/he must take into account monthly budget statements for the first half of the year; the municipality's service delivery performance and the service delivery targets and performance indicators set in the SDBIP; and, the previous year's annual report and progress on resolving problems identified in the annual report (MFMA 72(1)(a)). The accounting officer must produce a mid-year budget and performance assessment report, and submit this to the mayor of the municipality, the National Treasury and the relevant provincial treasury (MFMA 72(1)(b)). As part of the assessment, the accounting officer must make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure when necessary (MFMA 72(3)). The report is submitted by the accounting officer to the mayor, who must submit the report ot the council by 31 January each year (MFMA 54(1)(f)). The report must be placed on the municipality's website (MFMA 75(1)(a)).

▌ Annual Report

Every municipality, each financial year, must prepare an annual report in accordance with Chapter 12 of the MFMA. The purpose of the annual report is to provide a record of the activities of the municipality during the financial year and to provide a report on performance against the budget of the municipality for that financial year. The annual report should "promote accountability to the local community for the decisions made throughout the year by the municipality" (MFMA 121(2)).

According to Section 121(3) of the MFMA, the annual report of a municipality must include the following:

- The annual financial statements of the municipality
  - The preparation and content of municipal financial statements is covered in sections 122-235 of the MFMA.
- The Auditor-General's audit report on those financial statements
- The annual performance report of the municipality
- The Auditor-General's performance audit report
- An assessment of any arrears on municipal taxes and service charges
- An assessment of the municipality's performance against the measurable performance objectives for revenue collection from each revenue source and for each vote in the municipality's approved budget for the relevant financial year
- Particulars of any corrective action taken or to e taken in response to issues raised in financial and/or performance audit reports
- Any explanations that may be necessary to clarify issues in connection with the financial statements
- Any recommendations of the municipality's audit committee

The municipal council must consider the annual report of the municipality by the end of March, nine months after the end of the financial year and no later than two months from the date on which the annual report was tabled in the council. A series of meeting are held where the annual report is discussed by the council. The accounting officer must attend these meetings in order to respond to questions concerning the report (MFMA 129(2)). Minutes of these meetings must be submitted to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province (MFMA 129(2)(a)).

The council must adopt an oversight report containing the council's comments on the annual report by the end of March. The oversight report must include a statement whether the council has approved the annual report with or without reservations; whether they have rejected the annual report; or whether they have referred the annual report back for revision of those components that can be revised (MFMA 129(1)). The oversight report must be made public within seven days of its adoption (early April). The annual report must be placed on the municipality's website (MFMA 75(1)(c)).

Evaluating municipal expenditure

In order to evaluate municipal expenditure, reported expenditure must be compared with actual, approved budget allocations, as set out in the municipality's Annual Budget. Municipal officials are only authorised to spend public resources in line with the Annual Budget, with a few exceptions:

- **Unforeseen and unavoidable expenditure**
  The mayor of a municipality may in an emergency or other exceptional circumstance authorised unforeseeable and unavoidable expenditure for which no provision was made in an approved budget. This expenditure is addressed in Section 29 of the MFMA and must be appropriated in an adjustments budget within 60 days for it not be considered unauthorised.

- **Virements**
  When funds are shifted between line items, programmes, projects or votes, it is called a virement. This is an important aspect of expenditure management: savings in one programme could be used to offset potential over-expenditure in another. A certain degree of flexibility is necessary for effective service delivery. However, because shifting funds can lead to abuse, each municipality must develop a virement policy. This policy should allow for virements between votes where the proposed shifts in funding facilitate sound risk and financial management and where. The virement policy should also set "prudent limits on the value of funds that may be moved to and from votes and sub-votes (e.g. not more than five per cent of the budget may be moved to or from a vote, programme, project, etc)". Certain virements should not be allowed, including moving funds from the capital to the operating budget; moving funds towards personnel expenditure; virements of conditional grant funds to purposes outside of that specified in the applicable conditional grant framework. [41] The municipality should clearly indicate, and justify and explain, all virements during the course of the financial year.

- **Budget Adjustments**
  The function of the adjustments budget has already been covered in this Chapter. When evaluating expenditure, civic actors and municipal journalists may be unsure whether they should compare expenditure to the original budget or the adjustments budget. The answer is that you can compare expenditure to either budget, *as long as you are clear about which budget figures you are using and why.* For example, the allocation for water service delivery may have been adjusted downwards during the course of the year under review. When comparing expenditure on water to the water budget, you may choose to compare it to both the original budget (because this is the amount approved by Council at the beginning of the financial year) as well as the adjusted figure, highlighting the impact on expenditure of the adjustment and interrogating the justifications provided for adjusting the budget downward.

When reporting on expenditure, it is imperative that the municipality provide justifications and explanations for all spending decisions. The justifications and explanations offered by the municipality also need to be evaluated and will form an important part of any evaluation of expenditure.

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[41] Chief Financial Officer's Handbook for Municipalities (undated), National Treasury, First Edition, p. 84

As civic actors and municipal journalists, we should pay particular attention to three types of expenditure:

- **Unauthorised expenditure**
  This includes overspending of the municipality's total budget, as well as the total amount appropriated for a vote in the approved budget. It also includes expenditure from a vote unrelated to the department or functional area covered by the vote and the expenditure of money appropriated for a specific purpose but not in accordance with that purpose.[42]

- **Irregular expenditure**
  This is a broad term for several kinds of expenditure, including expenditure incurred by a municipality in contravention of or not in accordance with the MFMA (2004), the Municipal Systems Act or the Public Office-Bearer's Act (1998). It also covers any expenditure incurred that is not in accordance with a requirement of the municipality's supply chain management policy or any of its by-laws giving effect to such a policy. These Acts and policies may make provisions for irregular expenditure to be condoned by the Council, but where Council does not condone it, the expenditure remains irregular. [43]

- **Fruitless and wasteful expenditure**
  This is any expenditure that was made in vain and would have been avoided had reasonable care been exercised.[44]

Section 32 of the MFMA covers these three types of expenditure in more detail. The National Treasury has also provided further clarity in MFMA Circular No 68 (May 2013). Municipalities must report all unauthorised, irregular and fruitless and wasteful expenditure in the Annual Reports.

Comparing reported expenditure with allocations raises the question of the extent to which the reported figures can be trusted. Evaluating the extent to which a municipality's financial reports accurately and reliably reflect the municipality's spending requires an audit. This is the role of the Auditor-General and the Auditor-General's report on the municipality's financial statements indicates the extent to which we can rely on the municipality's financial reports. Any evaluation of municipal expenditure management will necessarily rely on the report of the Auditor-General, which is one of the most significant oversight documents produced at municipal level in South Africa, particularly for civic actors and municipal journalists. The work of the Auditor-General is discussed in more detail in Chapter 7.

Conclusion

In this chapter, we have looked at Process 2: Expenditure Management. We have described municipal expenditure management and its role in the Social Accountability System. We have also looked at key legislation governing municipal expenditure management and set out a calendar of expenditure management events. Finally, we have looked at municipal expenditure documents and evaluating municipal expenditure.

In the next chapter, we will look at the second part of Process 3 – performance management.

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[42] Municipal Finance Management Act (2003) Act No 56 of 2003, Chapter 1 'Definitions'
[43] *Ibid.*
[44] *Ibid.*

5 Process 3 – Performance Management

Introduction

The third process of the Social Accountability System is Performance Management and includes a number of practices which ensure the activities, projects and programmes set out in the Service Delivery and Budget Implementation Plan (SDBIP) are implemented. Without effective performance management, municipalities will not fulfil their constitutional mandate to deliver basic services like electricity, water, sanitation and refuse removal.

This chapter provides an overview of the performance management process as it should be implemented at the local government level in South Africa and covers the following:

- Municipal performance management
- Performance Management in the Social Accountability System
- Key legislation
- Key events in the municipal performance management calendar
- Performance management documents
- Looking at municipal performance

Municipal Performance Management

Once council have approved the Integrated Development Plan (IDP) and Service Delivery Budget Implementation Plan (SDBIP), the municipality needs to manage the implementation of planned activities and continuously monitor their performance using the key performance indicators for each programme or project.[45]

Performance management at municipal level in South Africa is governed by the Municipal Systems Act (No. 32 of 2000). It requires municipalities to establish a performance management system which sets "appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan." The Act requires municipalities to monitor their performance against these key performance indicators and targets and measure and review their performance at least annually.[46]

Throughout the financial year, municipal managers need to capture relevant information on a performance management information system (PMIS). Relevant information on the thousands of individual programme and project activities falling under each manager's responsibility must be captured on the PMIS per programme, project or other implementation unit. Performance data should be collected simultaneously with data on spending against the approved budget.[47]

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[45] Colm Allan, Report on Findings: Pilot Testing of SAME Indicators in the Health Sector in Mozambique, March 2014.

[46] Municipal Systems Act (2000) Act No. 32 of 2000, as amended, Section 41.

[47] Colm Allan, Report on Findings: Pilot Testing of SAME Indicators in the Health Sector in Mozambique, March 2014.

The municipality is required to produce performance reports during and at the end of the financial year. Municipalities produce the following reports:

- Quarterly performance reports
- Mid-year budget and performance assessment report
- Annual Performance Report

These reports are discussed in more detail later in this chapter.

An effective Performance Management process produces on-going justifications and explanations for decisions and performance in implementing planned activities and in achieving desired outcomes.

Performance Management in the Social Accountability System
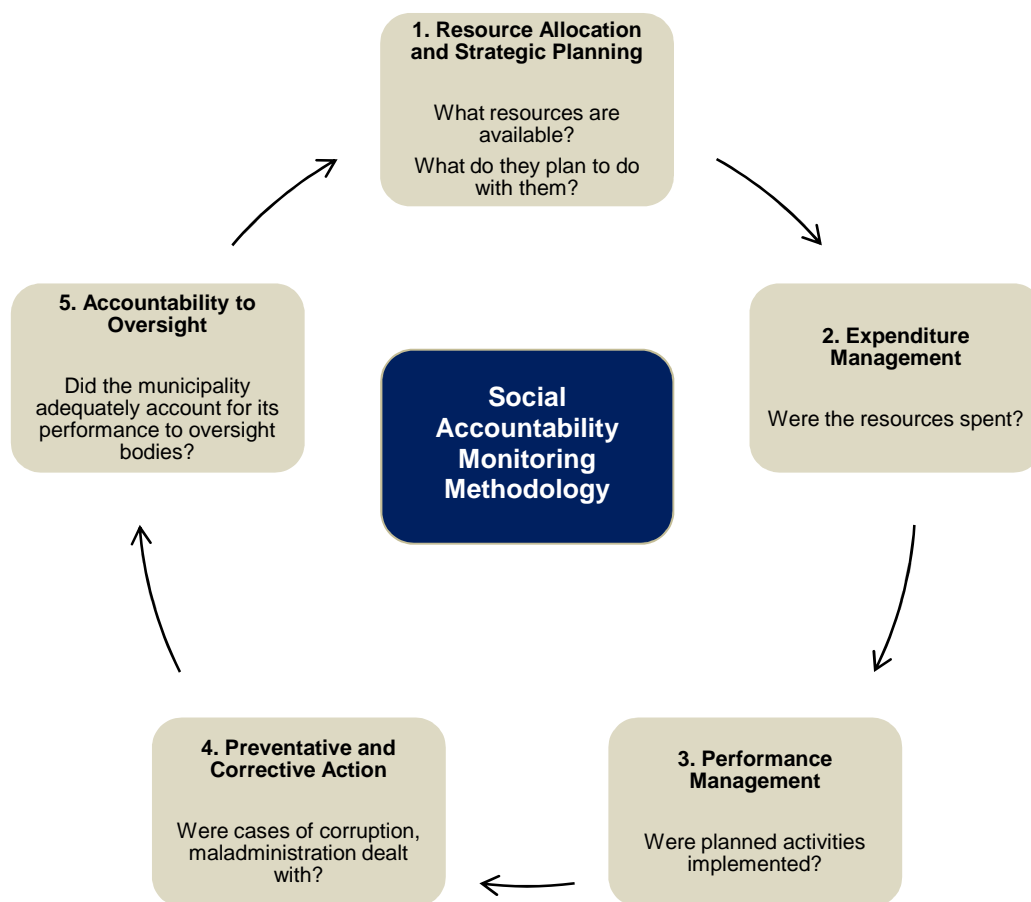
Figure 4.1: The Public Resource Management Framework

Performance Management and Resource Allocation

In order for municipalities to implement planned activities, these activities need to be accurately costed and sufficient funds must be allocated to them. Effective resource allocation should support performance management by ensuring that the required resources are available to deliver planned services. Similarly, performance management effects resource allocation. Municipalities who effectively implement their strategic plans (and spend the resources allocated to them efficiently and effectively) are likely to be allocated additional resources in subsequent financial years. Municipalities who fail to manage their performance and implement their strategic plans are

unlikely to receive additional resources or even the same amount in future years. This impacts the municipality's ability to progressively meet residents' needs.

