

# Performance management in the Systems Act:

# Implementing accountability

**T**he White Paper on Local Government identified performance management as one of local government's tools for the implementation of its developmental mandate in terms of the Constitution. Chapter 6 of the Local Government: Municipal Systems Act 32 of 2000 (the Act) provides the legal framework for performance management and places it squarely within integrated development planning (IDP). The chapter came into operation on 1 July 2001. On that same day, the Municipal Performance Management Regulations (Notice 1430 of 2001), issued by the Minister for Provincial and Local Government, will take effect.

This article is the third in the series on the Systems Act, and deals with the provisions in the Act and the regulations pertaining to performance management. (For earlier articles in the series, see the summaries of chapters 4 and 5 on the IDP and community participation in *LGL Bulletin* 2001(1), pp 5–9.)

The regulations were published for public comment on 5 June and, at the time of writing, they were still in draft form. References to 'sections' are references to the Systems Act, and references to 'regulations' are references to the draft regulations.

## PERFORMANCE MANAGEMENT PRINCIPLES

A number of principles that should guide a municipality in developing and implementing a performance management system (PMS) can be identified in the Act and the regulations:

- The PMS should be embedded in the circumstances of the municipality; it must be commensurate with its

resources, it must be suited to its circumstances and, most importantly, it must be in line with the priorities, objectives, indicators and targets contained in the IDP (s 38(a)).

- The municipality must promote a culture of performance management among its politicians and within its administration (s 38(b)).
- The municipality must administer its affairs in an economical, effective, efficient and accountable manner (s 38(c)).
- The PMS must be devised in such a way that it can serve as an early warning system for underperformance (s 41(2) and reg. 8(2)(e)).
- The PMS must link the performance of the municipality to the performance of employees (reg. 2(f)).
- The national Minister has set a number of general, *compulsory* key performance indicators (KPIs). Municipalities must include these,

together with the other KPIs that may be applicable, in their PMS (s 43 of the Act, read with reg. 5).

## MAIN ROLE-PLAYERS

The main role-players in performance management are the same as in the IDP process (see *LGL Bulletin* 2001(1), p. 5–7). Section 39 of the Act states that the executive mayor, executive committee, or a special committee of councillors (in a 'plenary type' municipality) must manage the development of the PMS and submit it to council. Responsibilities must be assigned to the municipal manager (see p. 4).

## ADOPTION AND REVIEW

At present, regulation 3 states that the PMS must be adopted *before* the municipality initiates the formulation of KPIs and targets as part of the IDP process. This is problematic and inconsistent with the principle that the PMS must be in line with the IDP process. The KPIs will only be formulated in the IDP process and the performance management system is based on the KPIs. This makes adoption prior to the setting of KPIs difficult, if not impossible.

The performance management system itself must also constantly be improved. Section 40 of the Act states that the municipality must establish mechanisms to monitor and review its PMS. No time frames or intervals are included in the Act or the draft regulations.

## GENERAL REQUIREMENTS IN THE REGULATIONS

The draft regulations stipulate a number of general requirements:

- It must be clear from the performance management system how it is linked to the IDP (reg. 2(d) and (g)).
- It must say how the municipality will plan and monitor the general KPIs (reg. 2(h), see below).

## Management and operation

The municipality must demonstrate in the performance management system how it plans to operate and manage the system throughout the planning, performance review and reporting

stages (reg. 2(b)). Important in the operation and management of the system are the roles and responsibilities of each role-player, including the municipal manager, council, council committees, executive mayor, executive committee and the community. Regulation 2 (c) instructs the municipality to define those roles.

In terms of the operation and management of the PMS, the municipality must determine the frequency of reporting and the lines of accountability for performance (reg. 2(e)).

## PHASES IN PERFORMANCE MANAGEMENT

The remainder of this article deals with the five phases in the performance management system:

1. key performance areas (from IDP);
2. setting of key performance indicators;
3. target setting;
4. monitoring and measurement; and
5. reporting.

### Key performance areas

Regulation 4 provides that the development priorities and objectives formulated by the municipality in its IDP process (see *LGL Bulletin* 2001(1) at p 6–7) must be clustered in respect of the following key performance areas (KPA's):

- infrastructure and services;
- social and economic development;
- institutional transformation;
- democracy and governance; and
- financial management.

### Setting of key performance indicators

Key performance indicators relating to inputs, outputs and outcomes must be set for each of the development priorities, clustered under the above five KPA's (s 41(1)(a) and reg. 4(2)(a)). The formulation of these KPI's takes place as part of a municipality's IDP process (s 26(i)). The KPI's must be measurable, relevant, objective and precise (reg. 4(2)(b)). Communities must be involved in their formulation (s 42 and reg. 4(3)(a)).

The municipality must ensure that it has KPI's for all its administrative units and employees and for every municipal entity and service provider with whom the municipality has entered into a service delivery agreement (reg.

4(3)(b)). If the municipality amends its IDP, the KPI's must be reviewed within a month of the adoption of the amendment (reg. 6(1)).

### Compulsory key performance indicators

Section 43 of the Systems Act authorises the Minister to prescribe general KPI's that every municipality must report on. Regulation 5(1) mentions the following general KPI's:

- percentage of households with access to all basic household services;
- percentage of households with imputed expenditure of less than R1 100 per month that have access to all free basic services;
- percentage of capital budget spent on projects identified in terms of the IDP;
- number of jobs created through local economic development initiatives supported by the municipality;
- percentage achievement of approved employment equity plan within the first three layers of management;
- percentage of skills levy received in rebate as a measure of the municipality's investment in human resource development; and
- financial viability.

