

## **What's the Score**

The Municipal Productivity Index (MPI) bases its scores for municipalities on five factors, each of which is weighted. The maximum possible score is 100; the average for metros (big cities) is 55.8 and average for the local municipalities is 38, with the worst-performing scoring 17.20.

The five factors are as follows:

1. Poverty – the extent of poverty in a municipality and the municipality's response to this poverty;
2. Access to services – proportion of the population with access to a minimum level of basic municipal services;
3. Economic “intelligence” - the level of economic activity and economic infrastructure in a municipality that impact on productivity;
4. Financial governance - as suggested by expenditure patterns and levels of capital expenditure, often benchmarked per resident for comparative purposes; and
5. Occupancy levels – the converse of vacancy rates in the municipal administration (to reflect capacity).

## **Municipalities: In black and white**

*Fifteen years into democracy and many of our municipalities still aren't as smart – or as productive – as they should be. But it doesn't have to be that way.*

Mail&Guardian Reporter

If you aren't feeling so productive these days, it might not be you. It might be your municipality.

Turns out the productivity prospects of the average resident of a municipality located in a former homeland or rural area are almost non-existent. But if you live the Western Cape or Gauteng, you'll have come up with a better excuse. Because as far as your potential for productivity is concerned, these areas contain South Africa's most productive and best run municipalities.

According to the Municipal IQ, the country's only independent municipal monitor which produces an annual Municipal Productivity Index (MPI) at the end of each year, while productivity has increased in the local government sector – and especially in metros and top cities – the legacy of the past is painfully evident in the non-performance of rural and ex-homeland municipalities.

The MPI reflects municipality trends by indexing data to show how efficiently residents, businesses and various organisations within a particular municipality can function given a few basic indicators including existing levels of social and economic infrastructure, the extent of poverty, level of access to basic municipal services and the scale and efficiency of municipal spending on residents.

The rating system allocates points to various metros with 100 being the highest possible score. The nine biggest cities in South Africa score an average of 55.8 - almost 18 points above the 38 point average for local municipalities. Makes perfect sense: bigger city, better productivity prospects. Hence, the emerging Gauteng Global City Region, which includes three of the largest as well as two of the best performing metros on the MPI, and further compounds the disjuncture between large metros and the myriad of smaller municipalities.

But don't pack your bags for a big city just yet – not all non-metros perform badly on the MPI. Best-performing locals such as Saldanha Bay and George in the Western Cape beat the pants off the lowest ranking metros of Msunduzi, Mangaung and Buffalo City, suggesting that bigger is not always better.

But the results also make clear that rural is always worse than urban – the predominantly rural provinces of KwaZulu-Natal and the Eastern Cape dominate the lowest-scoring 20% of the overall municipality rankings with only 13% of this bottom category coming from other provinces. The more urban provinces of Western Cape and Gauteng, by contrast, dominate the top 20% of the rankings. The Western Cape and Gauteng both score an average of 51, while the Eastern Cape scores 34 and KwaZulu-Natal scores 31 on the MPI.

Rural deprivation is even more striking when viewed through the lens of Municipal IQ's classification system. Using research by the Municipal Demarcation Board, Municipal IQ divides local municipalities into four classifications including rural municipalities, municipalities including small towns in ex-homeland areas, municipalities including small towns not in ex-homeland areas, and large urban (non-metro) municipalities.

With only two exceptions, no rural municipality or municipality containing a former homeland area falls within the 92 municipalities in the top 40% of MPI rankings. And only Mier in the Northern Cape, Moretele in the North West and Thembisile in Mpumalanga make it into the top 60% of MPI rankings. Put simply, almost every municipality which is either rural or contains an ex-homeland area is in the bottom 40% of the MPI.

So what's a municipality to do? Municipal IQ's Kevin Allan and Karen Heese line up the issues and the solutions to helping close the gap between our municipalities.

### **What's the problem?**

By Kevin Allan and Karen Heese

Why does the past so strikingly haunt the places we live? Do the rich get richer and the poor ever more marginalised simply because some municipalities are better managed than others? Looking at the expenditure figures of municipalities is valuable – it reflects how well municipalities are able to deliver services to residents.