Performance Management and Strategic Planning

Performance management and strategic planning are closely linked. Performance management refers to the implementation of strategic plans and a municipality's performance is monitored and evaluated using the activities, objectives and outcomes described in its strategic plan. An effective strategic planning process, resulting in the production of a detailed plan with clearly articulated activities, objectives and outcomes, which is accurately costed and which identifies responsibility for implementation, will support effective performance management. Conversely, poor strategic planning impedes performance management. Poorly articulated strategic plans make it difficult for municipal staff to know what they should be doing, who should be doing it or how much they should be spending on doing it. Performance management also influences strategic planning. By collecting information on performance throughout the financial year, municipal planners are able to amend future strategic plans. Lessons learnt and experience gained in implementing activities or programmes can be used to improve future plans.

Performance Management and Expenditure Management

Managing expenditure and managing performance happen simultaneously during the financial year. In order to implement their strategic plans, municipalities need to be able to spend money. Service providers, contractors and employees all need to be paid, and equipment and supplies need to be bought if the strategic plan is to be implemented effectively. In order to ensure this expenditure is incurred for the purposes it was allocated, strict financial controls must be in place. Similarly, performance needs to be carefully managed to prevent under or over expenditure. Costly mistakes when implementing strategic plans, for example, may cause over expenditure, while the non-implementation of strategic plans may result in under expenditure.

Performance Management and Preventative and Corrective Action

Throughout the performance management process, municipalities need to take preventative steps to ensure plans are implemented effectively, efficiently and economically. One of the most important preventative steps is to ensure a transparent, publicly accessible and fair municipal tender process. Corrective action must be taken in response to poor performance. Efficient and effective disciplinary hearings must be held to determine appropriate corrective action, including re-training, re-skilling, transfers or dismissal. This is to ensure performance improves. Poor preventative and corrective action often results in on-going poor performance management, as no steps are taken to prevent or correct the issues which hamper service delivery.

Performance Management and Oversight

Effective performance management will produce justifications and explanations for the municipality's performance and decision-making when implementing their SDBIP. This plan was approved by the municipal council and the municipal executive must account to the council for their performance in implementing it. Detailed quarterly performance reports, setting out accurate and current performance information, enables effective oversight both internally (by municipal senior management) and externally (by relevant oversight bodies such as the council and portfolio committees). Failure to gather and document performance information, or to produce detailed performance reports, obscures oversight.

▌Key Performance Management Legislation

The following legislation and guidelines govern performance management at municipal level in South Africa:

- Municipal Systems Act (2000)
  The most important piece of legislation for performance management at local government level, the Municipal Systems Act sets out requirements for municipal performance management systems, community involvement in performance management, key

performance indicators, performance audits and performance reports. It also sets out requirements for human resource management.

- Performance Management Guide for Municipalities (2001)
  Guidelines for councillors, managers and municipal officials in developing and implementing a performance management system, as required by the Municipal Systems Act (2000).

- MFMA Circular No. 11: Annual Report: Guidelines
  Provides guidance on the preparation of annual reports, including a description of what content should be included under the various headings.

- Annual Report Template (July 2012)
  A template to be used by municipalities when producing annual reports. Detailed, step-by-step guidance on how to fill in each section.

- MFMA Circular No. 63: Annual Report - update
  Provides guidance on the preparation of annual reports using the new Annual Report Format.

Key events in municipal performance management

The municipal performance management process begins with the financial year on 1 July.

Timeframe	Event	Relevant Legislation
30 June	Council must approve an annual budget before the start of the financial year	MFMA 16(1) and 24(1)(a)
1 July	Start of the financial year	MFMA 1(1)
Mid-July	Draft SDBIP must be submitted by the municipal manager to the Mayor 14 days after the budget has been approved by council	MFMA 69(3)(a)
End July	SDBIP must be approved by the mayor 28 days after the approval of the budget	MFMA 53(1)(c)(ii)
Mid-August	The SDBIP must be made public no later than 14 days after its approval	MFMA 53(3)(a)
End October	Quarterly report (q1) tabled before Council	
25 January	**Mid-year budget and performance assessment and report**	MFMA 72
End January	Quarterly report (q2) tabled before Council	
End April	Quarterly report (q3) tabled before Council	
30 June	End of the financial year	MFMA 1(1)
End July	**Quarterly report (q4) tabled before Council**	
31 August	Municipality must submit financial statements to the Auditor-General	MFMA 126(1)
30 November	Auditor-General must audit the municipality's financial statements and submit an audit report to the accounting officer within three months of receipt of the statements.	MFMA 126(3)
31 January	**Annual Report must be tabled before Council** "Immediately after an annual report is tabled in the council… the accounting officer…must…make public the annual report and invite the local community to submit representations in connection with the annual report" MFMA 127(5)	**MFMA 127(2)**
February - March	Council meetings are held to discuss the Annual Report. These meetings "must be open to the public" and "a reasonable time must be allowed for the discussion of any written submissions	MFMA 130(1) and (2)

	received from the local community…on the annual report; and for members of the local community…to address the council". Representatives of the Auditor-General are entitled to attend, and to speak at, these council meetings.	
31 March	**Council must consider the Annual Report and produce an oversight report on the Annual Report.**	**MFMA 121(1) MFMA 129(1)**
Mid-April	The accounting officer must make public the council's oversight report on the Annual Report within seven days of its adoption.	MFMA 129(3)

Performance Management Documents

There are three main performance management documents produced by municipalities:

1. In-year performance reports
2. Mid-year budget and performance assessment report
3. Annual Performance Report

Each of these is discussed in more detail below.

Quarterly performance reports
Municipalities are required to produce quarterly reports on performance. Quarterly projections for Service Delivery targets should be set out in the SDBIP. The municipality should report on a quarterly basis against its achievement or revision of these quarterly targets.[48]

Mid-year budget and performance assessment
It is the responsibility of the accounting officer (municipal manager) to assess the performance of the municipality during the first half of the financial year. In doing so, s/he must take into account monthly budget statements for the first half of the year; the municipality's service delivery performance and the service delivery targets and performance indicators set in the SDBIP; and, the previous year's annual report and progress on resolving problems identified in the annual report (MFMA 71(1)(a)). The accounting officer must produce a mid-year budget and performance assessment report, and submit this to the mayor of the municipality, the National Treasury and the relevant provincial treasury (MFMA 71(1)(b)). As part of the assessment, the accounting officer must make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure when necessary (MFMA 71(3)). The report must be placed on the municipality's website (MFMA 75(1)(a)).

Annual Performance Report
Each financial year, the municipality must prepare a performance report. According to Section 46 of the Municipal Systems Act, this report must include:
- the performance of the municipality and of each external service provider during that financial year
- a comparison of their performance with targets set for the previous financial year, as well as their performance in the previous financial year
- measures taken to improve performance

The annual performance report must form part of the municipality's annual report and must be audited as part of the municipality's internal auditing processes and by the Auditor-General (Section 45).

The municipal council must consider the annual report of the municipality by the end of March, nine months after the end of the financial year and no later than two months from the date on which the annual report was tabled in the council. A series of meeting are held where the annual report is discussed by the council. The accounting officer must attend these meetings in order to respond to

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[48] MFMA Circular No. 13 (2005).

questions concerning the report (MFMA 129(2)). Minutes of these meetings must be submitted to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province (MFMA 129(2)(a)).

The council must adopt an oversight report containing the council's comments on the annual report by the end of March. The oversight report must include a statement whether the council has approved the annual report with or without reservations; whether they have rejected the annual report; or whether they have referred the annual report back for revision of those components that can be revised (MFMA 129(1)). The oversight report must be made public within seven days of its adoption (early April). The annual report must be placed on the municipality's website (MFMA 75(1)(c)).

Evaluating municipal performance

Municipal performance must be evaluated against the activities, targets, objectives and outcomes set out in municipal planning documents (i.e. the IDP and SDBIP). The performance of individual municipal officials must be evaluated against their performance agreements, which should directly relate to the implementation of the SDBIP. Municipal and individual performance cannot be understood in any other context.

Civic actors and municipal journalists can use Annual Reports to compare municipal performance with the municipality's planned projects and programmes for the year under review. As with evaluating expenditure, relying on municipal performance reports to evaluate performance raises the question of the reliability of such reports. The Auditor-General in South Africa has begun to conduct performance audits and his findings are included in the Auditor-General's report, which must be included in the municipality's Annual Report. The Auditor-General's findings can assist us in evaluating the accuracy of the municipality's reporting on performance.

The proximity of municipal governance to the people it serves makes physical verification of reported performance possible. A very effective methodology for auditing municipal performance is **social auditing**. Social auditing is a participatory process in which communities and civic actors evaluate the use of public resources and identify how best to improve service delivery. The social auditing process involves: gathering government documentation (expenditure reports, bills of quantities, etc); training community activists; educating and mobilising the public; inspecting project sites; holding a public hearing. In the public hearings, the local community invites the relevant municipal stakeholders (especially responsible government officials) to respond to questions by the communities raised by their audit. Where has money gone? Why have projects not been completed? This methodology has been used with significant success in India and Kenya[49] as a way to evaluate performance as well as to hold government officials to account.

Conclusion

In this chapter, we have looked at Process 3: Performance Management. This chapter described municipal performance management and its role in the Social Accountability System. It also looked at key legislation governing municipal performance management and set out a calendar of performance management events. Finally, it looked at municipal performance documents and how to evaluate municipal performance.

In the next chapter, we will look at the second part of Process 4 – preventative and corrective action.

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[49] See http://internationalbudget.org/wp-content/uploads/Impact-Story-Kenya-English.pdf for more information.

6 Process 4 – Preventative and Corrective Action

Introduction

The fourth process of the Social Accountability System is Preventative and Corrective Action. The process is implemented in conjunction with the previous three processes in order to prevent or identify instances of poor performance and instances where public resources are abused via misconduct (which may include acts of maladministration, fraud, theft and corruption). Once identified, cases must be promptly addressed via appropriate disciplinary or corrective action.

