



Policy Brief 6

A review of municipal dysfunctionality in South Africa

31 March 2020

Executive summary

Local government (LG) is the sphere of government that is closest to people and responsible for the provision of basic services and related infrastructure. A number of local municipalities (LMs) district municipalities (DMs) are unable to provide basic services to their citizens in a satisfactory manner. A significant number of municipalities have been declared as dysfunctional while some are in financial distress and others are in the verge of being dysfunctional or under financial distress. According to the Department of Cooperative Governance and Traditional Affairs (COGTA), 87 out of 257 municipalities were declared either dysfunctional or in financial distress in 2018, while a significant number of municipalities were identified to be at risk of dysfunctionality to varying degrees. Only seven per cent were considered to be well-functioning. Therefore, the main aim of this paper is to interrogate the concept of municipal dysfunctionality in South African municipalities and provide an understanding of key drivers leading to dysfunctionality. Utilising a case study approach to eight LMs and three DMs and interviews with key stakeholders including from the South African Local Government Association (SALGA), COGTA and the National Treasury, the study found that there is a lack of a common, government-wide definition of a dysfunctional municipality, negatively affecting the planning of interventions. The Financial and Fiscal Commission (FFC) thus recommends that the Ministers of COGTA, and Finance and SALGA jointly lead the development of a government-wide accepted definition of “municipal functionality”, ensuring indicators of dysfunctionality exclude factors that are outside the current control and influence of municipality. This accepted definition can be used across

government, including in targeting capacity support grants and programmes and further differentiating conditional grants.

Background

The Constitution of the Republic of South Africa, 1996, (Act No. 108 of 1996) (Constitution) makes provision for the establishment of three spheres of government (national, provincial and local) which are distinctive and independent but interrelated. LG, being closest to the citizens, is responsible for the delivery of basic infrastructure and services. Municipalities are responsible for the provision of all four of the basic services (water, electricity, refuse removal, and sewage collection and disposal). However, municipalities often fail to provide basic services and related infrastructure as a result of a number of challenges. In his 2018 budget statement, the former Minister of COGTA, Zweli Mkhize, described a “well-functioning municipality” as one characterised by stability, a functional council and oversight structures, with consistent spending of the capital budget, unqualified audit outcomes and good financial management (Mkhize, 2018). In 2018 Cogta identified 87 of the 257 municipalities as dysfunctional, 163 at risk of being dysfunctional and only seven as functional¹. The huge number of dysfunctional municipalities is of concern considering that citizens are deprived of service delivery. Of concern also is the fact that many stakeholders define functionality differently, leading to sometimes overlapping interventions to correct the challenge of dysfunctionality. The purpose of this policy brief is to examine the application of the concept of dysfunctionality in South African and interrogate the key drivers of dysfunctionality. The background study adopted a a case-study approach of selected municipalities², and supplemented with interviews with key stakeholders including the National Treasury, COGTA and SALGA. The study found that there is a lack of a common and government-wide definition of a dysfunctional municipality. The study makes the following policy recommendation: that the minister of COGTA, the Minister of Finance and the President of SALGA jointly lead the development of a government-wide accepted definition of “municipal functionality”.

Research findings

The key issue that emerged from the Commission’s analysis is the lack of a common, government-wide definition of a dysfunctional municipality. This is despite the COGTA characterisation of a well-functioning municipality. Generally, the word ‘dysfunctional’ is implied to refer to all municipalities that are not functioning normally or as expected. This approach is conceptually flawed as many municipalities are neither functional nor dysfunctional, but somewhere in between.

In line with the current approach, a dysfunctional municipality is therefore simply characterised by the failure to deliver expected outcomes and comply with key processes. While a number

¹ See list of dysfunctional/financial distressed municipality from COGTA at <http://www.cogta.gov.za/?p=4088>

² Municipalities were selected from three provinces (KwaZulu-Natal, Limpopo and the Eastern Cape). District municipalities selected for the case-study were Vhembe, uMzinyathi and Alfred Nzo while local municipalities selected were Matatiele, Mbizana, Endumeni, Makhado and Collins Chabane.

of institutions acknowledge the dysfunctionality of municipalities and some refer to municipalities in the “red zone” or in the intensive care unit (ICU), the specific indicators used to reach that conclusion, and the standard of delivery against which the identifying indicators are measured, differs. A more discerning and nuanced approach is needed, given that the categorisation is meant to guide specific interventions in municipalities across the country in order to improve their performance.

COGTA has defined functional municipalities on the basis of three factors,³ namely good financial management, good governance and the ability to deliver services. Further engagements with COGTA revealed that in determining the 2018 list of 87 dysfunctional/distressed municipalities, it had to take into account the following financial management factors as well:

- Municipalities identified as being in financial distress by the National Treasury;
- Municipalities banking with VBS; and
- Municipalities unable to pay service providers such as Eskom.

