

**mSCOA: Challenges of Intergovernmental Relations
within Cooperative Government: A Case Study of
Langeberg Municipality in the Western Cape**

by
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Declaration

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Abstract

Local government in South Africa faces many challenges since it was established as an independent sphere of government in 1996. This study investigates the challenges of intergovernmental relations within cooperative government with the implementation of the regulations on the municipal Standard Chart of Accounts (mSCOA), using Langeberg Municipality in the Western Cape as a case study. The aim of the study is to: discuss the framework for intergovernmental relations and cooperative government between the three spheres of government in ensuring compliance with the mSCOA regulations; examine the theory on mSCOA, including the regulatory framework and legislative prescripts; assess the level of mSCOA compliance achieved by Langeberg Municipality; and provide an overview of the financial governance and performance of the municipality. The study further assesses the perception of senior management within Langeberg Municipality on intergovernmental relations with the implementation of the mSCOA regulations, as well as the view of the Western Cape Provincial Treasury on what constitutes mSCOA compliance.

The study shows that although local government is an independent sphere of government, it is still supervised by the provincial and national government due to the interrelatedness of the three spheres of government. In addition, South African municipalities differ in terms of categorisation and capacity, and many find themselves in a position of financial distress; nonetheless, national government did not follow a phased approach in the implementation of the mSCOA regulations. Furthermore, the study reveals that intergovernmental relations are still centrally driven from the national government in the post-1994 dispensation. Finally, the study offers recommendations on intergovernmental relations to achieve and enhance cooperative governance between the three spheres of government for the future implementation of financial management reforms in municipalities.

Opsomming

Plaaslike regering ondervind vele uitdagings sedert dit in 1996 as 'n onafhanklike regeringsfeer gevestig is. Hierdie studie ondersoek die uitdagings wat die implementering van die regulasies op die munisipale Standaard-tabel van Rekeninge (mSCOA) aan interregeringsverhoudinge binne samewerkende regering stel. Langeberg Munisipaliteit in die Wes-Kaap word as gevallestudie gebruik. Die doel met hierdie studie is om: die raamwerk vir interregeringsverhoudinge en samewerkende regering tussen die drie regeringsfere te bespreek ten einde die nakoming van mSCOA regulasies te verseker; die teorie van mSCOA, insluitend die regulerende raamwerk en wetgewende voorskrifte, te ondersoek; die vlak van nakoming van die mSCOA regulasies van Langeberg Munisipaliteit te evalueer; en 'n oorsig van die finansiële bestuur en optrede van die munisipaliteit te gee. Verder evalueer die studie die persepsie van Langeberg Munisipaliteit se senior bestuur van interregeringsverhoudinge met die implementering van die mSCOA regulasies, sowel as die Wes-Kaapse Provinsiale Tesourie se opinie oor wat mSCOA nakoming behels.

Die studie toon dat alhoewel plaaslike regering 'n onafhanklike regeringsfeer is, toesig steeds as gevolg van die onderlinge verband tussen die drie regeringsfere deur provinsiale en nasionale regering uitgeoefen word. Verder verskil Suid-Afrikaanse munisipaliteite onderling in terme van kategorisering en kapasiteit, en baie munisipaliteite bevind hulself in 'n posisie van finansiële nood. Ten spyte hiervan het die nasionale regering nie 'n gefaseerde benadering ten opsigte van die implementering van die mSCOA regulasies gevolg nie. Die studie wys ook dat interregeringsverhoudinge sedert 1994 steeds sentraal deur die nasionale regering gedryf word. Ten slotte bied die studie aanbevelings oor interregeringsverhoudinge aan wat daarop gemik is om samewerkende regering tussen die drie regeringsfere te bewerkstellig en te verbeter vir die toekomstige implementering van finansiële bestuurshervormings binne munisipaliteite.

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List of abbreviations and acronyms

AGSA	Auditor-General of South Africa
CFO	Chief Financial Officer
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
CODESA	Congress for a Democratic South Africa
COGTA	Department of Cooperative Government and Traditional Affairs
DPLG	Department of Provincial and Local Government
ERP	Enterprise Resource Planning
FFC	Finance and Fiscal Commission
ICT	Information and Communications Technology
IDP	Integrated Development Plan
IGR	Intergovernmental Relations
IGRFA	Intergovernmental Relations Framework Act
MFMA	Municipal Finance Management Act
MinMec	Ministers and Members of Executive Councils
mSCOA	Municipal Standard Chart of Accounts
mSCOA regulations	Municipal Regulations on Standard Chart of Accounts
MTREF	Medium Term Revenue and Expenditure Framework
SALGA	South African Local Government Association
SCOA	Standard Chart of Accounts
SDBIP	Service Delivery and Budget Implementation Plan

CHAPTER 1: INTRODUCTION AND BACKGROUND TO THE STUDY

1.1 Introduction

Municipalities are the local sphere of government in South Africa, and were established for the whole of the country in terms of Section 151 of the Constitution (Republic of South Africa, 1996). Reddy (1999:10) defines local government as:

“...local democratic units within the democratic system which are subordinate members of the government vested with prescribed, controlled governmental powers and sources of income to render specific local services and to control and regulate the geographic, social and economic development of defined local areas.”

Langeberg Municipality is a municipality in the Western Cape province. It is a Category B (local) municipality, as defined by the Municipal Structures Act (Republic of South Africa, 1998a). The local government structure consists of three categories of municipalities: Category A (metro) municipalities, which have exclusive municipal executive and legislative authority in their area of jurisdiction; Category B (local) municipalities, which share municipal executive and legislative authority in their demarcated area with a Category C (district) municipality; and Category C (district) municipalities, which have municipal executive and legislative authority in their demarcated area, which includes local municipalities (Van der Waldt, Khalo, Nealer, Phutiagae, Van der Walt, Van Niekerk & Venter, 2014:8).

Langeberg Municipality's area of jurisdiction includes the towns of Ashton, Bonnievale, McGregor, Montagu and Robertson (Langeberg Municipality, 2018:98). The municipality must comply with all Acts and regulations which govern the local government financial framework. As of 1 July 2017, all

municipalities had to comply with the municipal Standard Chart of Accounts (mSCOA), which became effective on this date.

1.2 Background and rationale for the study

The Municipal Regulations on Standard Chart of Accounts (Republic of South Africa, 2014), hereinafter referred to as the mSCOA regulations, were introduced by National Treasury as part of a budget reform process in order to improve financial reporting across municipalities. The mSCOA regulations became effective on 1 July 2017.

Prior to this date, each municipality managed its finances, and reported on such finances, according to its own organisational structure and unique chart of accounts. However, according to the preamble in the mSCOA regulations, there was inconsistency in financial reporting between municipalities and other spheres of government in terms of how revenue and expenditure were classified. This made it difficult for National Treasury to provide consolidated financial information for all municipalities, resulting in the need for a Standard Chart of Accounts (SCOA) that is standardised across all municipalities.

In South Africa, there are a total of 257 municipalities (Yes! Media, 2018:18), and a presentation made by National Treasury in October 2017 indicated that not one of them complied fully with the mSCOA regulations on 1 July 2017.

The aim of this study was to assess the extent to which intergovernmental relations (IGR) and cooperative government impacted on the ability of Langeberg Municipality to comply with the mSCOA regulations on 1 July 2017. A secondary aim of the study was to develop recommendations on IGR to ensure cooperative governance between the three spheres of government for the future implementation of financial management reforms within municipalities.

The researcher in the study has been a local government practitioner for the past 15 years, and has been employed by Langeberg Municipality since 1 November 2011. He has been the Chief Financial Officer (CFO) of Langeberg Municipality since 1 April 2016.

1.3 Research question

The aim of this study was to assess the challenges of IGR within cooperative government faced by Langeberg Municipality in the Western Cape in complying with the mSCOA regulations and the requirements of National and Provincial Treasury.