A municipality cannot change these indicators when it amends its IDP (reg. 6(2)). By the end of the 2002/2003 financial year, all municipalities must report on these issues in terms of their performance management system. This must be done as part of the annual report (see below).

Each year, the national Minister must compile a report on the performance of municipalities on these general KPI's (s 48). This report will be published in the *Government Gazette*.

### Targets

For each financial year, the municipality must set measurable performance targets for each KPI (s 41(1)(b) and reg. 7(1)). Sub-regulation 7(2) provides that these targets must:

- be practical and realistic;
- measure the efficiency, effectiveness, quality and impact of the body that it applies to, which is the municipality as a whole, an administrative component of the municipality (department, unit etc), a municipal service provider, a political structure or a person;
- be in line with available resources and capacity;
- be consistent with the priorities, objectives (see above) and strategies of the IDP;
- be in line with applicable minimum national standards (an example of this is the minimum standards to be proclaimed for basic water supply in terms of section 9 of the Water Services Act – see *LGL Bulletin* 2001(1), p. 16).

### Notification of KPI's and targets

The key performance indicators and the targets must be publicised by the municipality, both internally and publicly (s 44).

### Monitoring and measurement

Regulation 7 deals with the measurement of performance against the KPI's and the targets, which must be done at least once a year (s 41(1)(c)(ii)). The mechanism to monitor and measure performance must be devised by the municipality, after consultation with the community. The mechanism must measure quantity (numbers, quota etc) as well as quality (e.g. standard, level, consumer satisfaction). It must compare the effectiveness and cost of the input that was required to get to the output, and assess the impact of that output.

The roles of the different role-players must be identified (reg. 8(2)(a)). The municipality will have to assign the monitoring and measuring tasks to various bodies, such as the office of the municipal manager (e.g. the financial management cluster), the office of the speaker (e.g. the cluster dealing with democracy and governance), the office of the executive mayor/executive committee (e.g. the KPI's and targets set for the municipality as a whole).

**The municipality must ensure that it has KPI's for all its administrative units, employees and for every municipal entity and service provider**

It will also have to assign specific tasks regarding the gathering of data and submission of reports. The municipality must specify:

- which data must be collected;
- how the data are to be collected, stored, verified and analysed; and
- how the reports on the data are to be compiled (format, what the content should deal with, etc.).

The regulations and the Act require that the system is capable of detecting early indications of underperformance (s 41(2) and reg. 8(2)(e)), and that it provides for corrective measures (e.g. training, mentorship, etc.) where underperformance has been identified (reg. 8(2)(f)). A comparison with the previous financial year and baseline indicators must be part of the performance measurement exercise (reg. 8(2)(g)).

### Reporting

A report on the implementation of the performance management system must go to the council at least twice a year (reg. 8(2)(d), see also p 4). The council can refer the report back for refinement or adopt the report together with the necessary steps to improve performance where targets were not met (s 41(1)(d)).

### Annual report

An annual report must be prepared for each financial year, and must contain, as a minimum:

- a performance report, which indicates how the municipality and the municipal service providers performed, and contains the priorities and targets set for the following financial year (s 46(1)(a));
- the financial statements for that year together with the Auditor-General's report (s 46(1)(b) and (c)); and
- other reporting requirements in terms of other legislation (s 46(1)(d)).

The report must be submitted to council within a month of receipt of the Auditor-General's report (s 46(2)). The meeting at which the report is discussed must be held in public, after notification of the public, the Member of the Executive Council (MEC) and the Auditor-General (s 46(3)). Representatives of the MEC and the Auditor-General can attend the meeting and ask questions (s 46(3)(b), see also p 4).

Each year, the MEC compiles and publishes in the *Provincial Gazette* a consolidated report on the performance of municipalities in the provinces (s 47). This report must identify the municipalities that have underperformed and must propose remedial action. The report goes to the provincial legislature, the Minister and the National Council of Provinces.

### Audit committee

Section 45 of the Act states that the results of the performance measurement must be audited internally and by the Auditor-General. The draft regulations instruct a municipality to appoint an audit committee, which must undertake the internal audit of the municipality's performance (reg. 9). It must focus on economic efficiency, effectiveness and impact in terms of the indicators and targets. The committee must communicate directly with the council, the municipal manager or the auditors of the municipality. The committee can investigate, access any municipal records for that purpose, request attendance at its meetings or, if necessary, ask information from anyone. It must present an audit report to the council at least twice a year.

The committee must comprise of at least three members. The majority of its members, including its chairperson, must not be councillors of the municipality. They can be remunerated. The municipality must budget for this committee and provide it with a secretariat. Local municipalities can choose to use the district municipality's audit committee instead of appointing their own.

### ASSESSMENT

Performance management is one of the great advantages of IDP. The objectives and strategies, identified in the IDP, provide the municipality with direction on how to improve performance. The performance management system will set targets and criteria to measure the municipality's performance on those objectives and strategies. This will be done with respect to both the develop-

ment of the municipality and specific projects and departments. This enables the municipality to manage its affairs by objectives.

Another advantage is that the performance management system, as it exists in conjunction with the IDP, injects 'customer satisfaction' as a performance measure into the municipality's system of assessing performance. Because communities are involved in identifying and prioritising needs and the setting of KPIs and targets, they are able to judge whether the municipality's objectives and targets have been successfully achieved as planned.

Interestingly, the draft regulations include access to free basic services for households with less than R 1100 to spend as a compulsory KPI. By including this, the Department is implementing the free basic services policy direction that was taken by government prior to the elections. If these regulations are adopted in their present form, it will place this policy initiative squarely within each municipality's IDP.

**The draft regulations include access to free basic services as a compulsory KPI**

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