This chapter provides an overview of preventative and corrective action as it should be implemented at the local government level in South Africa. It includes:

- Municipal preventative and corrective action
- Preventative and Corrective Action in the Social Accountability System
- Key legislation
- Preventative and Corrective Action documentation
- Looking at municipal preventative and corrective action

Municipal Preventative and Corrective Action

This process aims to ensure effective **preventative action** is taken to mitigate against the potential for public resources to be used for private rather than public purposes. It also aims to ensure effective **corrective action** is taken in identified instances of the ineffective use (e.g. poor performance) and the abuse of public resources (e.g. fraud, theft and corruption).[50]

Preventative Action

One of the most significant aspects of preventative action is the declaration of private interests, to ensure public funds are not used for private gain. The Code of Conduct for Councillors[51] requires councillors to declare within 60 days of their election or appointment their financial interests including "shares and securities in any company; membership of any close corporation; interest in any trust; directorships; partnerships; other financial interests in any business undertaking; employment and remuneration; interest in property; pension; and subsidies, grants and sponsorships by any organisation."[52] The Code also requires councillors to disclose their interests. In disclosing interests, Councillors must disclose to the municipal council any "direct or indirect personal or private business interest that that councillor, or any spouse, partner or business associate of that councillor may have in any matter before the council or the committee". The Councillor must withdraw from the proceedings of the council or committee when that matter is considered by the council or committee, unless the council or committee decides that the councillor's direct or indirect interest in the matter is trivial or irrelevant.[53]

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[50] Colm Allan, Report on Findings: Pilot Testing of SAME Indicators in the Health Sector in Mozambique, March 2014.
[51] Municipal Systems Act (2000) Act No. 32 of 2000, as amended, Schedule 2
[52] *Ibid*, Schedule 1, Section 7(1)
[53] *Ibid,* Schedule 1 Section 5

Similarly, all municipal staff members must disclose benefits. The Code of Conduct for Municipal Staff Members[54] requires the disclosure of a municipal staff member "who, or whose spouse, partner, business associate or close family member, acquired or stands to acquire any direct benefit from a contract concluded with the municipality". The full particulars of the benefit must be disclosed in writing to the council.

The municipality must also prevent the misuse/abuse of resources through a "fair, equitable, transparent, competitive and cost-effective" supply chain management policy (which covers tenders, quotations, auctions and other types of competitive bidding). The MFMA requires "compulsory disclosure of any conflicts of interests prospective contractors may have in specific tenders and the exclusion of such prospective contractors from those tenders or bids". The supply chain management policy must include measures for combating fraud, corruption, favouritism and unfair and irregular practices in municipal supply chain management.[55] Supply Chain Management is heavily regulated by the MFMA as well as numerous Guidelines and Circulars published on the MFMA Treasury website.[56]

Corrective Action

The accounting officer must ensure that disciplinary, or where appropriate, criminal proceedings are instituted against any official of the municipality who has allegedly committed an act of financial misconduct.[57] According to the MFMA, an act of financial misconduct is committed if a municipal staff member or official deliberately or negligently –

- Contravenes a provision of the MFMA
- Fails to comply with a duty imposed by a provision of the MFMA
- Makes or permits, or instructs another official of the municipality to make, an unauthorised, irregular or fruitless and wasteful expenditure; or
- Provides incorrect or misleading information in any document which the MFMA requires to be submitted to the mayor, council, Auditor-General, National Treasury or which is made public.[58]

A municipality must "investigate allegations of financial misconduct against the accounting officer, the chief financial officer, a senior manager or other official of the municipality unless those allegations are frivolous, vexatious, speculative or obviously unfounded." If the investigation warrants such a step, the municipality must "institute disciplinary proceedings.[59]

Councillors must adhere to the Code of Conduct for Councillors set out in the Municipal Systems Act. Where a council finds that a councillor has breached a provision of the Code, the council may take the following corrective steps:
- Issue a formal warning to the councillor
- Reprimand the councillor
- Request the MEC for local government in the province to suspend the councillor for a period
- Fine the councillor
- Request the MEC to remove the councillor from office.[60]

For municipal staff members, breaching the Code of Conduct for Municipal Staff Members is ground for dismissal or other disciplinary steps (including suspension without pay for no longer

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[54] Municipal Systems Act (2000) Act No. 32 of 2000, as amended, Schedule 2 Section 5.
[55] *Ibid* Section 112 (1)
[56] See http://mfma.treasury.gov.za/
[57] Municipal Finance Management Act (2003) Act No 56 of 2003, Section 62(1)(e)
[58] *Ibid,* Section 171(1) – (3)
[59] *Ibid,* Section 171(4)
[60] Municipal Systems Act (2000) Act No. 32 of 2000, Schedule 1 Section 14

than three months; demotion; transfer to another post; reduction in salary, allowances or other benefits; or an appropriate fine) if the staff member is found guilty.[61]

Disciplinary hearings should be held to determine appropriate corrective action based on the type and details of the case. In order to keep track of disciplinary cases, the municipality should maintain a disciplinary database which is continually updated with details of corrective action. The database should "capture the following information: name of official; position; date of alleged misconduct; type of misconduct; details of alleged misconduct; date charged; date of disciplinary meeting/hearing; outcome of hearing/meeting; money involved and recovered; corrective action taken; recommendation for criminal prosecution; details of any criminal proceedings; and, explanation of any delays in finalising cases".[62]

Municipal executives must report on preventative and corrective action to oversight bodies. Particulars of any corrective action taken or to be taken in response to issues raised in audit reports must be included in the municipality's Annual Report.[63]

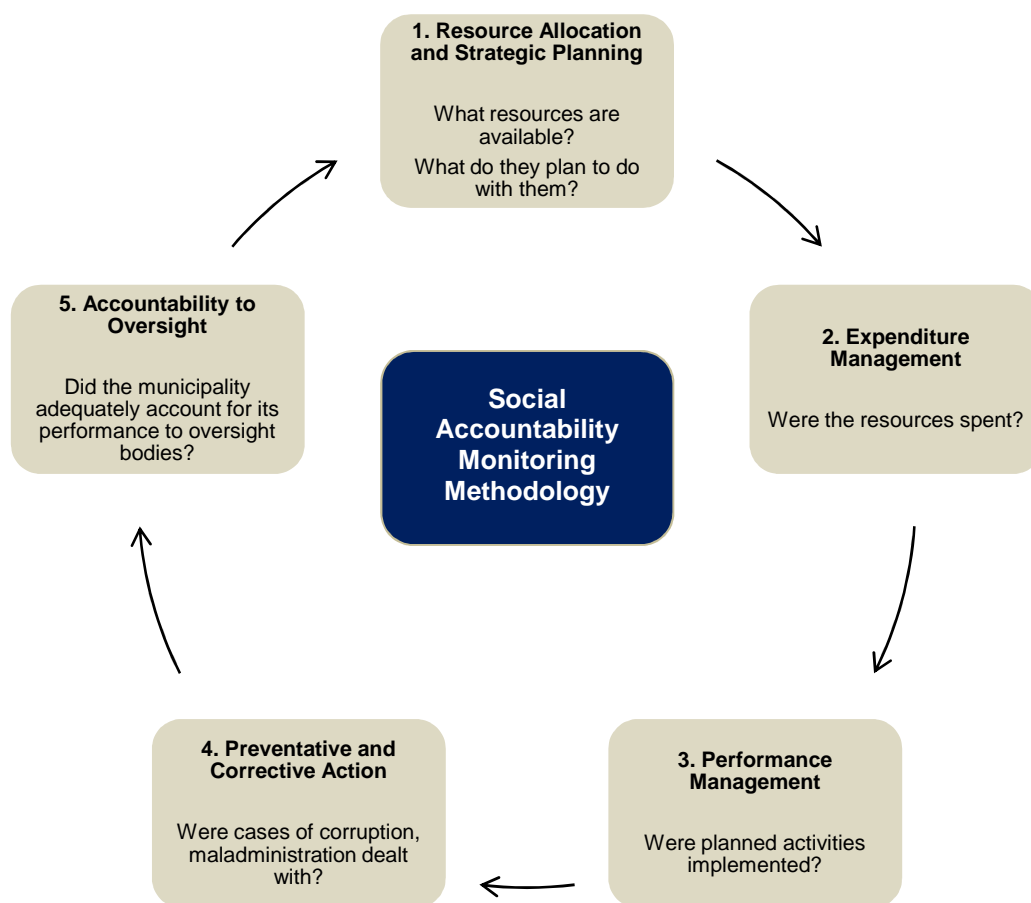## Process 4 in the Social Accountability System

Figure 4.1: The Public Resource Management Framework

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[61] Municipal Systems Act (2000) Act No. 32 of 2000 Schedule 2 14A
[62] Colm Allan, Report on Findings: Pilot Testing of SAME Indicators in the Health Sector in Mozambique, March 2014.
[63] Municipal Finance Management Act (2003) Act No 56 of 2003, Section121 (3)(g).

Preventative and Corrective Action and Process 1

Detailed budgets and strategic plans need to clearly indicate what activities should be implemented, by whom and at what cost. This enables public officials to identify problems with implementation or poor performance, as well as instances where public resources are misused or abused, and take corrective action to prevent further misuse and/or abuse of funds. Effective preventative and corrective action should also identify the training needs for poorly performing officials. These training needs should be included in subsequent strategic plans in order for resources to be allocated and the training implemented. Failure to do so will result in on-going poor performance by incapacitated public officials.

Preventative and Corrective Action and Expenditure Management

In order to ensure public funds are spent on the purposes for which they were allocated, municipalities need to take steps to prevent the misuse and abuse of funds. For example, municipal officials responsible for managing or overseeing public funds need to declare their private interests before they exercise control over these resources. Any potential conflicts of interests must be identified and steps taken to ensure public funds are not used for private gain. Where funds are misused or abused, corrective action must be taken to ensure the maintenance of an organisational environment which prevents or impedes the misuse and abuse of funds. Effective preventative and corrective action strengthens expenditure management and the use of funds for the purposes they were allocated.

Preventative and Corrective Action and Performance Management

Throughout the performance management process, municipalities need to take preventative steps to ensure plans are implemented effectively, efficiently and economically. One of the most important preventative steps is to ensure a transparent, publicly accessible and fair municipal tender process. Corrective action must be taken in response to poor performance. Efficient and effective disciplinary hearings must be held to determine appropriate corrective action, including re-training, re-skilling, transfers or dismissal. This is to ensure performance improves. Poor preventative and corrective action often results in on-going poor performance management, as no steps are taken to prevent or correct the issues which hamper service delivery.

Preventative and Corrective Action and Oversight

Oversight bodies play an important role in identifying instances of the ineffective use or abuse of public resources. It is the responsibility of Councils to ensure that the municipality takes appropriate steps to prevent such cases and insist on corrective action whenever such cases do occur. The Auditor-General also plays an important role in process 4 by identifying the misuse or abuse of public resources as well as poor performance through annual financial and performance audits. The Auditor-General's recommendations should be implemented to strengthen preventative and corrective action at municipal level.

Key Preventative and Corrective Action Legislation

The following legislation and guidelines govern preventative and corrective action at municipal level in South Africa:

- Municipal Systems Act (2000)
  Contains two codes of conduct
    1. *Code of Conduct for Councillors (Schedule 1)*
       The code covers general conduct of councillors; attendance of meetings; sanctions for non-attendance of meetings; disclosure of interests; personal gain; declaration of interests; rewards, gifts and favours; unauthorised disclosure of information; intervention in administration; council property; and, breaches of the code.
    2. *Code of Conduct for Municipal Staff Members (Schedule 2) which applies to every staff member of a municipality. It covers: general conduct; commitment to serving the public interest; personal gain; disclosure of benefits; unauthorised disclosure; undue influence; rewards, gifts and favours; council property; payment of arrears;*

> *participation in elections; sexual harassment; reporting duty of staff members;*
> *breaches of Code; disciplinary steps.*
> *It also describes, in Section 83, requirements for a competitive bidding process.*
> *Section 119 describes offences and penalties.*

- Municipal Finance Management Act (No. 56 of 2003)
  Chapter 11 sets out requirements for procurement and tenders.
  Chapter 15 covers Financial Misconduct, including disciplinary proceedings and criminal
  proceedings.

National Treasury have issued numerous Circulars on Supply Chain Management available on their MFMA website: http://mfma.treasury.gov.za/Circulars.