Based on the aim of the research, the research question was as follows: **To what extent did IGR and cooperative government impact on the ability of Langeberg Municipality (in the Western Cape) to comply with the mSCOA regulations from 1 July 2017?**

1.4 Research objectives

In order to answer the research question, the study aimed to achieve the following objectives:

- To discuss the framework for IGR and cooperative government, as well as arrangements between National Treasury, Provincial Treasury and Langeberg Municipality, in ensuring mSCOA compliance.
- To examine the theory on mSCOA, and discuss the regulatory framework and legislative prescripts for mSCOA compliance.
- To assess the level of mSCOA compliance achieved by Langeberg Municipality.
- To provide an overview of the political and administrative leadership, and the financial governance and performance, of the municipality.

- To assess the perception of senior management in Langeberg Municipality on IGR with respect to mSCOA implementation, to analyse the view of the Western Cape Provincial Treasury on what constitutes mSCOA compliance, and to assess the level of compliance achieved by Langeberg Municipality on 1 July 2017.
- To develop recommendations on IGR to achieve and enhance cooperative governance between the three spheres of government for the future implementation of financial management reforms in municipalities.

1.5 Research design

The study adopted a 'case study' research approach in order to achieve the objectives. According to Babbie and Mouton (2004: xxi), social research is the systematic observation of social life for the purpose of finding and understanding patterns in what is being observed.

The data collected was mostly interpretive in nature. Interpretivism is a form of qualitative methodology that relies on both the researcher and the subject being researched as instruments to measure some phenomenon that involves observation and interpretation (Babbie & Mouton, 2004: xxi). This approach – as opposed to a quantitative approach – was adopted for the following reasons: the research was conducted among the social actors in Langeberg Municipality; the researcher has an inside perspective on Langeberg Municipality as he is employed by the municipality; and the researcher was the main instrument in the research process.

The focus of the research stressed the process rather than the outcome in answering the research question. The primary aim was to understand and describe the events in terms of the specific context (Babbie & Mouton, 2004:270). The design classification included the following dimensions: an empirical study in the form of a literature review; the collection of hybrid data in

the form of a mixture of both primary and secondary data; and an analysis of both numeric and narrative data in order to answer the research question.

Low control was achieved in the study, as the qualitative researcher observed and interpreted the events in the research process and could not influence the process as in quantitative research, where the researcher interferes and intervenes in the process.

Primary and secondary data was collected throughout the study. Primary data included a structured questionnaire completed by the mSCOA project manager within the Western Cape Provincial Treasury, as well as structured questionnaires completed by senior managers who report directly to the Accounting Officer in Langeberg Municipality (excluding the CFO). Secondary data was collected through a review of books, journals, and documents on the National Treasury and other websites.

1.6 Research methodology

The study adopted a qualitative research approach in order to address the research objectives. According to Burger (2014), this approach comprises interviews, questionnaires, case studies, and the analysis of data gathered from a literature review.

The research approach in this study consisted of a structured questionnaire answered by the mSCOA project manager within the Western Cape Provincial Treasury, as well as open ended questionnaires responded to by senior managers within Langeberg Municipality who report directly to the Accounting Officer (excluding the CFO). The unit of analysis or subject matter mainly consisted of questionnaires answered by senior management in Langeberg Municipality, together with local government legislation, the IGR framework for cooperative government, the mSCOA regulations, and circulars issued by National and Provincial Treasury.

Secondary data was gathered from available literature on the local government legislative framework, and consisted of journals, articles, dissertations, magazines, and publications relating to IGR and mSCOA.

After the data was collected, it was collated and documented in order to develop recommendations on IGR in order to enhance cooperative governance between the three spheres of government for the future implementation of financial management reforms in municipalities.

1.7 Data analysis method

Inductive data analysis was applied, using the content of the data sources consulted. According to Neuman (2003), content analysis is a technique for examining information in written material. In other words, content analysis is the collection and organisation of information in a systematic and standard format that allows a researcher to draw conclusions on the key points and meaning of recorded material.

Furthermore, Babbie and Mouton (2004) state that the content analysis method can be applied to any form of communication. Therefore, the data was analysed using content analysis around themes and concepts on policy implementation.

1.8 Outline of chapters

Chapter 1: Introduction and background to the study

This chapter includes the background and rationale for the study, the research question and objectives, the research design and methodology, as well as an outline of all the chapters in the thesis.

Chapter 2: Literature review on IGR, cooperative government and the mSCOA in South Africa

This chapter summarises the current state of knowledge on IGR. It provides a chronological review of the evolution of local government since the advent of democracy, and describes the legislative framework of cooperative government in South Africa and the promulgation of the mSCOA regulations. In this chapter, the following objectives were addressed:

- Discussion on the framework for IGR and cooperative government, as well as arrangements between National Treasury, Provincial Treasury and Langeberg Municipality, in ensuring mSCOA compliance.
- Examination of the theory on mSCOA, and discussion on the regulatory framework and legislative prescripts for mSCOA compliance.

Chapter 3: mSCOA

This chapter provides an outline of mSCOA, describes its objectives, and discusses the legislative prescripts for mSCOA compliance. This chapter also discusses the level of mSCOA compliance achieved by Langeberg Municipality.

Chapter 4: Case study: Financial governance and performance of Langeberg Municipality

This chapter provides background on Langeberg Municipality, as well as an overview of the political and administrative leadership, and the financial governance and performance, of the municipality.

Chapter 5: Research design, methodology and interpretation of findings

This chapter presents and interprets the results with respect to the perception of senior management in Langeberg Municipality on IGR and cooperative government in ensuring mSCOA compliance. The chapter also includes an

analysis of what Western Cape Provincial Treasury considers to be mSCOA compliance, and assesses the level of compliance achieved by Langeberg Municipality on 1 July 2017.

Chapter 6: Conclusions and recommendations

The final chapter presents the conclusions of the study, as well as recommendations on IGR to enhance cooperative governance between the three spheres of government for the future implementation of financial management reforms in municipalities.

CHAPTER 2: LITERATURE REVIEW OF OFFICIAL DOCUMENTS ON INTERGOVERNMENTAL RELATIONS, COOPERATIVE GOVERNMENT AND THE MUNICIPAL STANDARD CHART OF ACCOUNTS IN SOUTH AFRICA

2.1 Introduction

This chapter contains a review of available literature on IGR, cooperative government and mSCOA which is relevant to the study. In order to put cooperative government and IGR in perspective, a chronological review is provided of the history and evolution of local government in RSA since 1996, IGR, and the establishment of local government as a distinct sphere of government.

Prior to the introduction of the 1996 Constitution, local government was regarded as an administrative function of central government. Under the apartheid regime, “political and administrative power had been, for the most part, concentrated from the centre [and] South Africa’s transitional leadership sought rather to negotiate these powers between equal partners under a system of cooperative government” (Levy & Tapscott, 2001:1).

The unbanning of liberation movements such as the African National Congress, Pan Africanist Congress and South African Communist Party, and the release of former president Nelson Mandela, was announced by former president FW de Klerk on 2 February 1990 in Parliament. Following these announcements, there was a transition period in South Africa leading up to the first democratic elections in 1994. The interim Constitution (Republic of South Africa, 1993) made provision for the first democratic election to be one of national unity, as the governing party held the position of president, while the opposition at that time (the National Party) occupied one of the deputy president positions.

Local government was only recognised as an independent sphere of government in the 1996 Constitution, which set out the objects (Section 152) and developmental duties (Section 153) of local government.

According to the former Department of Provincial and Local Government (DPLG, 2007:1), IGR refers to the relationship between different governments, or between organs of state from different government spheres regarding the conduct of their affairs. Further, it is stated that IGR is about the relationship between the three spheres of government – national, provincial and local – and how these spheres can be made to work together for the good of the country as a whole.

According to the White Paper on Local Government (Republic of South Africa, 1998b), IGR is “the set of multiple formal and informal processes, channels, structures and institutional arrangements for bilateral and multilateral interaction within and between spheres of government”. IGR is therefore a set of rules that govern conduct, cooperation and collaboration within a multi-sphere government to ultimately achieve the objectives of government as a whole. As such, IGR is the vehicle to ensure that there is an effective cooperative government.