Money talks

To gain some perspective on why some municipalities are top-ranked on the MPI and others fall to the bottom, consider that over the last four years Saldanha Bay, the top-ranking local municipality on the MPI, spent an average of R3,595 per resident per year, while Nongoma, the bottom-ranking municipality, spent only R102. Zululand district municipality, under which Nongoma falls, spent a further R258 per resident, bringing spending up to an average of R360 per resident per year in Nongoma – but this is still only 10% of what is spent on the residents of Saldanha. Add to this that denizens of Nongoma are already at a disadvantage in terms of access to services and delivery backlogs and the snowballing effect of inequality becomes all the more alarming. While Nongoma's poor spending is pretty much in line with other bottom-ranked municipalities, top-ranked municipalities all spend in similarly generous proportions.

#### Down to the basics

In Saldanha Bay in 2007, data from the Community Survey shows that less than 3% of residents were without basic municipal services, such as access to running water or a basic toilet. Indeed, in municipalities the top quintile of the MPI, it is unusual to see more than 10% of residents without access to basic services. In the bottom 20% of the MPI, fewer than half of residents have access to basic services, while in the bottom five municipalities of the MPI, almost 70% of residents still live without basic services. How, fifteen years into democracy, can there still be such an astounding inability to close service backlogs? The most common excuse by municipalities for poor service delivery is lack of funding.

#### The problem with throwing money at the problem

An assessment of revenue transfers from national to local government shows that poor municipalities have received exponentially greater revenue transfers over the past ten years, targeting poorer municipalities especially. While over the last four years the five top ranked local municipalities on the MPI relied on government grants for less than 15% of their average annual income, the five bottom ranked municipalities relied on government grants for a whopping 90% of average annual income. Considering that many poorer municipalities are not only unable to dent backlogs in their areas but are unable to spend national grant monies allocated for this purpose, the issues of capacity and governance rather than funding come to the fore of non-delivery. The challenge then is to dramatically increase capacity in these municipalities – a challenge that a number of national initiatives have been attempting to chip away at over several years.

#### Policy time again?

Local government is highly decentralised and entrusted with considerable powers, both in terms of delivery responsibility and authority to gather and manage finances. In many respects its status as a sphere of government, equal (in theory) to provincial and national government is nothing short of revolutionary. But given the non-performance of a significant number of municipalities, typically those that are rural or include a former homeland area, perhaps it is time to reconsider whether the considerable powers that have been devolved to what are clearly dysfunctional municipalities should be retracted in favour of more competent delivery agents. This option is a weighty constitutional debate and a profound disappointment to the champions of the elegant, but ultimately, it's an

over-ambitious post-apartheid model of developmental local government. Apart from their dismal failure, consider that these municipalities also contain the poorest and most vulnerable of our citizens. The MPI results suggest an unacceptable perpetuation of poverty carved out in the spatial patterns of apartheid that may require more drastic action.

### **How to fix it**

By Kevin Allan and Karen Heese

Poor performance by rural and other marginalised municipalities suggests that the ideal of wall-to-wall local government in local government policy and legislation should perhaps be revisited. Here's an admittedly ambitious six-point plan to address remaining problems:

#### **Beef up capacity**

While funding is available for capacity-building and there are numerous national programmes, the capacity crisis in local government not only continues but is, quite possibly, only getting worse. Dealing with the loss of key technical skills is critical to solving this problem. This component for success requires a pragmatic "recall" of skilled professionals – such as retirees – as well as the use of consultants.

#### **Sort out revenue collection**

It's clear that revenue collection systems in the majority of municipalities is still not optimal and in many cases revenue collection is so poor that income from rates and services is a fraction of what it should be. Underlying this, many municipalities still do not have an accurate record of who can or should be paying rates. Conversely, in those municipalities that have put in place well-designed and appropriately staffed revenue collection systems, collection rates have shot up. Contrary to popular wisdom that the ever-growing problem of municipal debt can be solved by getting residents to pay their rates and services bills, a solution lies in initially putting in place an equitable and efficient revenue collection system. Yet again, the lack of adequate capacity and experience in this area is key.

#### **Get predictable**

What we need most is finality on outstanding issues from national government for enhanced predictability. This includes the role of district councils and a possible restructuring of inter-governmental relations, including the now-inevitable return of Khutsong back to Gauteng and the proclamation of Mangaung, Msunduzi and Buffalo City as metros.

#### **Get wired**

Clarity on the very slow-moving restructuring of electricity distribution, currently a responsibility of many large municipalities, must be provided, as should the basis on which local government is to be compensated for any revenue loss incurred as a result.

#### **Listen and act**

Acknowledgement of the poor communities living in marginalised areas –dismissing the numerous and ongoing service delivery protests emanating from these areas as the work of a third force or a few dissidents, overlooks failures in local governance. Ward committee structures need to be critically assessed on a case-by-case basis to work out exactly why so many communities take their grievances to the streets and what needs to be done to ensure better feedback of council activities and management of grievances. Avenues for participation need to include communities in a meaningful way to ensure accountability – in other words, councils must move away from a compliance-driven set of processes and focus on meaningful engagement.