Key events in municipal Preventative and Corrective Action

Preventative and Corrective Action are on-going practices and should take place throughout each financial year. There are, therefore, no "key events" for the preventative and corrective action process.

Declaration of Interests
For example, Councillors must declare their interests within two months of their election or appointment (according to the Code of Conduct set out in Schedule 1 of the Municipal Systems Act (2000)). But the Code also requires councillors to disclose interests throughout the financial year (Section 5). In disclosing interests, Councillors must disclose to the municipal council any "direct or indirect personal or private business interest that that councillor, or any spouse, partner or business associate of that councillor may have in any matter before the council or the committee". The Councillor must withdraw from the proceedings of the council or committee when that matter is considered by the council or committee, unless the council or committee decides that the councillor's direct or indirect interest in the matter is trivial or irrelevant.

Disciplinary hearings and database
These are held throughout the financial year in response to cases of the misuse or abuse of public resources. A disciplinary database must be regularly maintained on an on-going basis.

Preventative and Corrective Action Documents

The following documents are important for tracking preventative and corrective action at municipal level in South Africa:
- Annual Report
- Auditor-General annual financial audit report and special forensic audit reports
- Internal audit reports
- Audit committee reports
- Registers of Interests

Evaluating municipal Preventative and Corrective Action

One of the most significant steps civic actors and municipal journalists can take to strengthen preventative action within their municipality is to request to see the declarations of interest made by municipal officials. Insisting on accessing these declarations ensures they are produced and regularly updated. Declarations of interest can be used to monitor the awarding of tenders, an important entry point to evaluating the Supply Chain Management practices of a municipality. The Auditor-General focusses on Supply Chain Management in the annual audit, and therefore his report provides useful analysis for evaluating municipal preventative action.

Corrective action can be evaluated by considering the municipality's ability to conduct disciplinary hearings and to maintain a detailed disciplinary database. The human resource capacity of the municipality is reported on in the municipality's Annual Report. Civic actors and municipal journalists can also request a copy of the municipality's disciplinary database, although these are seldom made available to the public. Individual cases can be identified, either through media reports or municipal communications, and corrective action monitored through direct correspondence with the municipality or official municipal communications.

Conclusion

In this chapter, we have looked at Process 4: Preventative and Corrective Action. We have described municipal preventative and corrective action and its role in the Social Accountability System. We have also looked at key legislation governing municipal preventative and corrective action, as well as key documents. Finally, we have looked at how to engage with process 4 at municipal level in South Africa.

In the next chapter, we will look at the second part of Process 5 – oversight.

7 Process 5 – Oversight

Introduction

The final process, Oversight, is concerned with the exercise of oversight over the effective implementation of the processes that make up the social accountability system.

This chapter provides an overview of the oversight process as it should be implemented at the local government level in South Africa. It includes:

- Municipal Oversight
- Oversight in the Social Accountability System
- Key legislation
- Key events in the municipal oversight calendar
- Key oversight documentation
- Looking at municipal oversight

Municipal Oversight

Oversight bodies must hold the municipal executive to account for their performance and decision-making in relation to the four previous processes of the social accountability system: resource allocation and strategic planning, expenditure and performance management and preventative and corrective action. There are two key oversight roleplayers at municipal level in South Africa: (1) the Auditor-General, and (2) Council. Their role in municipal oversight is discussed in more detail below.

The Auditor-General

The Auditor-General must audit and report on the accounts, financial statements and financial management of all municipalities. All reports must be made public.[64]

Section 126 of the MFMA requires that within two months after the end of the financial year (end August), the accounting officer of a municipality prepare and submit annual financial statements of the municipality to the Auditor-General for auditing.[65]

The Auditor-General must audit those financial statements. The audit process, as described by the Auditor-General South Africa[66], involves the following steps:

1. **Risk assessment**
   "Terms of engagement are communicated and agreed to ensure a clear understanding of the responsibilities of the parties, the objectives of the audit, access to information and the

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[64]Constitution of the Republic of South Africa (1996) Act No 108 of 1996, Section 188(1)(b) and (3).
[65] Municipal Finance Management Act (2003) Act No 56 of 2003, Section 126(1).
[66] Auditor-General South Africa, Audit Information / Audit Process (available on
http://www.agsa.co.za/Auditinformation/Auditprocess.aspx).

reports to be provided." The audit is then planned and a risk assessment is performed to determine the number and type of procedures to be performed.

2. **Risk response**

   "Procedures are performed to obtain evidence that the financial statements & annual performance report do not contain material misstatements and that key legislation has been complied with."

3. **Reporting**

   A management report is prepared. This report is not published and is only provided to the management and executive authority of the municipality at the end of the audit. The management report "details the findings from procedures performed, identifies the root causes of these findings and makes recommendations for improvement."
   The audit report is then prepared and published in the municipality's annual report. The audit report must be submitted to the accounting officer of the municipality within three months (end November) of receipt of the statements.[67] Once the Auditor-General has submitted an audit report to the accounting officer, no person other than the Auditor-General may alter the audit report or the financial statements to which the audit report relates.[68] The Auditor-General's report "informs those responsible for oversight, the public and others of material misstatements in the financial statements, material findings on the usefulness and reliability of the performance report, material non-compliance with key legislation in specific focus areas, and the deficiencies in internal control that were identified during the audit."[69]

There are, however, limitations to the oversight the Auditor-General can perform through the audit:

> Due to the test nature and other inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some, even material, misstatements in reported information may not be detected, and the completeness and the accuracy of the information reported are not guaranteed. Due to the focus on specific areas in key legislation, the audit does not provide assurance that all applicable legislation has been complied with. Although possible fraud may be identified during the audit, this is not the main purpose of the audit. The audit does not provide assurance that service delivery has been achieved, only that the annual performance report is useful and reliable.[70]

Despite these limitations, the Auditor-General's report is one of the most significant oversight documents produced at local government level, particularly for municipal civic actors and journailists.

Council

Municipalities are constitutionally mandated to ensure "democratic and accountable government". The executive and legislative authority of municipalities vests in the municipal council.[71] And herein lies a fundamental problem with the legislative framework governing local government in South Africa – there is no clear distinction between Council and the Executive. The separation of powers, fundamental to effective oversight and accountability, is unclear at municipal level.

Municipal Councils consist of elected members, elected in accordance with a system of proportional representation.[72] Councillors serve a term of five years at the end of which elections are held. The Municipal Council is solely responsible for the following:

- Passing by-laws
- Approving budgets

[67] Municipal Finance Management Act (2003) Act No 56 of 2003, Section126(3).
[68] *Ibid,* Section 126(5).
[69] Auditor-General South Africa, Audit Information / Audit Process (available on http://www.agsa.co.za/Auditinformation/Auditprocess.aspx).
[70] *Ibid.*
[71] Constitution of the Republic of South Africa (1996) Act No 108 of 1996, Section 151(2).
[72] *Ibid,* Section 157.

- Imposing rates and other taxes, levies and duties
- Raising loans[73]

Despite the lack of a legal separation of powers, Council must exercise oversight over each of the preceding social accountability processes, obtaining justifications and explanations from the municipal executive for their decisions and performance in relation to:
- Process 1: resource allocation and strategic planning
- Process 2: expenditure management
- Process 3: performance management
- Process 4: preventative and corrective action

In order to exercise oversight, Councils have access to the following mechanisms: Annual Reports, the Auditor-General's Report, the IDP and SDBIP, budget statements and performance evaluations.[74]

Oversight in the Social Accountability System
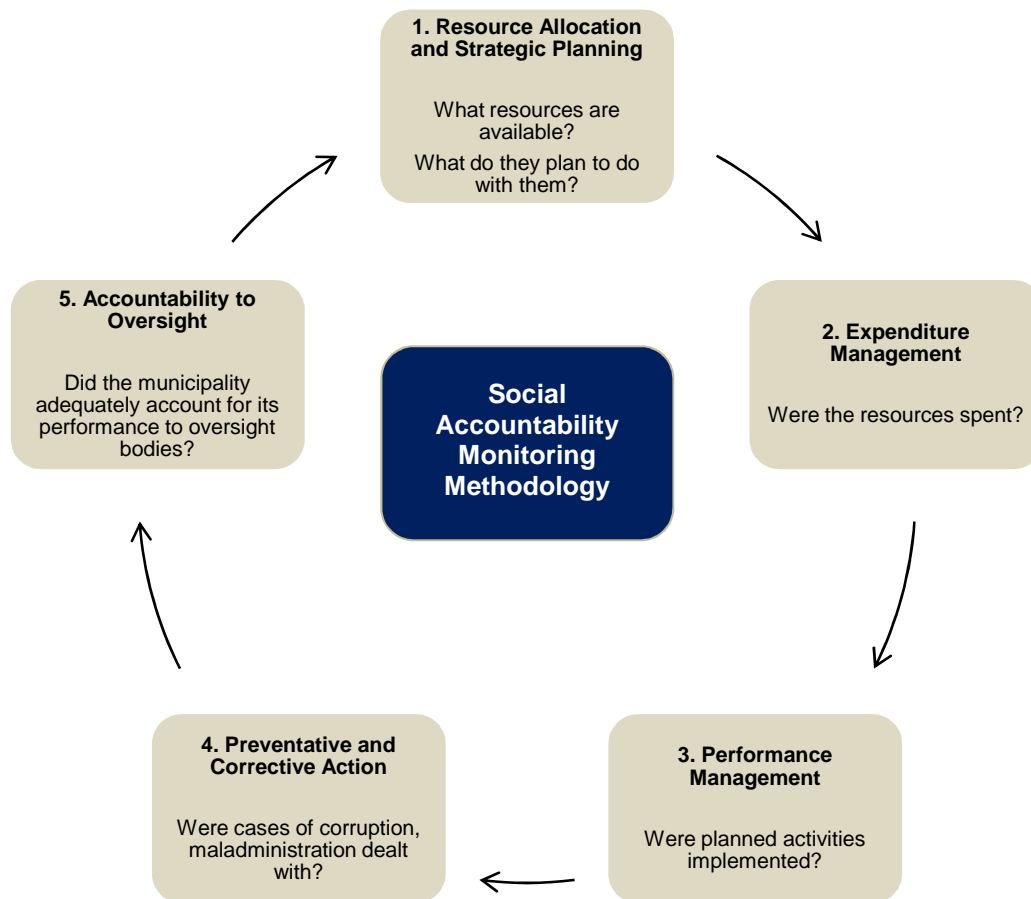
Figure 4.1: The Public Resource Management Framework

Oversight and Resource Allocation and Strategic Planning
Detailed budgets supported by costed plans enable informed voting by the Council, who are able to interrogate and evaluate whether available resources will be allocated in such a way as to

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[73] Constitution of the Republic of South Africa (1996) Act No 108 of 1996, Section 160.
[74] Williams, E. (2012) "Improving political oversight in municipalities: examining the law and practice surrounding oversight by the Council over the municipal Executive and the municipal administration".

ensure the prioritisation of the most pressing needs and effective service delivery. Furthermore, detailed budgets enable detailed financial reports which allow effective oversight of expenditure. Similarly, detailed strategic plans enable detailed performance reports which strengthen oversight. Council should oversee the entire resource allocation and strategic planning process, including the formulation phase, to ensure the municipality adheres to relevant legislative provisions and facilitates effective participation.

Oversight and Expenditure Management

Oversight bodies, such as municipal councils, are tasked with holding the executive arm of the municipality accountable for the use of public funds. The ability of the municipality to accurately record and account for spending, as well as their ability to provide justifications and explanations for spending decision-making and performance, is critical for effective oversight. Municipal councils are responsible for approving budgets and are responsible for ensuring public funds are used for the purposes for which they were allocated.