2.2 Background to IGR in South Africa

South Africa has a fragmented past due to apartheid and segregation across racial lines. The country’s first democratic elections were only held on 27 April 1994, and each year South Africans commemorate 27 April as Freedom Day.

According to Van Ryneveld, cited by Ncube and Monnakgotla (2016:76), between 1948 and 1994 the country’s demarcated jurisdictions and organised governance were based on race rather than functional linkages or similar criteria. The governance system was decentralised and consisted mainly of separate white local authorities and black local authorities.

The white local authorities were established in the early 1900s and provided services mainly to white, coloured, Indian and Asian communities. Since the white local authorities had access to a large part of the tax base, they were mostly self-sufficient and economically viable; however, services were not rendered to the total population but only to a small privileged portion. In contrast, after 1994, municipalities needed to provide services to the entire population in their demarcated jurisdiction. Today, many municipalities are not self-sufficient or economically viable, making them heavily dependent on transfers from national and provincial government to fulfil their constitutional mandate.

Before 1994, local governance was highly centralised, and decisions were taken by the central government. Furthermore, Levy and Tapscott, cited by Mdliva (2012:2), conclude that:

“...in the closing stages of the apartheid era, intergovernmental relations were characterised by autocratic central rule, increasing administrative inefficiency, growing corruption and minimal popular legitimacy. The provincial legislatures lacked any significant law-making function and generally served to rubber-stamp legislation from the central executive. Local authorities had no original powers.”

During the apartheid era and before the transition to the new dispensation, local government was not a distinct, autonomous sphere of government and did not have the same powers as provincial and national government; instead, it was regarded as an administrative function of national government.

After the unbanning of the liberation movements in 1990, a series of constitutional negotiations were held at the Congress for a Democratic South Africa (CODESA). During the CODESA negotiations, a key issue was what the nature of the South African state would be. At the time, the African National Congress advocated for a unitary state, while the National Party and Inkatha Freedom Party advocated for a federal state. A federal state would protect

regional interests but may ultimately result in a weak central government (Department of Provincial and Local Government, 2007).

A compromise was reached with the interim Constitution of 1993, and was later consolidated in the 1996 Constitution. The 1996 Constitution provides for a decentralised state with a strong central government. Nine provinces with elected legislatures and executives were established, having jurisdiction over a number of functional areas. Local government was given relative autonomy on local service delivery matters, and the provinces and local government were to exercise their authority within a framework and direction established and supervised by national government. In fiscal matters, the role of national government was to be paramount.

The compromise reached at CODESA, as described in the Constitution (1996), includes elements of federalism and unitarianism. Watts, as cited in De Villiers (1994:39), states that there was considerable debate on whether the binding principles of the Constitution (1996) indicate that South Africa is a unitary or federal state. This was further argued by Cameron (1996:2), who maintains that the compromise reached with the Constitution:

“...showed many of the features of federalism, such as a senate representing provincial interests, a schedule of provincial powers and a constitutional court as the final arbitrator of intergovernmental conflict. However, Parliament had extensive overriding powers over the provinces which negated some of the federal principles. The African National Congress favoured a unitary state, while the National Party and the Inkatha Freedom Party a federalist state. The Constitution Act 200 of 1993 however, made provision for a relatively autonomous local sphere of government.”

2.3 The nature of the South African state

Although the binding principles of the Constitution (1996) contain some elements of federalism, these elements are not dominant enough for South

Africa to be called a federal state, and therefore the country is considered a unitary state. The Constitution (Republic of South Africa, 1996) states that South Africa is a country of national unity, and “government is constituted as national, provincial and local spheres of government which are distinctive, interdependent and interrelated”. Furthermore, Section 151 of the Constitution lists the following important matters regarding the status of municipalities:

- (1) “The local sphere of government consists of municipalities, which must be established for the whole of the territory of the Republic.
- (2) The executive and legislative authority of a municipality is vested in its Municipal Council.
- (3) A municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation, as provided for in the Constitution.
- (4) The national or a provincial government may not compromise or impede a municipality’s ability or right to exercise its powers or perform its functions.”
(Republic of South Africa, 1996)

An example of a federal state of government is the United States of America, where there is a division of power between the various states and the central government. In South Africa, all nine provinces abide by the Constitution, which is the supreme law of the country, and no provincial by-law or policy may contradict national legislation or the Constitution. Therefore, provinces in South Africa do not have constitutional authority in their respective regions, and although the Western Cape has its own constitution, the content thereof may not contradict the Constitution (1996) of the Republic of South Africa.

Furthermore, the Constitution introduced the unique element of cooperative government, which underpins IGR (Nzimakwe & Ntshakala, 2015:824). Leemans (1970:31) asserts that the structure and functioning of a government’s national, provincial and local spheres is highly influenced by the political ideology of the country – which, in South Africa, is the ideology of the ruling party, the African National Congress. “The government will develop a system in accordance with the basic ideological principles which it has adopted and

which is therefore likely to be reflected in regional and local institutions and their relationship with central government” (Leemans, 1970:31).

Gildenhuys (1991:166), in concurring with Leemans, adds:

“The question of political ideology of a particular government, especially central government institutions in a unitary state, influences access to public decision-making structures at the lower levels. The most important manifestation of political ideology is seen in the policy-making process at the lower levels of government, the basis of which is linked to the political ideology and is seen as a precursor to executive and finally operational policy, which respectively stands in a vertical relationship with each other.”

In the next section, the principles underpinning a federal and unitary state are discussed.

2.3.1 Federal state

Hague and Harrop (1987:169-170) define federalism as:

“A system of government in which legal sovereignty is shared between the central and the other levels of government. Each level or sphere of government, central and state, has constitutional authority to make some decisions independently of the other. Citizens of a federal state remain subject to the authority of both the central and state governments, each of which impacts directly on the citizen.”

Furthermore, Wheare, as quoted in DiGiacomo (2012:16), proposes that the following question be asked: “Does a system of government embody predominantly a division of powers between general and regional authorities, each of which, in its own sphere, is coordinate with the others and independent of them? If so, that government is federal.” A country ceases to be a federal state when the federal principle is not dominant. In the next section, the unitary state will be explored.

2.3.2 Unitary state

Unitary governments usually have one level of government above the local level (Mahler, 1995:30). The South African Constitution (1996) dictates that the legislative authority lies with Parliament, and that all Acts passed by Parliament are binding and applicable to local, provincial and national government – hence the Acts are applicable to all nine provinces. The provincial parliaments may pass laws, but these laws may not contradict national legislation passed by Parliament.

The most important feature that makes South Africa a unitary state, as presented in the Constitution (1996), is that the National Assembly may assume legislative powers over provinces, but the Constitution may only be amended by the National Assembly. Therefore, the laws passed and powers assigned to provinces are subordinate to the Constitution as the supreme law of the country, and there is uniformity among provinces due to the laws being passed at the central level.

Hague and Harrop (1987:176) further state that “in a unitary state, sub-national governments, whether regional or local, may make policy as well as administer it, but they do so at the pleasure of the national government”. Gildenhuys (1991:165) concludes that governmental relations are mostly the result of “enforced duties as prescribed by the Constitution or statutes which control lower authorities by virtue of the centralised control of authority”. The researcher concurs with Hague and Harrop in that local government is allowed to make policies and administer them, but these policies usually flow from regulations and legislation passed by the National Assembly.

Craythorne (1990:38) adds that most legislation tends to set out principles, leaving all the detail to be stated in regulations. Where regulations are made by central government, they are usually administered by public servants. This gives public servants a great deal of authority, including in many cases the authority to change local decisions or even to set them aside.

