



Strengthening local government and improving audit findings

Public Servants Association

June 2018

.....

South Africa's governance system is highly fragmented - with core policy responsibilities divided between the three tiers of government (national, provincial, and local), state owned enterprises, various agencies and semi-independent bodies, and any number of ad hoc commissions, conferences and initiatives. Fragmentation of the extent seen in South Africa can work. At its best, it can mean high levels of responsiveness and an on-the-ground connection with the needs of people, backed up by high levels of expertise and a coordinated way of working.

There are, however, inherent risks in fragmented systems. A breakdown at one stage of the broader governance chain can undermine the effectiveness of the entire body. As trust breaks down, duplication of activities and an unwillingness to coordinate creeps in. Policy-level parts of government begin working on implementation, which they are not designed for; while implementation departments become increasingly starved of the resources and direction needed to take action. One large fracture in the system ripples through, and isolates the working portions, undermining functional governance.

As South Africa enters a period of adjustment under President Cyril Ramaphosa, there will need to be improvements at all levels of government. This is especially important in the light of President Ramaphosa's current process of public sector institutional review. These changes will be effective unless the major failures are addressed. Local government is without doubt one of those failures. Local government is emblematic of the type of governance the South African system is designed to provide. As the part of government closest to constituents and operating at the level of implementation, municipalities are a crucial linkage point where the various programmes of government are transformed into practical policy that reaches people's everyday lives.

And yet local government is plagued by a large number of chronic challenges. At least four are extremely pressing. First, is an unsustainable and inadequate financial model. Municipalities are in theory meant to derive their revenues from rates. But with many municipalities overseeing large,

sparsely populated municipalities with poor populations that do not generally pay rates, the burden of revenue has increasingly fallen on municipality services. This most importantly means a reliance on the sale of electricity, bought at a discounted rate from Eskom and resold at a premium to residents. Even then, shortfalls in the already small municipal budget are chronic, and revenues are not large enough to cover an ever expanding mandate (discussed below). The current model of municipal finance is set to come under immense pressure in coming years. As Eskom's prices rise and energy use declines (from both energy savings and the use of renewable energy), municipal budgets are set to be caught in a squeeze, and the crisis of municipal finance will deepen precipitously. Action is needed now, while policy space still exists, to build a new model of municipal finance.

Second is policy creep. The mandate of local government should be relatively simple: providing basic municipal services, like roads and utilities, as well as basic structures like policing and transport. And yet increasingly local government has been drawn into issues of economic development that are not strictly their mandate, and for which they are not properly resourced. In doing so, local government is filling a pressing need. While national and provincial government departments are strictly allocated the role of economic development, both have highly centralised development structures, that do not serve the vast majority of municipalities. A lack of reach in national government development policy compels an expansion of local government's mandate, even when resources are not available to make that expanded mandate work.

Third, is a lack of skills and proper systems. Skills are in pressingly short supply across the country, but the skill deficit is particularly severe for local government outside the metros. Talent tends to flock towards the major centres, which have higher wages and better standards of living, making it difficult to recruit talented civil servants in the periphery. At the same time, poor governance and management systems in municipalities make it particularly difficult to enact policy, since the systems are not designed for ease of implementation. Governance systems built around compliance rather than implementation make for a busy civil service, that doesn't deliver. Both the recruitment power of poorer municipalities and the systems of governance they use need to improve.

Fourth and finally, corruption and wasteful expenditure is endemic at local government level. In cases where corruption takes hold, it can take years to resolve, as cronies are entrenched in strategic positions throughout a municipality. Municipal service delivery needs to be ongoing continuously, and a long period of weakened delivery due to corruption can often require national interventions from the likes of COGTA to enable the municipality to catch-up.

Many of these problems are deeply embedded in the very structure of South African government: a highly fragmented governance structure creates bottlenecks that are difficult to overcome. In the long term, improvements in local government perhaps need to be part of a broader rethinking of the structure of government. In the short term, a number of more pragmatic reforms may be needed.

First, is to utilise what oversight mechanisms currently exist in order to encourage reform of government. In particular, this should involve an expansion of the role of the Auditor General (AG). The AG currently has a vital, but limited role, which is overwhelmingly focused on ensuring compliance with legislation. Compliance is not, however, clearly linked to good governance. The focus of the current compliance regime is to avoid abuse and corruption; rather than to encourage

active and progressive governance, or even to identify and fix problems in the structure of a municipality. New monitoring and evaluation tools are needed, which are equipped to shift the focus to delivery rather than compliance, and which are not merely about calling out problems, but are actively equipped to address them.

One option would be to expand the role of the AG to include a consulting function, in a similar fashion to how private sector auditors have expanded into consulting. Frontline auditors would then be in a position to identify problems, and refer problems to colleagues for assistance, or even compel it through a request to a central body like COGTA. The exact design of this system would be complex, but it would be a useful starting point to begin creating a structure that connects local government more directly with the broader development agenda of other levels of government.

Second, is to begin a process of reform to the equitable share formula used by the National Treasury to allocate revenue to municipalities. The equitable share formula makes a number of assumptions that are increasingly untrue about municipalities. This includes the belief that municipalities have substantial other sources revenue (when these are increasingly in decline) and a limited mandate focused on basic services (when increasingly municipalities work on issues like economic development or marketing their areas). The formula itself, which was reviewed in 2012, is progressive and fair, but is held back by an understanding of municipalities that isn't responsive to their changing role and positioning. Ultimately, the value of reforming the equitable share depends on whether one sees municipalities as needing to expand their activities, or whether provinces should pick up that burden. A political decision will need to be made one way or the other, to avoid the formula losing relevance in a rapidly changing government structure.

Third, the role of progression in the civil service needs to be considered, and must reflect on the way civil servants differ at different levels of government. In many parts of the world, local government is viewed as a vital testing ground for civil servants, who start at local government level in order to gain highly practical governance experience that puts them close to their constituents. The Chinese premier, for example, is often someone who has experienced a stint in more rural local government, as a test of their skills. Providing greater recognition of municipal government experience when considering promotion or recruitment to the provincial and national level would help reinforce a similar logic in South Africa. This benefits municipalities, by encouraging talented civil servants to work in local government, and benefits higher levels of government, by equipping civil servants with practical skills and a broader knowledge of experience on the ground. A simple addition of local government experience to recruitment assessment rubrics could help encourage this change in an incremental way.

In the long-term, big changes will likely be needed to resolve the crisis in local government. The central question will be how to balance the work of provincial and municipal government in a way that empowers both levels and avoids duplication or wasteful spending. Proactive efforts to make the current system work as best as possible will build a system that is ready for long-term change, and in so doing will protect civil servants at all levels from being negatively impacted by a shifting government structure.