Oversight and Performance Management

Effective performance management will produce justifications and explanations for the municipality's performance and decision-making when implementing their SDBIP. This plan was approved by the municipal council and the municipal executive must account to the council for their performance in implementing it. Detailed quarterly performance reports, setting out accurate and current performance information, enables effective oversight both internally (by municipal senior management) and externally (by relevant oversight bodies such as the council and portfolio committees). Failure to gather and document performance information, or to produce detailed performance reports, obscures oversight.

Oversight and Preventative and Corrective Action

Oversight bodies play an important role in identifying instances of the ineffective use or abuse of public resources. It is the responsibility of Councils to ensure that the municipality takes appropriate steps to prevent such cases and insist on corrective action whenever such cases do occur. The Auditor-General also plays an important role in process 4 by identifying the misuse or abuse of public resources as well as poor performance through annual financial and performance audits. The Auditor-General's recommendations should be implemented to strengthen preventative and corrective action at municipal level.

Key Oversight Legislation

The following legislation and guidelines govern oversight at municipal level in South Africa:

- Constitution of South Africa, 1996 (Act No. 108 of 1996)
  Sections 157 – 161 covers Municipal Councils
  Section 188 covers functions of the Auditor-General.

- Municipal Structures Act, 1998 (Act No. 117 of 1998)
  Chapter 3 sets out the composition, membership, operation and dissolution of Municipal Councils.

- Public Audit Act of South Africa, 2004 (Act No. 25 of 2004)

- Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
  Section 126(3) describes timeframes for the submission of annual financial statements to the Auditor-General for auditing and the auditing of those statements.

- MFMA Circular No. 32 "The Oversight Report"
  Focusses on the oversight process that councils must follow when considering the annual report and how to deal with the Oversight Report *by encouraging continuous improvement and promoting accountability to stakeholders.*

Key events in the Municipal Oversight Calendar

Process	Timeframe	Event	Relevant Legislation
Process 1: Resource Allocation and Strategic Planning	September	Mayor must table a schedule outlining key deadlines for the preparation, tabling and approval of the annual budget and any consultative processes.	MFMA 21(1)(b)
	2 April	Mayor must table annual budget at a council meeting at least 90 days before the start of the budget year	MFMA 16(2)
		The annual budget and supporting documentation tabled may be in the format in which it will eventually be approved by the council and be credible and realistic such that it is capable of being approved and implemented as tabled.	2009 MBRR[75] 14(1)
	April - May	When the budget has been tabled, the municipal council *must* consider any views of the local community. After considering all budget submissions, the council must give the mayor an opportunity to respond to the submissions and, if necessary, revise the budget and table amendments for consideration by the council.	MFMA 23(1)(a) and (2)
	1 June	At least 30 days before the start of the budget year, the mayor must table in the council a report summarising the local community's views on the annual budget; any comments on the budget received from the National Treasury, the relevant provincial treasury and any other stakeholders.	2009 MBRR 16(1)
	1 June	Council must consider approval of the budget at least 30 days before the start of the budget year	MFMA 24(1)
	30 June	Council must approve an annual budget before the start of the financial year	MFMA 16(1) and 24(1)(a)
Processes 2 - 5	1 July	Start of the financial year	MFMA 1(1)
	End October	Quarterly report (q1) tabled before Council	MFMA 52(d)
	25 January	Mid-year budget and performance assessment and report	MFMA 72
	End January	Quarterly report (q2) tabled before Council	MFMA 52(d)
	End April	Quarterly report (q3) tabled before Council	MFMA 52(d)
	30 June	End of the financial year	MFMA 71
	End July	Quarterly report (q4) tabled before Council	MFMA 52(d)
	31 January	Annual Report must be tabled before Council "Immediately after an annual report is tabled in the council… the accounting officer…must…make public the annual report and invite the local community to submit representations in connection with the annual report" MFMA 127(5)	MFMA 127(2)
	February - March	Council meetings are held to discuss the Annual Report. These meetings "must be open to the public" and "a reasonable time must be allowed for the discussion of any written submissions received from the local	MFMA 130(1) and (2)

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[75] Municipal Budget and Reporting Regulations (2009) Government Gazette 32141.

		community…on the annual report; and for members of the local community…to address the council". Representatives of the Auditor-General are entitled to attend, and to speak at, these council meetings.	
	31 March	Council must consider the Annual Report and produce an oversight report on the Annual Report.	MFMA 121(1) MFMA 129(1)

Oversight Documents

The most important oversight documents are:

Minutes of Council or Committee meetings
The minutes of council or committee meetings are important oversight documents because they capture the event of Council holding the municipal administration to account for their performance and obtaining justifications and explanations for their performance and decision-making.

The Annual Report
The purpose of the Annual Report is to provide a record of the activities of the municipality and to promote accountability to the local community for decisions made, amongst other things.[76] As an account of the municipality's performance during the year, the document is an important mechanism for oversight.

The Oversight Report
The council's 'oversight report' on the municipality's annual report must be adopted two months after the tabling of the annual report. The oversight report contains the council's comments on the annual report, including a statement whether the council has approved the annual report with or without reservations, rejected the report or referred the annual report back for revision on those components that can be revised.[77] The oversight report is distinct from the annual report. It is the result of a detailed analysis and review of the annual report, conducted by non-executive councillors who are responsible for drafting the report (according to National Treasury Guidelines). The oversight report is then taken to full council for discussion. The oversight report is therefore critical for accountability and oversight.[78]

Engaging with Municipal Oversight

One of the most important documents for civic actors and municipal journalists to engage with is the Auditor-General's report. Although some of the Auditor-General's language may seem technical, understanding his report and publicising his findings is a key step in holding municipalities to account. The Auditor-General's website (www.agsa.co.za) is a very helpful resource, as are Auditor-General staff, when trying to understand Auditor-General reports. An accountant may also be able to help you understand some of the more technical language of the Auditor-General Report. In response to the Auditor-General's report, municipalities must include plans to address the Auditor-General's findings in the SDBIP for the following year. Civic actors and municipal journalists can engage with Council to ensure the approved SDBIP includes activities which, if implemented, would address issues raised by the Auditor-General.

Civic actors can also provide research support to non-executive councillors responsible for producing the Oversight Report. Where the capacity of councillors to review performance and

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[76] Municipal Finance Management Act (2003) Act No 56 of 2003, Section 121(2).
[77] *Ibid,* Section 129.
[78] Williams, E (2012) "Improving political oversight in municipalities: examining the law and practice surrounding oversight by the Council over the municipal Executive and the municipal administration".

interrogate the Annual Report is low, civic actors can provide evidence-based research on the municipality's decision-making and performance using the SAM methodology. In advocating for systemic change, civic actors should encourage Council to ensure plans to address on-going issues hampering service delivery are included in future budgets and strategic plans.

Conclusion

In this chapter, we have looked at Process 5: Oversight. We have described municipal oversight, in particular the Auditor-General and Council, and we have situated Oversight within the Social Accountability System. We have looked at key oversight events in the municipal calendar and oversight documents. Finally, we have looked at how to engage with oversight at municipal level in South Africa.

This chapter concludes Part 1 of this Guide. Part 1 has set out the Social Accountability Monitoring methodology within the municipal context of South Africa. Part 2 will explore how this methodology can be applied by civic actors and municipal journalists by providing an example of roads service delivery in the fictional municipality of Siyazama.

PART 2

Applying the SAM methodology to local government in South Africa

Introduction

█ SAM in Practice

This second part of the guide explores how civic actors and municipal journalists can practically use the Social Accountability Monitoring approach to monitor municipal processes at local government level in South Africa and engage effectively in decision-making and holding local municipalities to account for service delivery.

In order to explore this practical application, a fictional municipality has been created: **Siyazama Local Municipality**. Before continuing, you will need to download the following documents:

- Siyazama Annual Budget 2010/11 – 2012/13
- Siyazama Integrated Development Plan Review 2010/11
- Siyazama Service Delivery Budget Implementation Plan 2010/11
- Siyazama Annual Report 2010/11

These documents are available on the MobiSAM website: www.mobiSAM.net .

Part two consists of one chapter which provides an example of how to use the SAM methodology, using roads service delivery in Siyazama Local Municipality. By using the SAM methodology to investigate a particular service delivery issue in Siyazama Local Municipality (roads), the example aims to demonstrate how valuable, and yet how accessible, this methodology can be in the hands of municipal civic actors and journalists.

When looking at Roads, we will use Siyazama LM's documents to answer six simple questions:

1. How much was allocated?
2. What activities were planned?
3. Did the municipality spend the money allocated?
4. Did the municipality implement their planned activities?
5. Did they take effective preventative and corrective action to ensure the services were delivered?
6. Did they account to oversight bodies for their performance and decision-making?

In attempting to answer these questions, we are often left with more questions… better questions. And if we ask our municipalities these more informed questions then we will be exercising our right to obtain justifications and explanations for service delivery and decision-making; we will be exercising our right to social accountability.

8 Example: Roads in Siyazama

Setting the Scene

Siyazama is a small rural municipality in the Eastern Cape Province of South Africa. It has three main towns: Gweru, Mount Norton and Masvingo. In early 2010, a group of concerned residents came together to discuss the poor road infrastructure in the municipality which impacted not only on their mobility, but the municipality's economy which relies heavily on forestry, agriculture and tourism. With little or no monitoring experience between them, the residents accessed a Local Government Social Accountability Guide and created a Social Accountability Monitoring Committee (SAMCom) who was tasked with monitoring Siyazama Local Municipality's implementation of each of the five social accountability processes in relation to Road infrastructure for the 2010/11 financial year. After engaging with each process, the SAMCom produced a summary of their findings in order to report back their local communities. These reports are included below.

Allocations to Roads in 2010/11

Report of the Siyazama SAMCom
Report #1
Summary Findings: Budget Analysis
July 2010

Background

In July 2010, after a number of requests to the Siyazama Local Municipality (SLM), the SAMCom accessed the municipality's 2010/11 Annual Budget. Our analysis of the budget document and recommended actions are set out below:

What was allocated to road transport?

Road transport is a line item of standard classification (or classification of the budget by function). Although the SLM budget does not include Supporting Table A2A, we know from the Treasury template that included in "Road Transport" are roads, public buses, parking garages, vehicle licensing and testing, and other. The municipality's allocations to road transport, both operational and capital are set out below.

	Original Budget 2009/10	Adjusted Budget 2009/10	Full Year Forecast 2009/10	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
Operational	11 086 000	4 549 000	4 549 000	16 512 000	17 535 000	18 564 000
Capital	24 132 000	40 042 000	40 042 000	18 046 000	21 661 000	26 289 000
Total	**35 218 000**	**44 591 000**	**44 591 000**	**34 558 000**	**39 196 000**	**44 853 000**

Where did we get this information?
- Operational figures: Table A2, p. 10 Annual Budget
- Capital figures: Table A5, p.13 Annual Budget

In this coming year, the municipality plans to spend R16.51 million on operational costs for Road Transport. This amount represents a 263% increase (R11.96 million) from the adjusted budget in the previous year. It is unclear why the operational budget for 2009/10 was adjusted downwards by more than half the original allocation. The municipality has not justified or explained the significant increase in allocation to the operational budget for road transport in 2010/11.

The capital budget for Road Transport has decreased significantly in 2010/11 from the R40.04 million allocated to this function in 2009/10 (adjusted budget). The municipality explains this decrease on page 4 of the Annual Budget:

> The decrease is primarily attributed due to single year capital appropriation within the roads functioning, associated with the procurement of plant and machinery valued at R 14 million during the 2009/2010 financial year.

However, the budget has decreased by almost R22 million. The remaining R8 million decrease is unexplained in the Annual Report. This decrease in capital allocation appears to be inconsistent with the significant increase in operational allocation for the 2010/11 financial year, since a decrease in the actual construction of roads would likely incur less operating expenses - it requires an explanation from the municipality.

The absence of financial information for the three years prior to 2009/10 prevents situating the allocations to Road Transport in a broader context, or to identify spending patterns over a seven year horizon.