This statement by Craythorne is evident in South Africa and will be further discussed in Chapter 2. Since the inception of the Municipal Finance Management Act (MFMA) on 1 July 2004 (Republic of South Africa, 2004), a number of regulations have been promulgated under the MFMA which are all administered by officials within National Treasury. Currently, this poses a major challenge within local government, as the MFMA sets out certain frameworks but regulations are passed by the Minister of Finance, and these regulations are administered by public officials within National Treasury. The implementation of regulations causes much frustration to local government practitioners, as regulations pertaining to the legislative environment are now administered by public officials who may not be aware of the practical challenges of implementation or the requirements of compliance to regulations.

2.4 Theory on IGR

Kahn, Madue and Kalema (2011:82-83) maintain that the interim Constitution (1993) did not provide guidance on IGR or how it would function, and that there was a lack of clarity regarding the form IGR would take. Mentzel and Fick (1996:101) state that “the efficacy of intergovernmental relations is a function of the level of participation by the key role players in the system, and the extent of participation, whether of a competitive or cooperative nature, finally determines the ontological state of the system of intergovernmental relations”.

Mathebula (2004:228) is of the opinion that the “tone of relationships within the concept of intergovernmental relations elevates the activity of intergovernmental co-operation, collaboration and mutual support to a realm often reserved for interpersonal relationships”. Furthermore, Mathebula (2004:20) defines IGR as “the various combinations...of interactions, interdependencies, influences and transactions conducted by government officials (elected or appointed) between and amongst spheres of governments (as well as organs of state) in a country”. Mathebula’s study (2004:228) therefore concludes that IGR is a “process-driven activity that seeks to reconcile

sub-national jurisdictional tensions in favour of service delivery and good governance”.

Edwards (2008:66) agrees with Mentzel, Fick and Mathebula, stating that the intention of IGR is to promote and facilitate cooperative governance and public policy decision-making by ensuring that the activities across all spheres of government encourage services to meet the needs of communities in the most effective and efficient manner.

Nationally, various intergovernmental forums have been established, including the President’s Coordinating Council, National Council of Provinces, Budget Council and Budget Forum. In the Western Cape, forums have been established such as the Municipal Managers Forum, Chief Financial Officers Forum, Supply Chain Managers Forum and Municipal Accountants Forum, which meet quarterly.

Simeon and Murray (2001:71) agree with Edwards that the concept of cooperative government requires the three spheres of government to work together as a whole in collaborating rather than competing. They go on to say that IGR is concerned with the financial and political institutional arrangements regarding the interaction between the different spheres of government and organs of state which provide institutional expression for the values of government. According to Carstens and Mathebula (2007:6), IGR is centrally driven, although there is a multi-sphere approach to governance. However, IGR is currently centrally driven by National Treasury on a national level, and by the various Provincial Treasuries on a provincial level, and the voice of local government is not properly heard.

Watts, as cited by Levy and Tapscott (2001:22), concurs with Simeon and Murray and defines IGR as “interactions between governmental units of all types and levels within a political system”. Furthermore, Watts notes the significance of IGR in a multi-sphere government, deducting that “it is impossible to distribute administrative or legislative jurisdictions among governments within a single policy into watertight compartments or to avoid

overlaps of functions. Interdependence and interpenetrating between spheres of government within a multi-sphere regime are unavoidable” (Levy & Tapscott, 2001:22).

Other important concepts relating to IGR in the context of cooperative government are government, cooperative governance, cooperation, delegation and deconcentration of authority.

Heywood (2007: 26) as cited by Botha, Brand, Engelbrecht and Eijbergen (2015:13) define government as follows:

“In the broadest sense, to govern means to rule or control others. Government can therefore include any mechanism, through which rule is maintained, the central features being the ability to make collective decisions and the capacity to enforce them. A form of government can thus be identified in all institutions: families, schools, businesses, trade unions and so on, However government as opposed to ‘governance’, is more commonly understood to refer to the formal and institutional processes that operate at the national level to maintain public order and facilitate collective action. The core functions of government are thus to make law (legislation), implement law (execution) and interpret law (adjudication). In some cases, the political executive alone is referred to as ‘the Government], making it equivalent] the Administration’ in presidential systems.”

Furthermore Haywood (2007:6) is of the opinion that governance is a broader term than government by stating that governance refers to the various ways through which social is coordinated. With the transition from the traditional public management there was growth in public private partnerships, policy networks became more important.

Cooperation is essential in cooperative government as the three spheres of government need to cooperate with one another to achieve common goals. Delegation is also important in the cooperative government framework as national government can delegate functions to provincial and local, but imperative is to ascertain where the function lies in terms of the Constitution of

1996 to ensure that provincial and local government are not delegated functions without the necessary funding which leads to unfunded mandates.

Deconcentration of authority involves the redistribution of decision making authority and financial and management responsibilities among different levels of a national government in order to ensure that there is no overlapping of functions.

2.5 Legislative framework for local government

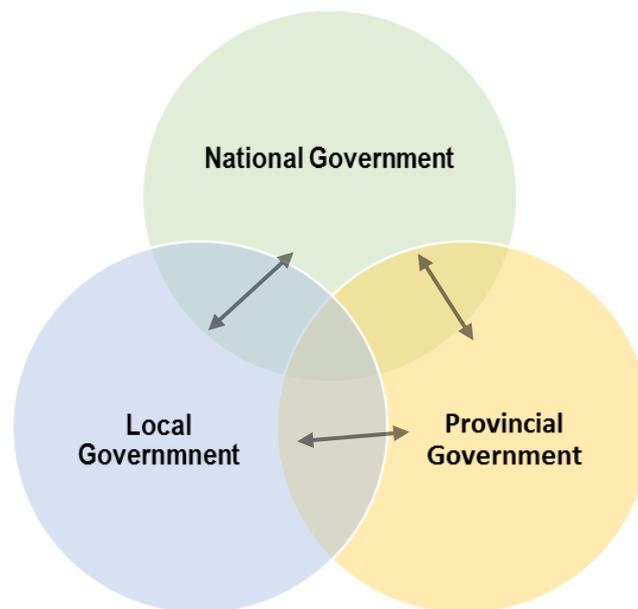
The local government framework is provided for in the 1996 Constitution. Complementing this framework are the following important pieces of legislation (DPLG, 2007:4):

- Local Government: Municipal Structures Act 117 of 1998, which provides for the establishment of municipalities, their internal structures, and the division of powers between local and district municipalities.
- Local Government: Municipal Systems Act 32 of 2000, which provides the framework for local government functioning, including integrated development planning, community participation and service delivery.
- Local Government: Municipal Demarcation Act 27 of 1998, which establishes the Municipal Demarcation Board that is responsible for municipal boundaries and important advisory functions.
- Local Government: Municipal Electoral Act 27 of 2000, which regulates local government elections.
- Local Government: Municipal Finance Management Act 56 of 2003, which addresses local government finances.
- Local Government: Property Rates Act 6 of 2004, which provides the framework for municipal property rates.
- Intergovernmental Relations Framework Act 13 of 2005 (IGRFA), which provides a framework for the national government, provincial governments and local governments to promote and facilitate IGR.

2.5.1 The Constitution of 1996

Section 40 of the Constitution (1996) makes provision for three spheres of government, namely national, provincial and local government. Each sphere is distinctive, interrelated and interdependent, as illustrated in Figure 2.1.

Figure 2.1: Post-1994 system of cooperative governance



Source: Van der Waldt et al., 2014:18

According to Botha et al. (2015:178), “[t]he principles of cooperative government are based on the concept *Bundestreue*, or federal loyalty”. Further, it is stated that this concept is “based on the premise of shared or some kind of partnership between various governments in one country”.

Each sphere of government is distinct, meaning that it is unique and its characteristics differ from the other spheres. The three spheres of government are interrelated, indicating that the one cannot operate without the other. Lastly, they are interdependent, or dependent on one another for delivering their constitutional mandate. Interdependency is one of the features of a unitary state.