Interactions and engagements with an official from (SALGA revealed that it uses four pillars to determine dysfunctionality or municipalities in the “red zone” for the purpose of implementing its municipal audit support programme: leadership, institutional capacity, governance, and financial management. The National Treasury, on the other hand, relies more on financial indicators to determine dysfunctionality.

Municipal IQ⁴ has also compiled an index on dysfunctional municipalities using seven key variables that relate to service delivery, governance and financial management. According to Municipal IQ, if a municipality is flagged for fewer than three indicators, it is regarded as doing well and for more than three indicators, it is placed on a watch list. Municipalities with four flags are placed in a “high-care unit” and the ones with five or more flags enter the “ICU” list. Table 1 shows different indicators taken into consideration by different institutions to determine dysfunctionality.

³ See CoGTA back to basics document - http://www.cogta.gov.za/?page_id=386

⁴ See Municipal IQ – Municipal Intensive Care Unit
http://www.municipaliq.co.za/index.php?site_page=icu.php&ShowVariables=1

Table 1: Indicators of municipal dysfunctionality by different institutions

Institution	Indicators	Institution	Indicators
National Treasury	<ol style="list-style-type: none"> 1. Cash coverage; 2. Cash balance; 3. Reliance on capital grants; 4. Overspending on operational budgets; 5. Underspending on capital budgets; 6. Debtors growth; 7. Debtors % of cash; and 8. Creditors % of cash. 	COGTA	<ol style="list-style-type: none"> 1. Service delivery (access to piped water, sanitation, electricity, refuse removal and service delivery maintenance); 2. Governance (issues of Section 39 intervention and unauthorised, irregular and fruitless and wasteful expenditure); 3. Financial management; and 4. Current support (MISA).
SALGA	<ol style="list-style-type: none"> 1. Institutional capacity; 2. Leadership; 3. Financial management; and 4. Governance. 	Municipal IQ	<ol style="list-style-type: none"> 1. Backlogs on four basic services; 2. Ability to deliver to indigent support relative to poverty levels; 3. Spending <i>per capita</i> lagging peers; 4. High discrepancy between actual and planned expenditure; 5. Underperformance on audit outcomes relative to peers; 6. Underperformance on compliance and governance index (CGI) relative to peers; and 7. Service delivery protests.

Source: FFC Compilation based on COGTA Back to Basics document - http://www.cogta.gov.za/?page_id=386; Municipal IQ – Municipal Intensive Care Unit - http://www.municipaliq.co.za/index.php?site_page=icu.php&ShowVariables=1

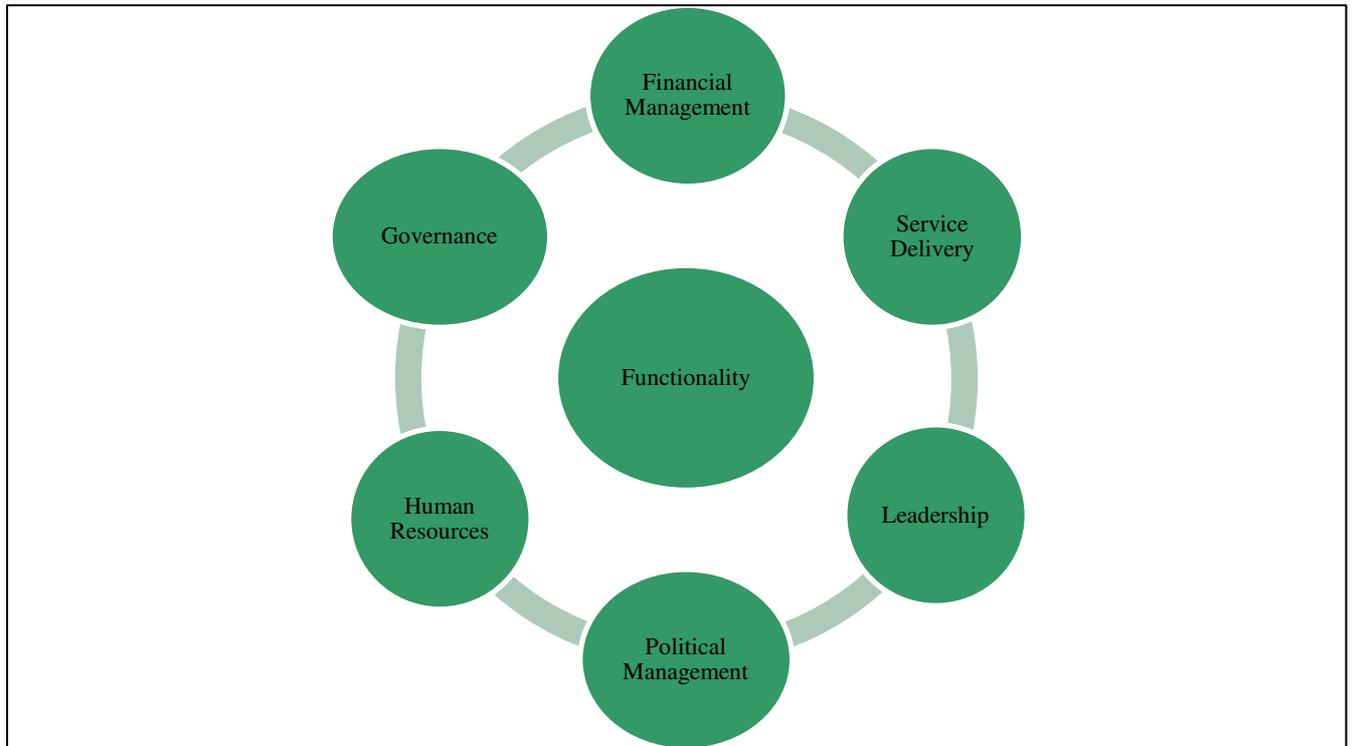
A key challenge arising from the absence of a government-wide definition of dysfunctionality is the creation of contradictions in the system. For example, in 2018, Ray Nkonyeni, a municipality in KwaZulu-Natal was on COGTA’s list of dysfunctional municipalities. In 2019, however, the same municipality passed the test and qualified to receive the Integrated Urban Development Grant proposed by the National Treasury. This grant is allocated only to selected municipalities that have demonstrated good performance in areas such as governance, spending and reporting. In essence, the National Treasury made a grant to a municipality considered “dysfunctional” by COGTA.