Questions to ask Council:
- *Page 3 of the Budget refers to an Annexure A which provides a summary of the capital projects included in the Capital Budget. Annexure A is absent from the final budget. We request access to this Annexure.*
- *Why has the operational budget for 2010/11 been increased by 263% from the adjusted budget in 2009/10? Why was the budget for 2009/10 adjusted downwards by such an significant amount (R6.54 million) and why does the municipality think they will be able to spend R16.51 million this year?*
- *The 2009/10 capital budget for road transport has decreased by R22 million. R14 million*

What else can we learn about water from the Budget?

The 20101/11 Annual Budget also tells us about:

- the **prioritisation** of road transport within the 2010/11 budget;
- **revenue** raised through roads transport
- **asset management**
- **source of funding**

Prioritisation
An analysis of the 2010/11 Annual Budget reveals that the municipality has prioritised Road Transport above all other functions in the municipality. Road Transport will receive R34.56 million in 2010/11, 23.62% of the municipality's total budget (operational + capital). By comparison, other key functions receive a far smaller share of the total budget; electricity receives only 9.21% and water only 8.18% of the total budget in 2010/11.

Road transport also receives the lion's share of the capital budget, R18.05 million out of the municipality's R29.75 million capital budget, or 60.65%. The only line item to come even close to this is the Executive and Council, which will receive 23.86% (or R7.1 million) of the capital budget, presumably for renovations and extensions to the building used to house the Council administration described on page 4).

The SAMCom used Table A2 and Table A5 to create the table below. The share of each line item was divided by the total and multiplied by 100 to calculate the percentage of the operational budget, capital budget and total budget allocated to each line item.

R thousand	2010/11			% of Opex	% of Capex	% of Total
	Operational	Capital	Total			
	Table A2	Table A5	B + C			
Expenditure - Standard						
Governance and administration	**53 650**	**8 230**	**61 880**	**46.04%**	**27.66%**	**42.30%**
Executive and council	15 800	7 100	22 900	13.56%	23.86%	15.65%
Budget and treasury office	22 343	80	22 423	19.17%	0.27%	15.33%
Corporate services	15 507	1 050	16 557	13.31%	3.53%	11.32%
Community and public safety	**5 907**	**1 778**	**7 685**	**5.07%**	**5.98%**	**5.25%**
Community and social services	1 953	957	2 910	1.68%	3.22%	1.99%
Sport and recreation	3 423	21	3 444	2.94%	0.07%	2.35%
Public safety	-	800	800	0.00%	2.69%	0.55%
Housing	531		531	0.46%	0.00%	0.36%
Health	-		-	0.00%	0.00%	0.00%
Economic and environmental services	**19 749**	**18 046**	**37 795**	**16.95%**	**60.65%**	**25.84%**
Planning and development	2 560	-	2 560	2.20%	0.00%	1.75%
Road transport	16 512	18 046	34 558	14.17%	60.65%	23.62%
Environmental protection	677	-	677	0.58%	0.00%	0.46%
Trading services	**37 225**	**-**	**37 225**	**31.94%**	**0.00%**	**25.45%**
Electricity	13 474	-	13 474	11.56%	0.00%	9.21%
Water	11 961	-	11 961	10.26%	0.00%	8.18%
Waste water management	3 203	-	3 203	2.75%	0.00%	2.19%
Waste management	8 588	-	8 588	7.37%	0.00%	5.87%
Other	**-**	**1 700**	**1 700**	**0.00%**	**5.71%**	**1.16%**
Total Expenditure - Standard	**116 531**	**29 754**	**146 285**	**100.00%**	**100.00%**	**100.00%**

Revenue

According to Table A2 on page 9 of the Budget, the municipality plans to raise R12.08 million in revenue through the road transport function. This represents 9.45% of the planned revenue for this financial year. It is likely that vehicle licensing and testing, rather than roads, will be responsible for this revenue.

Asset Management

Table A9 on pages 16 and 17 describes capital expenditure, divided into new assets and renewal of existing assets. Using the information in this table, we created the table below to summarise our findings for road transport:

	Original Budget 2009/10	Adjusted Budget 2009/10	Full Year Forecast 2009/10	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13	
Operational	11 086 000	4 549 000	4 549 000	16 512 000	17 535 000	18 564 000	Table A2
Capital	24 132 000	40 042 000	40 042 000	18 046 000	21 661 000	26 289 000	Table A5
Total	**35 218 000**	**44 591 000**	**44 591 000**	**34 558 000**	**39 196 000**	**44 853 000**	
Total New Assets	-	-	-	17 746 000	21 343 000	25 951 000	Table A9
Renewal of Existing Assets	-	-	-	-	-	-	
Total Capital Expenditure	**-**	**-**	**-**	**17 746 000**	**21 343 000**	**25 951 000**	
Variance between the A5 & A9				*300 000*	*318 000*	*338 000*	
Repairs and Maintenance	1 800 000	800 000	800 000	2 800 000	2 974 000	3 149 000	

From the table above, we can see that the municipality plans to spend R17.75 million on new assets for Road transport, and nothing on the renewal of existing assets. There are some discrepancies between Table A9 and Table A5, however, In Table A9, the total capital expenditure for roads is R17.75 million, R300 000 less than the total budget for roads in Table A5. The total budget for capital expenditure is the same in both tables, however. The unexplained difference (which also occurs in the allocations for 2011/12 and 2012/13) must be included under other line

items in Table A9 for the two total budgets to align. It is unclear whether the R300,000 was included in Community, Other assets, or intangibles, or why. *The municipality should justify and explain this in their Budget.*

While no money is allocated for the renewal of existing road assets, Table A9 reveals that the municipality plans to spend R2.8 million on road repair and maintenance in 2010/11. This will be funded through the operational budget, and represents 16.96% of planned operational spending on road transport. It is of concern, given the state of our road infrastructure in Siyazama, that R1 million was removed from the 2009/10 budget through the adjustments budget. What were the reasons for this adjustment downwards, and how do we know that it won't happen again this year?

Sources of Funding
According to Table A5, the municipality's capital budget of R29.75 million is funded through Grants and subsidies from National Government and Internally generated funds. Using information from Table A5 and Table SA18, we created the following table and identified several unexplained discrepancies in the municipality's explanation of how the capital budget is funded.

	Original Budget 2009/10	Adjusted Budget 2009/10	Full Year Forecast 2009/10	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13	
Road transport	24 132 000	40 042 000	40 042 000	18 046 000	21 661 000	26 289 000	
Total Capital Expenditure	37 533 000	52 633 000	52 633 000	29 754 000	28 661 000	33 584 000	
							Table A5
Funded by:							
National Government	21 763 000	21 763 000	21 763 000	17 746 000	21 343 000	25 951 000	
Internally generated funds	15 770 000	30 870 000	30 870 000	12 008 000	7 318 000	7 633 000	
Total Capital Funding	37 533 000	52 633 000	52 633 000	29 754 000	28 661 000	33 584 000	
Transfers and Grants							
MIG		16 763 000	16 763 000	18 680 000	22 466 000	27 317 000	Table SA18

According to the municipality, the capital budget is R29.75 million. This is funded through two main sources:
1. National Government Grants and Subsidies (R17.75 million) and
2. Internally generated funds

On page 3 of the municipal Budget, we read that capital "grants and subsidies are mainly earmarked road infrastructural projects". On page 21, Table SA18 indicates that there is only one national government transfer and grant to SLM, the Municipality Infrastructure Grant (MIG). However, the information provided in this table raises two questions:

- *What is the value of the MIG in 2010/11? According to Table A5, it is R17,746,000 – this is almost a million rand (R934,000) less than the allocation set out in Table SA18. Since most of this Grant will go to road transport, it is imperative that the municipality clarify the actual MIG allocation and for Council to explain why they approved a budget with inconsistent allocations.*
- *What happened with the MIG between 2009/10 and 2010/11? According to Table A5, the National Government transfer (MIG) decreased from R21.76 million in 2009/10 to R17.75 million in 2010/11. Why did the grant decrease? And why is this information inconsistent with the grants and subsidies information set out in Table SA18, which claims the MIG was only R16.76 million and that the grant allocation has therefore increased in 2010/11. Which table is accurate and how do the apparent inaccuracies effect the capital budget for roads transport?*
-

Proposed Action
- The SAMCom will request a meeting with the Finance Steering Committee of their local Council to obtain answers to the questions identified above.
- In future, the SAMCom will attempt to access draft copies of the municipality's budget in order to raise concerns before the final approval of the budget by council.
- Access the municipality's IDP and SDBIP to review plans for

Report of the Siyazama SAMCom
Report #2
Summary Findings: Plan Evaluation
July 2010

Background

In August 2010, again after a number of requests to the Siyazama Local Municipality (SLM), the SAMCom accessed the municipality's 2010/11 Service Delivery Budget Implementation Plan and Integrated Development Plan. We were particularly eager to access these two documents when the municipality refused to make available Annexure A which should have been included in the 2010/11 Annual Budget, setting out a summary of all capital projects for this year. Our analysis of both planning documents and recommended actions are set out below:

Roads plans in the IDP

Background
The Municipal Manager identifies three "short term achievable goals" related to road infrastructure in the IDP on page 3:

- Addressing the Roads and Stormwater backlogs through MIG funding.
- Developing maintenance plan for the municipality's newly constructed roads
- Acquisition by the Municipality to get its own plant and machinery to construct and maintain roads

According to the 2010/11 Annual Budget, the municipality has already purchased the plant and machinery required for road construction and maintenance.

The IDP distinguishes between four categories of roads: national, provincial, access roads and streets. There are no national roads within the municipality, but there are a number of provincial roads for which the Eastern Cape Provincial Department of Roads and Public Works.

Siyazama Local Municipality is responsible for Access Roads and Streets within the municipality. According to the IDP (pages 11 and 12):

> *Access Roads*
> Access Roads are maintained by municipalities in terms of the Municipal Structures Act. However there is a significant challenge around capacity, knowledge, resources and magnitude of the backlogs for them to effectively implement such service. A lack of maintenance of these roads which are in the commercial farming and rural areas, impacts significantly on the social and economic development of the area. The maintenance of these roads became a function of local municipalities once wall-to-wall municipalities were established in 2001. Historically they were not involved in the maintenance of such roads and as such have been severely challenged. From a developmental perspective, the Siyazama LM has been focusing on access roads in their rural areas.

> *Streets*
> Streets within towns are the responsibility of the relevant local authority. Streets in the main part of town have not been maintained for a number of years as priorities of municipalities changed to focus on the previously disadvantaged areas, and this has led to some streets deteriorating beyond reasonable repair.
> The state of the streets of an urban settlement has an impact on investment by outsiders into the area:

- Streets in Masvingo and Gweru require some form of upgrading due to the expected economic growth in the area.
- Streets in Mount Norton that were partially built will need attention.

The Upgrading of Gweru streets project has been prioritised by Siyazama LM 2009/10 budget and is underway.

Prioritisation

According to the IDP, the municipality has prioritised key roads which must be kept well maintained as they have the most social and economic impact in the municipality. These "key mobility corridors" include the MR0715 (Gweru/Langeni roads) and the R56 (between Masvingo and Mount Norton) (page 12).

The municipality acknowledges the need to source funding for improved road maintenance, but does not provide any more detail for where such funding could be sourced.