Furthermore, Section 41 of the Constitution of 1996 (Republic of South Africa, 1996) lists the following among the principles of cooperative government and IGR:

- (1) “All spheres of government and all organs of state within each sphere must –
 - (a) preserve the peace, national unity and the indivisibility of the Republic;
 - (b) secure the well-being of the people of the Republic;
 - (c) provide effective, transparent, accountable and coherent government for the Republic as a whole;
 - (d) be loyal to the Constitution, the Republic and its people;
 - (e) respect the constitutional status, institutions, powers and functions of government in the other spheres;
 - (f) not assume any power or function except those conferred on them in terms of the Constitution;
 - (g) exercise their powers and perform their functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere; and
 - (h) co-operate with one another in mutual trust and good faith by –
 - (i) fostering friendly relations;
 - (ii) assisting and supporting one another;
 - (iii) informing one another of, and consulting one another on, matters of common interest;
 - (iv) co-ordinating their actions and legislation with one another;
 - (v) adhering to agreed procedures; and
 - (vi) avoiding legal proceedings against one another.”

The objects of local government are contained in Section 152 of the Constitution of 1996 (Republic of South Africa, 1996):

- (1) “The objects of local government are –
 - (a) to provide democratic and accountable government for local communities;
 - (b) to ensure the provision of services to communities in a sustainable manner;
 - (c) to promote social and economic development;

- (d) to promote a safe and healthy environment; and
 - (e) to encourage the involvement of communities and community organisations in the matters of local government.
- (2) A municipality must strive, within its financial and administrative capacity, to achieve the objects set out in subsection (1).”

Furthermore, the developmental duties of municipalities are contained in Section 153 of the Constitution (Republic of South Africa, 1996):

“A municipality must –

- (a) structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community; and
- (b) participate in national and provincial development programmes.”

2.5.2 Categories of municipalities

The Municipal Structures Act (Republic of South Africa, 1998a) provides for the establishment of municipalities, their internal structure, and the division of powers between the different categories of municipalities. Chapter 1 of the Act makes provision for three categories of municipalities, namely Category A (metro) municipalities, which have exclusive municipal executive and legislative authority in their area of jurisdiction; Category B (local) municipalities, which share municipal executive and legislative authority in their demarcated area with a Category C (district) municipality; and Category C (district) municipalities, which have municipal executive and legislative authority in their demarcated area, which includes local municipalities (Van der Waldt, et al., 2014).

According to *The Local Government Handbook: South Africa* (Yes! Media, 2018), South Africa is divided into 257 municipalities which consist of eight metros, 44 districts and 205 local municipalities. The eight metropolitan councils are: Buffalo City (East London); City of Cape Town; Ekurhuleni Metropolitan Municipality (East Rand); City of eThekweni (Durban); City of Johannesburg;

Mangaung Municipality (Bloemfontein); Nelson Mandela Metropolitan Municipality (Port Elizabeth); and the City of Tshwane (Pretoria).

2.5.3 Monitoring role of Provincial and National Treasury

Section 216(1) of the Constitution of 1996 states that national legislation must establish a national treasury that prescribes measures to ensure transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications, and uniform treasury norms and standards. Furthermore, Section 216(2) of the Constitution of 1996 (Republic of South Africa, 1996) states:

“The national treasury must enforce compliance with the measures established in terms of subsection (1), and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.”

Section 216(2) of the Constitution confers a considerable amount of authority to public servants within National Treasury, and the researcher concurs with Craythorne (1990:38), who states that:

“...most legislation tends to set out principles, leaving all the detail to be stated in regulations. Where regulations are made by central government, they are usually administered by public servants. This gives public servants a great deal of authority, including in many cases the authority to change local decisions or even to set them aside.”

Currently, all regulations and circulars issued in terms of the MFMA are administered by the Chief Director of Intergovernmental Relations within National Treasury. The Chief Director therefore has a considerable amount of authority over the financial management affairs of local government, and in instances of non-compliance to specific regulations or circulars, municipalities are issued with letters indicating National Treasury’s intention to withhold equitable share allocations, based on Section 216 of the Constitution. The

equitable share, which is an unconditional grant, is predominantly used to fund the provision of free basic services to indigent consumers within the local government's municipal boundaries. The grant is also used to fund a portion of councillor remuneration, and a portion of the stipends paid to ward committee members.

According to Section 155(6) of the Constitution, the provincial government must provide for the monitoring of local government in the province, and Section 155(7) provides that both national and provincial governments must see to the performance of municipalities. Furthermore, Section 34 of the MFMA (Republic of South Africa, 2004) states:

- (1) "The national and provincial governments must by agreement assist municipalities in building the capacity of municipalities for efficient, effective and transparent financial management.
- (2) The national and provincial governments must support the efforts of municipalities to identify and resolve their financial problems.
- (3) When performing its monitoring function in terms of section 155(6) of the Constitution, a provincial government –
 - (a) must share with a municipality the results of its monitoring to the extent that those results may assist the municipality in improving its financial management;
 - (b) must, upon detecting any emerging or impending financial problems in a municipality, alert the municipality to those problems; and
 - (c) may assist the municipality to avert or resolve financial problems.
- (4) Non-compliance with this section or any other provision of this Act by the national or a provincial government does not affect the responsibility of a municipality, its political structures, political office-bearers and officials to comply with this Act."

In terms of Sections 52, 71 and 72 of the MFMA, municipalities are required to submit quarterly, monthly and half-yearly budget statements to the provincial and national governments. The *Practitioners Guide to the IGR System in South Africa* (DPLG, 2007:33) refers to monitoring in the public sector, where one sphere of government is responsible for measuring the compliance of another.

In this instance, Provincial and National Treasury monitor the compliance of local government in terms of the MFMA; this speaks directly to the interrelatedness of the three spheres of government, and also concurs with Reddy's (1999:10) statement that although local government consists of local democratic units, it is subordinate to the central government.

2.5.4 Intergovernmental Relations Framework Act (2005)

The objectives of the IGRFA (Republic of South Africa, 2005) are to provide a framework for the three spheres of government to promote and facilitate IGR within the required established structures, and to provide for mechanisms and procedures to facilitate the settlement of IGR disputes. Section 4 of the IGRFA states that the object of the Act is to facilitate coordination in the implementation of legislation and policy, including coherent government, the effective provision of services, monitoring the implementation of policy and legislation, and the realisation of national priorities.

Chapter 3 of the Constitution (1996) and the *Practitioners Guide to the IGR System in South Africa* (DPLG, 2007:7) indicate that the three actors within the IGR framework and cooperative government are national government, provincial government and local government. Excluded from the cooperative government framework are the Chapter 9 institutions provided for in the Constitution (1996), such as the Independent Electoral Commission, Auditor-General of South Africa (AGSA) and Public Protector.

The IGRFA makes provision for certain IGR structures, such as the President's Co-ordinating Council, Ministers and Members of Executive Councils (MinMec), provincial intergovernmental forums and municipal intergovernmental forums. Other role players include the Finance and Fiscal Commission (FFC), the Department of Cooperative Government and Traditional Affairs (COGTA) and the South African Local Government Association (SALGA).

The IGR forums established in terms of the IGRFA are all consultative in nature, and their purpose is primarily to discuss matters of national interest, legislation and policies affecting the three spheres of government. However, Section 35 of the IGRFA states that in cases where there is a service of national interest, the exercise of a statutory power or the implementation of a policy, there must be implementation control in the form of an agreement between the national and provincial governments to assist with constitutional obligations.

2.6 Objectives and Challenges of IGR in RSA

This section investigates the current challenges of IGR within a multi-sphere government. Uys (1995:58) states that good IGR enhances cohesion and is a prerequisite for the efficient execution of governmental functions. The interrelatedness of the different spheres of government has the resultant effect that local government is monitored and supervised by provincial and national government.

According to Botha et al. (2015:177), “[e]xecutive intergovernmental forums are normally consultative bodies that make recommendations to the participating governments and cannot take the place of the elected executive governmental structures in a country”. The researcher concurs with Botha et al. that all IGR structures are consultative. IGR is centrally driven from the national government, and local government can give inputs via IGR structures established in terms of the IGRFA.