Based on the Commission’s interviews with municipalities (i.e. the case studies selected from KwaZulu-Natal, Eastern Cape and Limpopo), two key elements are currently not considered (by different institutions listed in Table 1) when classifying municipalities as dysfunctional: political management⁵ and human resources, which include high vacancy rates in key positions such as chief financial officers and municipal managers. Following on from this, Figure 1 illustrates the factors that the Commission proposes should be used to determine the

⁵ In this context, political management refers to how municipal councils are politically constituted and how such arrangements impact on the efficient and effective functioning of a municipality. It is about how the political composition of municipal councils impacts on its day to day activities, e.g. holding of meetings in order to take key and strategic council decisions. Political management challenges, (e.g. coalition-run municipalities), have been identified as one common hindrance to the smooth functioning of municipalities. In this context, political management should be viewed differently from governance which refers to the effectiveness of municipal structures (e.g. mayoral committees, municipal public accounts committees and audit committees) in exercising their fiduciary duties, and in particular, holding the executive to account. Usually if these structures are not able to hold the executive to account (e.g. due to poor capacity), the council will be rendered dysfunctional.

functionality status of municipalities, namely: financial management, governance, ability to deliver services, leadership, political management and human resources.

Figure 1: Indicators and areas determining functionality status of municipalities



The factors contained in the proposed definition are interrelated; e.g., poor governance could lead to poor financial management and possible bankruptcy of a municipality, resulting in the inability to deliver services.

Based on Figure 1, the Commission is therefore of the view that municipal functionality refers to the maintenance and performance of systems, processes and practices in governance, service delivery, financial management, leadership, political management and human resources within a municipality that yield high performance in terms of its legislative mandate. Therefore if a municipality fails in any one or more of the factors indicated in the definition, it should be classified as dysfunctional. Importantly the Commission believes that factors beyond the influence of municipal management, such as historical backlogs in the provision of basic services and demographic reliance on capital grants, should not be considered for the purpose of classifying a municipality as dysfunctional.

Conclusion

Various institutions including the National Treasury, COGTA and SALGA are concerned with the functionality of municipalities and acknowledge the existence of dysfunctional municipalities. However, due to the lack of a commonly accepted definition of functionality, and by implication also of dysfunctionality, and a set of attendant measurable indicators, the lists of dysfunctional municipalities and their order of priority differ, depending on the

institution undertaking the assessment. The research also reveals that key drivers for dysfunctional municipalities include a high vacancy rate or staff turnover in critical positions. This high vacancy rate leads to a number of other challenges including poor spending on both operational and capital budgets. Other drivers of dysfunctionality include political instability. Interventions by other key departments on addressing dysfunctions are constrained by a lack of coordinated and implementation of capacity building plans.

Recommendations

In order to fully understand dysfunctionality of municipalities and address the root causes, the Commission recommends that:

- a) The Minister of CoGTA, the Minister of Finance and the President of SALGA jointly lead the development of a government-wide accepted definition of ‘municipal functionality’. The definition should be based on the six factors put forward by the Commission: maintenance and performance of systems, processes and practices in governance, service delivery, financial management, leadership, political management, and human resources. Further, they should ensure that the accepted indices for measuring dysfunctionality should be explicit. Indicators of dysfunctionality should be chosen carefully and should exclude factors that are outside the current control of municipality. This definition can be used across government, including in targeting capacity support grants and further differentiating conditional grants.

Reference:

Mkhize, Z. 2018. *COGTA to intervene in dysfunctional municipalities*. Online available at <https://www.politicsweb.co.za/opinion/cogta-to-intervene-at-dysfunctional-municipalities>.

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