Planned activities

- Page 18: KPA 2: Basic Service Delivery
  - Strategic objective: well maintained infrastructure, equipment and machinery
  - Performance indicator:
    - improved Roads and Stormwater Maintenance
      This indicator is vague. How will the municipality improve maintenance?
    - formulate a plant utilisation policy
    - upgrade the existing maintenance team
      Unclear what is meant by the last indicator. Council should clarify.
- Page 25: Turnaround Strategy
  - Priority turn around focal area - 1.5 Access to municipal roads
    - No information provided. Should have included the annual target, capacity challenges, municipal action, indicators and unblock actions needed from other spheres and agencies.
- Page 39: Key Performance Area Roads and Stormwater
  - IDP Objective: well-maintained roads and storm water infrastructure
  - Baseline:
    - The municipality has purchased its own plant and machinery
    - There is R18.68 million MIG allocation for 2010/11
  - Outputs: construct generally acceptable roads networks
  - Inputs: Three year capital plan
  - Outcome: Improved and accessible road network
  - Risks: inclement weather
  - Performance Indicator: 100km of road network constructed and/or maintained.
  - Target Date: June 2011

Allocations to roads (according to the IDP)

- The figures presented on page 33 of the IDP are consistent with those presented in the Annual Budget for 2010/11.

Questions we have for Council

- Neither the IDP nor the SDBIP is able to clearly quantify the backlog in roads maintenance and construction. Why has the municipality not undertaken a rigorous needs assessment to inform its planning and budgeting?
- The municipality plans to construct and/or maintain 100km of road in 2010/11, using R18.68 million of MIG funding. The municipality should specify:
  1. How many km will be constructed and how many will be maintained?
  2. Which roads will be addressed in the 2010/11 financial year?

- The SAMCom recommends that a road map be used to identify which roads in the municipality for which the provincial department is responsible. The community should engage with the Provincial Department to ensure they plan and allocated resources to fix these roads.

Roads plans in the SDBIP

Background
The SDBIP provides more detailed plans for roads service delivery in 2010/11, but the information provided is still insufficient to adequately monitor the municipality's performance or hold them to account.

Planned Activities
In the SDBIP, the municipality provides a "Siyazama Scorecard", listing activities for the 2010/11 financial year. Four activities relating to Roads and Stormwater are included in the scorecard, linking to the IDP objective "provide sustainable road infrastructure network":

- **Construct access roads** utilising MIG funds (to address a "90% roads construction and maintenance backlog"). While the SDBIP identifies that MIG funding will be used, it does not set out how many access roads or kilometres of access road will be constructed by March 2011 (the project target date provided). The official responsible is the Technical Services Manager.
- **Construct gravel access road** for Masvingo plots next to the hospital. Again, however, the municipality does not commit to the number of kilometres to be constructed. Instead, the municipality says it will have "constructed gravel access road" by December 2010.
  - More information is available on page 14, which sets out a "capital works plan and other ward-based projects"
    - Here the municipality identifies six roads-related projects
      - Ward 11 – construction of Tinana Access Road
      - Ward 9 – upgrading of Mt Norton Access Road
      - Ward 12 – construction of Mangoleng East Access Road
      - Ward 10 – Mpharane Access Road
      - Ward 3 – Construction of T83 to Matugulo via Tsikarong
      - Ward 7 – Construction of Maroga to Sophania Access road
    - At no point does the municipality specify how many kilometres will be constructed or upgraded.
    - The capital works plan totals R21,446,000. This is only 72% of the Capital Budget as set out in the 2010/11 Annual Budget which was R29,754,000. This means that R8.31 million of the Capital Budget is not accounted for in the SDBIP.
    - The total cost of all six roads projects is R15,577,993. This is only 83% of the total MIG allocation as set out in Table SA18 of the Annual Budget, which was R18,680,000. This means that R3.10 million of the MIG allocation is not accounted for in the SDBIP.
- **Draft policy** for plant utilisation and **workshop councillors** on the draft policy. This is aimed to ensure the newly purchased plant and machinery are optimally used.
- **Obtain relevant equipment for pothole patching** and submit a **plan** for pothole patching. The municipality's performance indicator for this activity is "all blacktop surfaced roads with no potholes" by September 2010, three months into the financial year. The municipality is unclear about what the "relevant equipment for pothole patching" is.

Questions we have for Council:
- The Council should provide more detailed plans for the construction of roads. In particular which roads are being constructed, which upgraded and which maintained?

- In addition, how many kilometres of roads will be constructed/upgraded through the six projects identified in the Capital Works Plan on page 14 of the SDBIP?
- Why is there R8.31 million missing from the Capital Works Plan?
- Why is there R3.10 million of the MIG funding unaccounted for in the Capital Works Plan, if the total MIG allocation is to be used for roads infrastructure as the SDBIP suggests?

Proposed action
- Request a meeting with the Technical Services Manager to determine how many km of access roads will be constructed and where in 2010/11.
- Recommendation to conduct social audits
    - Pothole watch – map all potholes on Siyazama's municipal roads and monitor the municipality's progress in fixing them. Report all unpatched potholes to the municipality.
    - Road construction – if the municipality supplies more detailed information relating to the length of road to be constructed/upgraded, monitor service delivery. Request tender documents for more project-specific information.

Setting the Scene

Throughout the 2010/11 financial year, the SAMCom monitored the municipality's performance in implementing their SDBIP and, where possible, budget. They monitored monthly and quarterly financial reports and conducted a social audit monitoring the municipality's patching of potholes. In general, the municipality was not transparent and failed to provide project-specific information for each roads-related project identified in the SDBIP. 2010/11 Annual Report should have been tabled in Council in January 2012, there were delays and the SAMCom only successfully obtained a copy of the report in June 2012, nearly a year after the end of the financial year under review and two years after they first conducted their analysis of the municipality's budget and plans. Despite this delay, the SAMCom used the 2010/11 Annual Report to evaluate the municipality's expenditure and performance in relation to the delivery of roads, as well as preventative and corrective action and accountability to oversight. Their findings are set out in the reports below.

◾ Roads-related Expenditure 2010/11

Report of the Siyazama SAMCom
Report #3
Summary Findings: Expenditure
July 2012

Expenditure against allocations

When we compared reported spending against the original budget as set out in the 2010/11 Budget, we saw there were noticeable inconsistencies with the Road Transport line item. These are summarised in the table below and then discussed briefly.

Source	Budget 2010/11 Tables A2 + A5	Annual Report 2010/11 p. 21			
Road Transport	Budget Year 2010/11	Budget 2010/11	Actual	Variance	Variance (%)
Operational	16 512 000	15 164 832	8 679 471	6 485 361	43%
Capital	18 046 000	34 600 111	17 461 988	17 138 123	50%
Total	**34 558 000**	**49 764 943**	**26 141 459**	**23 623 484**	**47%**

Original vs Reported Budget Allocations
- The operational allocation for road transport described in the Annual Report is R1.35 million lower than the original budget. It is unclear in the municipality's reporting whether this budget was adjusted through an adjustments budget, nor is the decrease justified or explained.
- The capital allocation for road transport described in the Annual Report is R16.55 million more than the budget originally approved by Council at the beginning of the financial year. Again, it is unclear whether the capital budget was adjusted upwards through an adjustments budget and where the additional money came from.

Underspending
- Both the operational and capital budgets for Road Transport were underspent in the 2010/11 financial year.
- The operational budget was underspent by R6.49 million (43%). The explanation offered by the municipality is "offset against income". We require a better explanation.
  - A comparison of actual spending against the original operational budget for Road Transport reveals that the municipality's underspending was closer to 47%, nearly half of the original budget.
- The capital budget was underspent by R17.46 million. This particular line item raises numerous questions. This spending, when compared with the original budget, would have meant the municipality spent 97% of their capital budget for Road Transport. But this line item was almost doubled in the financial year under review – that entire increase went unspent. The municipality attempts to explain this underspending by claiming it was caused by the Prentiesberg road and stormwater project; but we know from page 19 that this project was valued at R8.26 million. The remaining R8.89 million unspent on Road Transport is not explained in the Annual Report.
  - There is also a discrepancy regarding the value of the Prentiesberg road and stormwater project, a project which was not included in the 2010/11 SDBIP or IDP. Page 19 claims the project was valued at R8.26 million. However, according to the table on page 15, the "contract award value" is R9,472,555.49.
- In total, the municipality underspent its allocations for Road Transport by 47%, R23.62 million in the current financial year.

MIG

This underspending of nearly half the Road Transport budget seems incongruous with the Municipality's spending of the Municipal Infrastructure Grant in 2010/11. The municipality reports that it spent almost the entire grant, which (according to the SDBIP) was mostly allocated to road infrastructure. The mayor herself affirms this when she reports on page 3 of the Annual Report: "100% spending of the Municipal Infrastructure Grant for construction of roads".

- The municipality's original MIG allocation was R18,680,000 (Budget, p. 21 Table SA18), the only capital government grant/subsidy
- Page 22 describes that of this allocation, the municipality only received R13,680,000 during the financial year. An additional R4,260,888 was brought forward from the previous financial year. Thus the municipality had a total MIG of R17,940,888 of which they spent R17,899,522.
- These figures are wholly inconsistent with the MIG projects reported on pages 14 – 15 of the Annual Report, which state that the total contract award value of all MIG projects was R39,773,364.54 of which the municipality had spent R29,567,824.92. If this table is accurate the municipality has over-committed and overspent its conditional Municipal Infrastructure Grant. This demonstrates extremely poor expenditure management. The municipality offers no explanation for these discrepancies in the Annual Report, nor does it provide any explanation of how it will pay for the outstanding values of the contracts awarded for MIG projects.
- On page 42 the municipality states that "100% of the MIG was spent and exceeded by R600 000. The spending included the rollover from the previous financial year." This is inconsistent with the municipality's own financial reporting described above.

Additional Capital Funding

- On page 17, the municipality reports that it received capital government grants and subsidies to the value of R41,753,390. Since the MIG was the only capital grant or subsidy identified in the Annual Budget, the municipality must have received an additional capital grant.
- On page 18, the municipality reports that it has received capital government monies to the value of R38,435,140.
- The municipality should transparently identify what additional capital grant funding was allocated to the municipality during the current financial year, its value and what it was allocated for, as well as how it was spent.

Questions we have for Council:
- *Why was the operational budget for Road Transport decreased during 2010/11?*
- *Why did the municipality significantly underspend its operational budget for Road Transport? What does "offset against income" mean?*
- *Why was the capital budget for Road Transport significantly increased during 2010/11?*
  - *Where did these funds come from?*
  - *Do they relate in any way to the additional capital grant transfer from national/provincial government?*
- *What is the value of the Prentjiesberg project?*
- *What else caused the underspending of the capital budget for Road Transport?*
- ***Please explain how the municipality can award MIG project contracts to the value of R38.44 million when the Grant allocation was only R18.68 million?***

Report of the Siyazama SAMCom
Report #4
Summary Findings: Performance
July 2012

Background

The SAMCom have used the municipality's 2010/11 Annual Report to compare their performance with the activities set out in the 2010/11 SDBIP and IDP.

The municipality's roads-related plans for 2010/11

- IDP: 100km of road network constructed and/or maintained (p. 39)
  - The Scorecard claims to have constructed 58.3km and conducted road maintenance for 45.87km (see page 42)
- SDBIP:
  - MIG funding used to construct access roads and a gravel access road constructed in Masvingo for "plots next to the hospital" (p. 9)
  - Six roads projects identified on page 14
    - Ward 11 – construction of Tinana Access Road
    - Ward 9 – upgrading of Mt Norton Access Road
    - Ward 12 – construction of Mangoleng East Access Road
    - Ward 10 – Mpharane Access Road
    - Ward 3 – Construction of T83 to Matugulo via Tsikarong
    - Ward 7 – Construction of Maroga to Sophania Access road

The municipality's failure to provide significant details in the planning documentation, in particular the proposed length of roads, has made it impossible to hold it to account for its performance in implementing the above activities. This has impressed upon the SAMCom the importance of engaging critically with the municipality's future plans to ensure activities are measurable and that the indicators provided enable both monitoring and holding the Council to account for their implementation.