The implementation of mSCOA which was also driven centrally from National Treasury, which is evident from the response provided by the mSCOA project manager within the Western Cape Provincial Treasury (see section 5.5 of this thesis). Although local government is a distinct sphere of government – which gives it relative autonomy to govern local affairs – its functions are described in Schedule 4B and 5B of the Constitution. The promulgation of Acts lies with Parliament, which is excluded from the cooperative government framework.

As indicated in section 2.5.1 of this thesis, the principles of cooperative government are based on the concept of loyalty, and on the premise of some kind of partnership between the various governments in the country (Botha et al., 2015:178). The researcher agrees with Botha et al. that there must be a partnership between local, provincial and national government in order to ensure that the objectives of the county (as contained in the National Development Plan) are achieved. The fundamentals of IGR are therefore cooperation, relationship-building, collaboration, consultation and communication, working towards social cohesion in order to ensure that the objectives of government are met.

Even the National Development Plan of RSA acknowledges that relations between the three spheres of government must be improved, and that differentiation must be used – taking into account the capacity and responsibilities of provinces and municipalities. The aim of the National Development Plan is to reduce poverty and inequality by 2030, and with regard to local government, Goal 97 is to improve relations between national, provincial and local government. This goal is elaborated upon as follows (National Planning Commission, 2012:74):

“Use differentiation to ensure a better fit between the capacity and responsibilities of provinces and municipalities. Take a more proactive approach to resolving coordination problems and a more long-term approach to building capacity.”

Section 41 of the Constitution (1996) sets out the principles of cooperation and IGR between the three spheres of government. This includes promoting effective communication, respecting one another’s constitutional status, acting in mutual trust and good faith, and avoiding taking disputes to court.

Since South Africa has a constitutional democracy, cooperative government and IGR are constitutionally entrenched. Carstens and Mathebula (2007:6) argue that although the Constitution (1996) advocates a multi-sphere approach to governance, IGR is centrally driven. They further contend that IGR requires

that the three spheres of government work in partnership and constantly communicate with one another.

Du Plessis (2004:1) investigates the reasons for successes and failures in cooperative governance. He maintains that successes can be attributed (inter alia) to the fact that the Constitution (1996) sets out principles for conducting IGR, and provides for intergovernmental fiscal relations. On the other hand, failures may be attributed to bureaucracy, and to the fact that the three spheres of government may lack the following: properly coordinated and structured information systems to facilitate provincial monitoring; affective communication between the different role players; capacity to implement policies and programmes; trained personnel; financial resources; commitment to cooperate (the legislative mandates of the different government departments are often contradictory); efficiency and effectiveness in decision-making; and alignment of policies between local and provincial government.

The IGRFA is silent on the underlying fundamentals of IGR; it only sets the framework for IGR and the promotion thereof. Furthermore, it is silent on how cooperation between the three spheres of government should be regulated. Although the IGRFA makes reference (in Section 35) to implementation control for policy implementation, the structures are all merely consultative and are driven by the central government.

The question then arises as to how intergovernmental disputes should be handled. The IGRFA defines an intergovernmental dispute as “a dispute between different governments or between organs of state from different governments” (Republic of South Africa, 2005). In turn, the word ‘government’ is defined as the national government, a provincial government or a local government. However, neither the Constitution nor the IGRFA discuss dispute resolution.

Since 1996 there have been many cases of intergovernmental disputes, during which the different spheres of government sought a legal solution. One such

case is that of *National Gambling Board v Premier KwaZulu-Natal and Others* (The Constitutional Court of South Africa, 2001).

“The Constitutional Court in their decision of *National Gambling Board v Premier of KwaZulu-Natal* indicated that government departments should not litigate against each other and that they should try to resolve disputes in the correct manner. The relevant government department should ‘re-evaluate its position fundamentally...to consider alternative possibilities and compromises’. On the question of whether national government may prescribe to provincial departments as to how their administration should be structured, the Constitutional Court found that such a provision does not infringe Section 41(1)(g) of the Constitution.” (Du Plessis, 2004:6)

In a later case, *Uthukela District Municipality and Others v President of the Republic of South Africa and Others* (The Constitutional Court of South Africa, 2002), the Constitutional Court endorsed its previous holding and maintained that all extra-judicial avenues for resolving a dispute should be exhausted before a case becomes justiciable. Du Plessis (2004) concurs, and explains that Section 41 of the Constitution of 1996 obliges organs of state to avoid legal proceedings against one another, irrespective of whether special structures for dispute resolution exist or not.

The conclusion can therefore be drawn that the Constitutional Court will not give judgements in cases involving IGR within or between local, provincial and national government or departments. It is therefore clear that “[m]echanisms are needed to promote consistency in policy formulation on intergovernmental relations to ensure compliance with decisions taken by intergovernmental structures and institutions”, and that “[a]ll structures for intergovernmental relations need to be stable and durable to promote the principles of cooperation” (Brynard & Malan, 2002:107).

2.7 Conclusion

This chapter provided a literature review on IGR and the legislative framework for cooperative government in South Africa. The current literature indicates that IGR in South Africa is centrally driven from national government. The Constitution of 1996 provides the framework for cooperative government, and the IGRFA sets out the principles for IGR, but what is lacking are laws and regulations on how IGR should be implemented.

Furthermore, neither the Constitution of 1996 nor the IGRFA address the issue of dispute resolution between the three spheres of government, and yet the Constitutional Court maintains that government departments and the different spheres of government should not litigate against one another but should rather investigate all alternative mechanisms to address disputes.

Effective and efficient IGR is a prerequisite for the success of any system of cooperative government. The different spheres of government must collaborate rather than compete with one another, and should build relationships that are based on cooperation, collaboration, interaction and communication. Cohesion and cooperation between the three spheres of government are vital to ensure good IGR and achieve cooperative government.

Poor IGR appears to be at the core of the challenges experienced with the implementation of mSCOA. In the following chapter, it will be argued that the mSCOA process is centrally driven from National Treasury. Local government is not in attendance at the IGR forums where issues relating to mSCOA were discussed; instead, local government in the Western Cape was represented by the Provincial Treasury at mSCOA meetings.

CHAPTER 3: MUNICIPAL STANDARD CHART OF ACCOUNTS

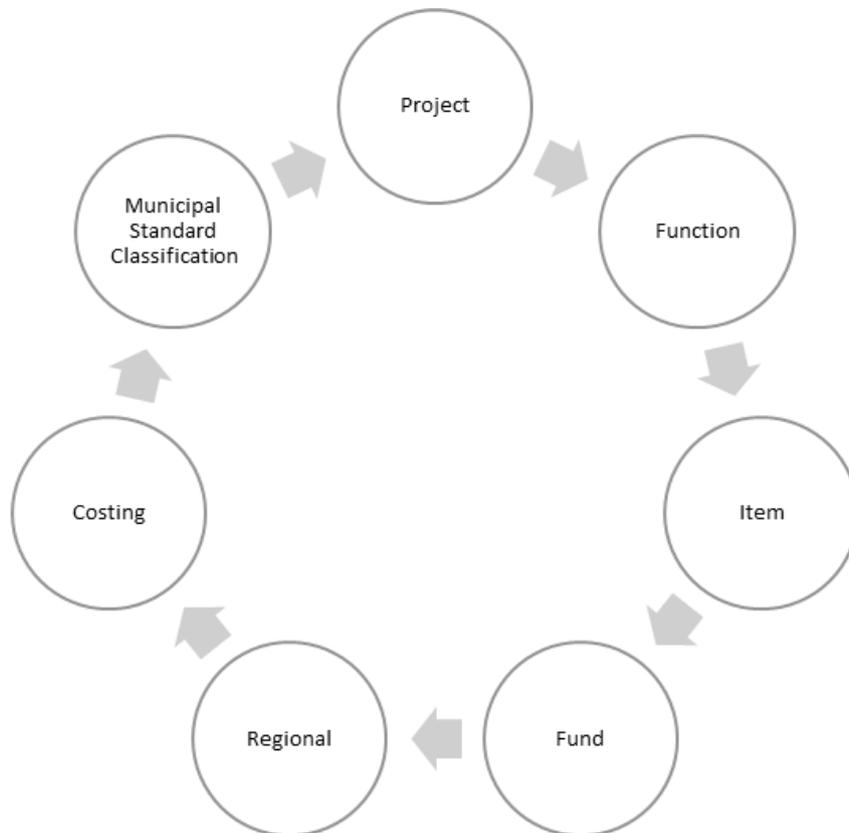
3.1 Introduction

This chapter investigates the promulgation of the mSCOA regulations and the legislative context. The main topics that will be discussed are the legislative prescripts for mSCOA compliance, and the assessment of the level of mSCOA compliance achieved by Langeberg Municipality on 1 July 2017.