#### Implement systems

Early warning systems, especially in rural districts, must be checked and maintained. The tragic death of 140 children in the Eastern Cape district of Ukhahlamba this year, after the break down of a municipal water purification system, was an alarming wake up call for many in local government. The systems to address and prevent such tragedies, to ensure the on-going delivery of basic services, including the roll-out of sanitation to replace the bucket system, is crucial to ensure that the term “developmental local government” is in any way meaningful. District, provincial and national government all need to work on crisis prevention and management strategies beyond the obvious flood or fire scenario especially with respect to basic water and sanitation provision if local government is to be a positive force in the lives of the poor.

#### **Finances 101**

What Johannesburg can teach the world about managing finances

By Kevin Allan and Karen Heese

It’s sometimes easy to forget that only a decade ago Johannesburg, the top-scoring metro on the MPI, was almost bankrupt. Time for the world to take note of what the city has learned in the past ten years.

The first lesson is the importance of political will to push through unpopular but necessary change. Johannesburg underwent a radical restructuring process that would simply have been unfeasible had it not been for the support of its politicians in the perilous situation that the City found itself in.

The second is a keen and ambitious focus on finance. This year, the City received its first clean audit, after 15 years of qualifications from the Auditor-General. While the City may still have a some challenges facing its supply chain management, financial management, and governance processes regarding its Municipal-Owned Entities (MOEs), it has worked hard on leveraging and expending income, and these results show in the fact that the City spends significantly more per resident annually than any other municipality. Expenditure per resident in Johannesburg is also growing at a faster pace than in any other city. The positive response by institutional investors to the numerous bonds released by the City is also testimony to how well run Johannesburg has become, especially regarding the collection and management of revenue.

Thirdly, is the importance of innovation, but not necessarily replication. The City's MOEs appear to facilitate better delivery in rands and cents output terms, but challenges remain, especially around an aggregated performance appraisal of the City. So it 's not a case of one size fits all; other municipalities considering PPPs [what's this?] or similar restructuring exercises would need to think carefully about their individual contexts. In addition to top ranking on the MPI, the City was also awarded the Department of Provincial and Local Government's 2007 Vuna Award – the Oscars of the municipality world – for the best governed metro and upgraded to an A+ rating by Fitch Ratings.

### **Cape of storms**

How politics can stymie a city's performance

By Kevin Allan and Karen Heese

Cape Town's Executive Mayor, Helen Zille, and her management team are understandably proud of the R30bn worth of investment that is expected to flow into the City's CBD over the next three to five years.

But this accomplishment masks the fact that the City, like so many others, is a victim of the past. In its case, politics and instability caused by a power struggle over the last ten years has seen the City shed its top management team at least three times in a the tussle between the DA and ANC.

Zille attributes the City's success in drawing-in investment to good governance and sound financial management, with provisional figures for last year showing that the City has spent R3,1bn on capital projects (or 78% of budgeted expenditure) – a record both in quantum as well as in progress in fulfilling budgeted commitments. But this accelerated capital spending, which is considered a feather in the DA-aligned leadership's cap, ignores that other metros have also accelerated capital spending and, in fact, that Cape Town lags behind other cities when spending is broken down per resident – especially considering the significant increase in work seekers migrating to the metropole.

While a comparison of metro capital budgets, including Cape Town, shows significant increases in current and planned spending, fuelled somewhat by the larges metros' 2010 World Cup budgets, Cape Town is certainly not leading the pack. In fact the City shows a particularly lacklustre performance when spending per resident is compared between South Africa's largest cities. But perhaps a new era of greater stability lies ahead for the City, heralded by the successful start of a bond-issuing programme. Residents can only hope that the storms battering their shores will be natural ones in years to come and not in the corridors of its Council.

Kevin Allan is the managing director of Municipal IQ and Karen Heese, the group's economist.

All financial data quoted published by National Treasury, based on actual figures for 2003/04-2006/07. Allan is the MD of Municipal IQ, and Heese, its economist. Municipal IQ is a web-based data and intelligence service specialising in the monitoring and

assessment of SA's municipalities. Productivity rankings for individual municipalities are available live on the Municipal IQ website – [www.municipaliq.co.za](http://www.municipaliq.co.za).

Source: financial data from National Treasury, population data derived from Stats SA 2001 & 2007