The table below summarises the municipality's reported performance against each of the above activities. The table also highlights a number of roads-related activities implemented during the financial year which were not included in the 2010/11 SDBIP or IDP. Of the 18 roads-related projects reportedly implemented during the financial year, only seven appeared in the municipality's SDBIP or IDP.

It is unclear whether the municipality always intended to implement the additional 11 activities or whether they were created in response to additional funding which appears to have become available during the financial year.

Project Name/description	2010/11 IDP / SDBIP	2010/11 Annual Report
100km of road network constructed and/or maintained	IDP p. 39	The Scorecard claims to have constructed 58.3km and conducted road maintenance for 45.87km (see page 42).
Construction of Tinana Access Road	SDBIP p. 14	Described under MIG projects (page 15). Value of contract awarded: R2,114,000.00 of which the municipality has spent R1,955,001.38. The project is at 92% Retention Stage.
Upgrading of Mt Norton Access Road	SDBIP p. 14	Described on page 13, this project was 4.7km and the status is "Practically complete. Service providers were terminated due to poor performance." See the SAMCom's report on preventative and corrective action for more analysis.
Construction of Mangoleng East Access Road	SDBIP p. 14	Described in more detail on page 13, this project was 10km and the status at the end of 2010/11 was "Under construction". It also appears in the Scorecard as an "additional project" despite being included in the original plans. (see p. 42)
Mpharane Access Road	SDBIP p. 14	Described under MIG projects (page 15). The value of the contract awarded was R570,000.00 of which the municipality has spent R550,612.02. The project is at 97% retention released.
Construction of T83 to Matugulo via Tsikarong	SDBIP p. 14	Described on page 13, this 6.9 km project is reported as complete.
Construction of Maroga to Sophania Access road	SDBIP p. 14	Construction completed according to the MM (p. 4). Described in more detail on page 13, this 21km project has 10km complete; 11km commenced in August 2011.
MIG Projects Described in the Annual Report (page 13 – 14) which didn't appear in the IDP or SDBIP		
Ntabelanga Access Road		The value of the contract awarded was R726,928,41 of which the municipality has spent R579,462.25 and the project is "80% retention stage"
Mahanyaneng Access Road		Described in more detail on page 13. This 4.7 km project is "Complete but bridge approaches were washed away during the heavy rains". It is also described on page 14: the value of the contract awarded was R3,732,147.93 of which the municipality has spent R3,293,015.77. The project is at 94% retention stage.
Re-gravelling of Lehana Access Road		Construction commenced, according to the MM (p. 4). Described in more detail on page 13: the access Road and Bridge Lehana High School was 4.7km in length and is completed. Also described on page 15: the value of the contract awarded was R3,776,718.05 of which the municipality has spent R3,606,761.16 and the project is 93% retention stage. This is inconsistent with the report on page 13 and there is no mention of a bridge.
Gweru Streets		Described in more detail on page 13: Rehabilitation of Gweru Streets – Ntokozweni, 5km in length and the project status is: Tender stage – project awaiting a court judgement. Described in the municipality's scorecard (p. 42) "While the Gweru streets could not be done, an additional project was included (Mangoloaneng Project). See the SAMCom's report on preventative and corrective action for more analysis.
Zwelitsha Sondaba and Tsolobeng		Described on page 15: the value of the contract awarded was R1,197,461.07 of which the municipality has spent R964,358.46. The project is at 81% retention stage.
Nxotshana Access Road		Described on page 15: the value of the contract awarded was R2,099,645.16 of which the municipality has spent R1,910,187.03. The project is at 91% retention stage.

Ward 1, 5 and 6		Described on page 15: the value of the contract awarded was R2,145,197.41 of which the municipality has spent R2,092,950.49. The project is at 98% retention stage.
Equitable Share Projects for 2010/11, also not included in the SDBIP or IDP		
Rehabilitation of Roads in Masvingo		According to the municipality, R3,261,369.66 was allocated for roads construction and rehabilitation in Masvingo. The project was practically completed by the end of the financial year (page 12). This report is contradicted by the information on page 15: the value of the contract awarded was R3,261,369.66 of which the municipality has spent R1,116,849.68. The project is at 35% retention stage.
ECDC Funding Projects for 2010/11, also not included in the SDBIP or IDP		
Gweru Truck Stop		Described on page 13: Truck Stop roads and stormwater Under construction, progressing well. Also described on page 15: the value of the contract awarded was R9,171,868.50 of which the municipality has spent R3,210,844.88. The project is at 35% retention stage.
Prentiesberg		"The contractor was appointed and after that the project was on hold following a high court order" p. 13 "Interdicts obtained against the implementation of the Prentjiesberg roads and storm water project" p. 18 Also described on page 15: the value of the contract awarded was R9,472,555.49 of which the municipality has spent R289,923.43. The project is at 3% construction stage. See the SAMCom's report on preventative and corrective action for more analysis.
Other		
Dengwane Access Road, Ward 11		Described in more detail on page 13: Length: 7km and at Tender Stage

Siyazama Local Municipality's Own Evaluation

On page 4 of the Annual Report, the Municipal Manager admits that "2010/11 was a very bad year for our roads construction programme as a result of the incessant inclement weather that we experienced". The SAMCom questions whether "inclement weather" is solely responsible for the municipality's performance in implementing its planned activities.

Questions for Council
- *The Scorecard claims to have constructed 58.3km and conducted road maintenance for 45.87km (see page 42). Please provide us with a breakdown of these figures indicating clearly which roads were constructed / maintained and how these figures were arrived at?*

Proposed Action
- *Conduct site visits and compare the municipality's performance reports with actual service delivery.*
- *Visit the Mount Norton Access Road in particular.*
- *Conduct a second pothole audit and compare the municipality's performance with the original pothole audit.*

Press Statement
The SAMCom welcomes the development of a service level agreement between the Siyazama Local Municipality and the Provincial Department of Roads. We also welcome the long overdue detailed assessment of the roads backlog (calculated at 70%) and the admission that far greater resources should be allocated to address this issue in our community. However, in light of the municipality's poor administration of the MIG in the year under review, we caution that allocation of funds cannot take place in a context where the municipality is not adequately capacitated to spend those funds on constructing and maintaining a sustainable road network in the municipality.

Report of the Siyazama SAMCom
Report #5
Summary Findings: Preventative and Corrective Action
July 2012

Background

The SAMCom has reviewed the municipality's Annual Report to evaluate the municipality's preventative and corrective action during the 2010/11 financial year in relation to roads infrastructure. We have three significant findings, discussed below, which require further action:

1. Tendering for Roads projects
The Annual Report raises several questions regarding the municipality's tendering process. In particular, the awarding of a R1.58 million tender for the construction of the Mount Norton Access Road. The municipality's reporting in the Annual Report relating to this particular project is not transparent. On page 15, the municipality notes that the Contract Award Value for the project was R1,584,895.47 and that by the end of the financial year, R705,445.90 had been spent with "45% Construction Stage" being completed. However, on page 13, the municipality states that the 4.7km of the Mount Norton access road are "practically complete. Service providers were terminated due to poor performance."

Recommended Action:
The SAMCom have already recommended in their previous report that the SAMCom visit this road with the Council to examine the project. However, the SAMCom also recommend that the Council provide the SAMCom with a list of all contractors awarded tenders to construct or maintain road infrastructure in Siyazama Local Municipality. The SAMCom will also request all declarations of interest and review these in light of the tenders awarded.

2. Court Cases
The municipality currently has two court cases relating to road infrastructure. Each of these are discussed below:

2.1 Prentjiesberg
The "Prentijiesberg roads and stormwater project" was not included in the Municipality's original 2010/11 SDBIP or IDP. From the Annual Report, page 15, we know that the value of the contract awarded was R9,472,555.49 of which the municipality had spent R289,923.43 and that the project was at 3% construction stage by the end of the financial year.
The court case is mentioned several times in the Annual Report, although specific details are sketchy. On page 13, the status of the project "completion of roads and stormwater at Prentjiesberg" is described as "the contractor was appointed and after that the project was on hold following a high court order".
On page 30, the municipality provides somewhat more detail. The case name is SJW Civils and the nature of the case is "Interdict on bidding process – Prentjiesberg". The case commenced in early May 2011, only two months before the end of the financial year.

2.2 Gweru Streets
This court case is mentioned only twice in the Annual Report. Again, specific details of the case are not provided:
- On page 13, the municipality notes that the project "Rehabilitation of Geru streets – Ntokozweni", a 5km roads project, was at "tender stage – project awaiting a court judgement".
- The value of the contract awarded for Gweru Streets was R1,763,878.66 of which the municipality has already spent R1,042,112.83 despite the project

only being "12%". That so much of the contract should have been paid while at the "tender stage" is highly suspicious and requires justification by the municipality.

- ▪ The case is again under SJW Civils, and again the nature of the case (reported on page 30 of the Annual Report) is "interdict on bidding process Ntokozweni". The case commenced in late June 2011, a month after the previous case and right at the end of the financial year.

Recommended Action:
The SAMCom will access the court papers of each case to understand the claims by SJW Civils. The SAMCom will also approach SJW Civils to understand the nature of each case and request a meeting with the Council to hear the municipality's side of the story. In particular, the SAMCom will conduct a thorough investigation of the Gweru Streets case, in particular the payment of over R1 million when no work had apparently been done.

Oversight

Report of the Siyazama SAMCom
Report #6
Summary Findings: Oversight
July 2012

Background

The SAMCom has reviewed the municipality's Annual Report to evaluate the municipality's responsiveness to oversight during the 2010/11 financial year. In particular, the SAMCom focused on the municipality's response to the Auditor-General and the municipality's Oversight Committee.

Auditor-General
The SAMCom congratulates the Siyazama Local Municipality in achieving an unqualified audit opinion from the Auditor-General. In giving this opinion, the Auditor-General said that the municipality's 2010/11 "financial statements present fairly, in all material respects, the financial position of the Siyazama Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with GRAP and the requirements of the MFMA and DoRA." (Annual Report, p. 32).

Despite an unqualified audit opinion, the Auditor-General raised a number of findings. The municipality has responded to each of these findings in the Annual Report on pages 35 – 37. These plans indicate the municipality's responsiveness to the oversight role played by the Auditor-General.

Recommended Action:
The SAMCom will review the municipality's upcoming SDBIP to ensure that the municipality's action plan to address AG findings is translated into planned activities in the SDBIP.

Oversight Committee
In the absence of a Council "Oversight Report on the Annual Report" or minutes from Council meetings, it was difficult for the SAMCom to evaluate the municipality's responsiveness to non-executive Council oversight. However, the SAMCom welcomes the establishment of an Oversight Committee in SLM. The Annual Report (page 7) provides the following information on the activities of the Oversight Committee:

"The Oversight Committee was established in the Council meeting held on 17 September 2010 and November 2010. Following its induction on 30 November 2010, the Oversight

Committee had its meetings on 15 March 2011, 25 March 2011 and 30 March 2011, at which meetings the following reports were reviewed: -
  o Annual Report for the year ended 30 June 2010
  o Mid-term report for the period ended 31 December 2010
The oversight reports on the above reports were respectively considered and adopted by the Municipal Council in its meetings held on 31 March 2011 and 10 May 2011."

Recommended Action:
The SAMCom will request the above-mentioned oversight reports. It will also seek to establish a relationship with the Oversight Committee in the hope of presenting its findings and recommendations following future SAM monitoring.

Conclusion

This example of roads service delivery in Siyazama Local Municipality has demonstrated how the SAM methodology can be practically applied in a local government context to provide residents with evidence to engage more systematically with those responsible for local service delivery. If you would like a chance to practice applying the methodology for yourself, please visit www.mobiSAM.net and make use of our free online Local Government SAM course from October 2014. The course will guide you through two practical examples, both based on Siyazama Local Municipality: electricity and water. Each practical affords you the opportunity to use the SAM tools described in this Guide to engage with the municipality's documents for yourself.