Since the inception of the MFMA on 1 July 2004, a number of regulations have been promulgated under the Act: the Municipal Investment Regulations (April 2005), the Municipal Supply Chain Management Regulations (May 2005), the Municipal Regulations on Debt Disclosure (June 2007), the Municipal Regulations on Minimum Competency Levels (June 2007), the Municipal Asset Transfer Regulations (August 2008), the Municipal Budget and Reporting Regulations (April 2009), the Municipal Regulations on Standard Chart of Accounts (April 2014), the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings (May 2014), and the Municipal Cost Containment Regulations (June 2019).

3.2 Background to the mSCOA

According to National Treasury (2015), 'mSCOA' is an acronym that stands for the municipal 'standard chart of accounts', which is a unique South African financial management reform that is applicable to local government. National Treasury states that mSCOA is the result of research it conducted on municipal practices, reporting outcomes, and policy implementation and review. mSCOA provides for a uniform and standardised financial transaction classification framework across seven segments, as illustrated in Figure 3.1.

Figure 3.1: mSCOA segments

Source: *National Treasury, 2015:2*

Six of the seven segments are regulated; the Municipal Standard Classification segment is not regulated and is based on the organisational structure of the municipality. Table 3.1 provides a short description of each of the segments.

Table 3.1: Description of mSCOA segments

Segment	Description
Project	Does the transaction relate to a specific project and, if so, what type of project?
Function	Against which function or sub-functions should the transaction be recorded?
Item	What is the nature of the transaction to be recorded, either being an asset, liability, net asset, gain or loss, revenue or expenditure?

Segment	Description
Fund	What source of funding will be used for the transaction, and from which source is the revenue received?
Regional	What is the relevant geographical location for capital investment, or the appropriate service delivery area for operational expenditure?
Costing	What is the impact of the transaction on secondary costing?
Municipal Standard Classification	Against which organisational vote or sub-vote should the transaction be recorded?

Source: National Treasury, 2015:2

National Treasury (2015) states that SCOA reforms commenced in 1998 for provincial and national departments, and were fully operational by 2004; it therefore took provincial and national departments six years to become fully operational on SCOA.

Considering that national and provincial departments are fully dependant on the national government for revenue and do not need to generate any revenue, as well as the fact that these departments use a simplified method of cash-based accounting, six years is a substantial period in which to be allowed to become fully SCOA operational. In contrast, local government was given only three years to become mSCOA-compliant – from the promulgation of the mSCOA regulations in 2014 to the implementation date of 1 July 2017.

The researcher in this study argues that municipalities in South Africa each have their own unique challenges, and therefore a blanket approach cannot be followed with regard to the implementation of regulations. As indicated in section 4.5 of this thesis, the AGSA reported that, overall, the audit outcomes of municipalities for the financial year 2017/2018 regressed from the previous financial year; the audit outcomes of 63 municipalities regressed, and the audit outcomes of only 22 municipalities improved. Furthermore, a total of 125 out of the 257 municipalities face various degrees of financial distress, indicating that nearly 48.63% of municipalities are facing issues regarding financial sustainability.

The researcher in this study further argues that municipalities differ in terms of category or grading (A, B and C) and in terms of capacity (secondary cities, high-capacity municipalities, medium-capacity municipalities and low-capacity municipalities). For this reason, the implementation of financial management reforms should follow a phased approach which considers the capacity of the various municipalities.

In October 2019 COGTA rolled out *The Khawuleza District Coordination Service Delivery Model* and the researcher is in agreement with this district service model as piloted at the City of Ethekewini. It will be rolled out at the 8 metros and the 44 districts. The President's Coordinating Council (PCC) endorsed the:

"The Khawuleza District Coordination Service Delivery Model endorsed by the PCC seeks to secure maximum coordination and cooperation among the national, provincial and local spheres of government, who will act in partnership with civil society – including communities, business and labour – at the district level countrywide" (Department of Cooperative Governance and Traditional Affairs, 2019)

3.3 Legislative context

The Minister of Finance, in terms of Section 168 of the MFMA, issued the mSCOA regulations. The object of the mSCOA regulations is to:

"...provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which –

- (a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and

- (b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.” (Republic of South Africa, 2014)

Section 168 of the MFMA states as follows:

- (1) “The Minister, acting with the concurrence of the Cabinet member responsible for local government, may make regulations or guidelines applicable to municipalities and municipal entities, regarding –
 - (a) any matter that may be prescribed in terms of this Act;
 - (b) financial management and internal control;
 - (c) a framework for regulating the exercise of municipal fiscal and tariff-fixing powers;
 - (d) a framework regulating the financial commitments of municipalities and municipal entities in terms of public-private partnership agreements;
 - (e) the establishment by municipalities of, and control over-
 - (i) municipal entities; and
 - (ii) business units contemplated in section 76(u)(ii) of the Municipal Systems Act;
 - (f) the safe-guarding of the financial affairs of municipalities and of municipal entities when assets, liabilities or staff are transferred from or to a municipality or a municipal entity;
 - (g) the alienation, letting or disposal of assets by municipalities or municipal entities;
 - (h) internal audit units and their functioning;
 - (i) the information to be disclosed when municipalities or municipal entities issue or incur debt and the manner in which such information must be disclosed, including by way of a prospectus or other document;
 - (j) the circumstances under which further or specific disclosures are required after money has been borrowed by a municipality or municipal entity;
 - (k) the circumstances under which documentation or information pertaining to municipal debt must be lodged or registered;

- (l) the establishment of a registry for the registration of documentation and information pertaining to municipal borrowing;
 - (m) the settlement of claims against a municipality following an order of court in terms of section 153;
 - (n) the information that must be placed on the websites of municipalities;
 - (o) a framework regulating vestments by municipal entities; and
 - (p) any other matter that may facilitate the enforcement and administration of this Act.
- (2) A regulation or guideline in terms of this section may –
- (a) differentiate between different –
 - (i) kinds of municipalities, which may, for the purposes of this section, be defined either in relation to categories, types or budgetary size of municipalities or in any other manner;
 - (ii) categories of municipal entities;
 - (iii) categories of accounting officers; or
 - (iv) categories of officials; or
 - (b) be limited in its application to a particular –
 - (i) kind of municipality, which may, for the purposes of this section, be defined either in relation to a category, type or budgetary size of municipality or in any other manner;
 - (ii) category of municipal entities;
 - (iii) category of accounting officers; or
 - (iv) category of officials.
- (3) **No guidelines issued in terms of subsection (1) are binding on –**
- (a) **a municipality unless adopted by its council;** or
 - (b) a municipal entity unless adopted by the council of the entity's parent municipality." (Republic of South Africa, 2004) *[Bold emphasis added by researcher]*

Before a regulation can be promulgated, a consultative process must be followed in terms of Section 169 of the MFMA, which states as follows:

- (1) **"Before regulations in terms of section 168 are promulgated, the Minister must –**

- (a) **consult organised local government on the substance of those regulations; and**
 - (b) **publish the draft regulations in the *Government Gazette* for public comment.**
- (2) Regulations made in terms of section 168 must be submitted to Parliament for parliamentary scrutiny at least 30 days before their promulgation.”
(Republic of South Africa, 2004) [*Bold emphasis added by researcher*]

3.4 Objectives of the mSCOA

The key objectives of the mSCOA are as follows:

“A key objective of the proposed Regulations is to enable the alignment of budget information with information captured in the course of the implementation of the budget. Additional key objectives, which also illustrate the potential benefits, include –

- (a) improved data quality and credibility;
- (b) the achievement of a greater level of standardisation;
- (c) the development of uniform data sets critical for ‘whole-of-government’ reporting;
- (d) the standardisation and alignment of the ‘local government accountability cycle’ by the regulation of not only the budget and in-year reporting formats but also the annual report and annual financial statement formats;
- (e) the creation of the opportunity to standardise key business processes with the consequential introduction of further consistency in the management of municipal finances;
- (f) improved transparency, accountability and governance through uniform recording of transactions at posting account level detail;
- (g) enabling deeper data analysis and sector comparisons to improve financial performance; and
- (h) the standardisation of the account classification to facilitate mobility in financial skills within local government and between local government and other spheres as well as the private sector and to enhance the

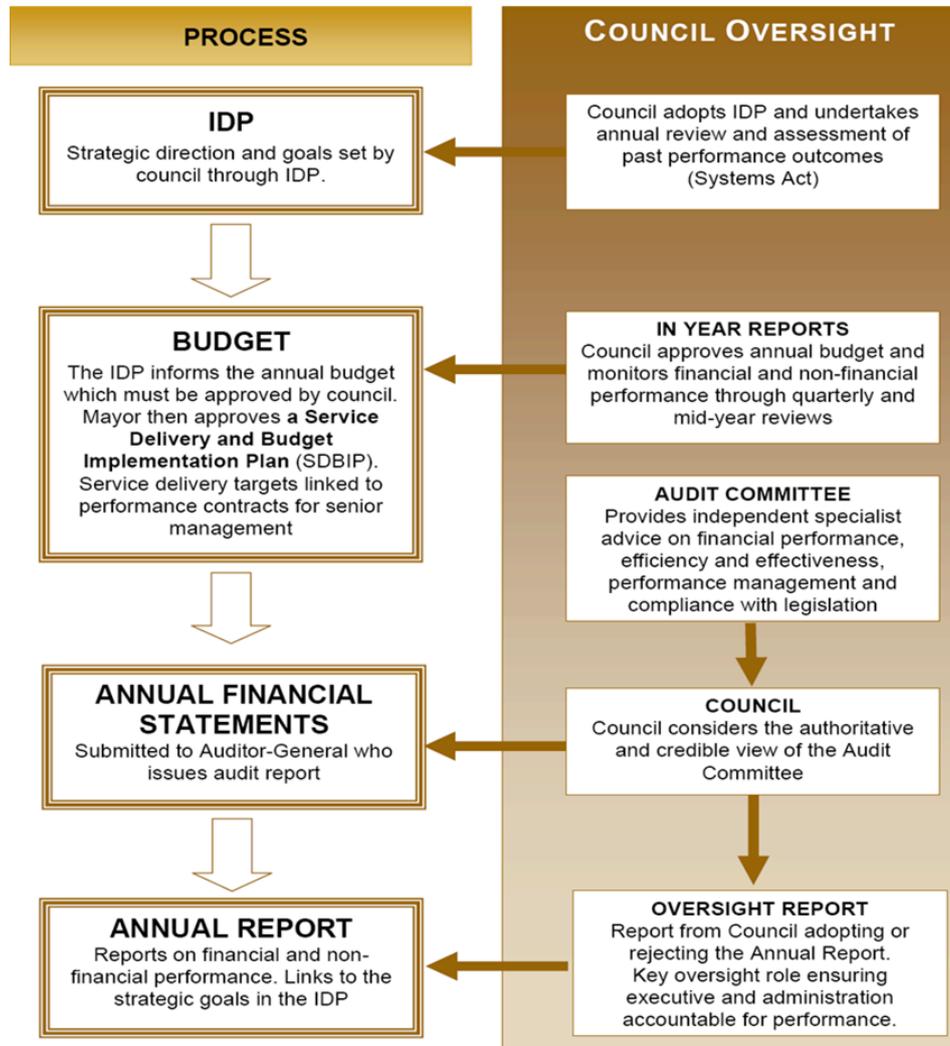
ability of local government to attract and retain skilled personnel.”
(Republic of South Africa, 2014)

According to the mSCOA regulations, mSCOA is a business reform that seeks to bring seamless alignment across the Municipal Accountability Cycle.

3.5 Municipal Accountability Cycle

The Municipal Accountability Cycle consists of the Integrated Development Plan (IDP), Medium Term Revenue and Expenditure Framework (MTREF), Service Delivery and Budget Implementation Plan (SDBIP), Annual Financial Statements and Annual Report. One of the main objectives of mSCOA is to ensure seamless alignment between all the components of the Municipal Accountability Cycle. The components of the Municipal Accountability Cycle are regulated by different pieces of legislation within the local government legislative framework, and involve various stakeholders. Information will be compiled from the mSCOA information, as illustrated in Figure 3.2:

Figure 3.2: Municipal Accountability Cycle process



Source: Mortimer, 2017:33

3.5.1 Integrated Development Plan

The IDP (also called the Term-of-Office Plan) is the five-year strategic document of the municipal council that must be adopted within 16 months of the newly elected council, and which needs to be reviewed annually in terms of Section 34 of the Municipal Systems Act (2000).

The IDP states the objectives of the municipal council for the five-year term, and informs the MTREF in terms of how the council intends to achieve its service delivery objectives with the available financial resources. The strategic objectives of the IDP are directly linked to Section 152 of the Constitution (1996).

Section 21 of the MFMA (2003) states that, at least 10 months before the start of the next budget year, the mayor of the municipality must table a process plan which outlines deadlines (called the schedule of key deadlines) of when the budget will be approved, when the IDP will be reviewed, when the amendment of budget-related policies will take place, as well as the community consultation process. The IDP is based on the needs identified by local communities through an extensive public participation process (within the functional duties outlined in the Constitution).

The IDP must also be aligned to the IDP of other municipalities, if applicable. If the municipality is a Category B municipality, its IDP must be aligned to the IDP of the Category C municipality within whose jurisdiction it falls. Finally, the IDP must also be aligned to the objectives contained in the National Development Plan (NDP), as well as the IDPs of the national and provincial governments.

3.5.2 Medium Term Revenue and Expenditure Framework (MTREF)

The MTREF is the three-year financial plan of the municipality based on section 17 of the MFMA (2003), which must be informed by the IDP (and the service delivery needs identified by the community). The MTREF must be tabled by the mayor in council at least 90 days before the start of the next budget year, and it must be in the prescribed format as per Section 9 of the Municipal Budgeting and Reporting Regulations (Republic of South Africa, 2009).

The MTREF is divided into an operating budget and a capital budget, which must be funded from realistically anticipated revenue and cash-backed

reserves from previous years. Furthermore, at least 30 days before the start of the next budget year, the mayor must table the MTREF in council for approval, after considering the views of the community and the provincial government on the tabled budget.

3.5.3 Service Delivery and Budget Implementation Plan and in-year reporting (SDBIP)

Section 55 of the MFMA (2003) states that, within 28 days after the approval of the budget, the mayor of the municipal council must approve the SDBIP. The SDBIP is a detailed planning and monitoring tool consisting of quarterly and monthly performance targets, as well as guidelines on comparing these targets to actual outputs achieved. The SDBIP consists of both financial and non-financial information, including timeframes, measurable performance targets and performance indicators which are monitored by the municipal council, and by National and Provincial Treasuries.

The SDBIP targets must be based on the SMART principles; in other words, the targets must be specific, measurable, achievable, realistic and time bound. Furthermore, in terms of Sections 71, 72 and 52 of the MFMA, municipalities are required to submit monthly, quarterly and half-yearly budget statements to National and Provincial Treasury on the implementation of the budget. One criticism that may be levelled at municipal councils, National Treasury and Provincial Treasury is that, in terms of oversight, they predominantly play a monitoring role over the SDBIP rather than an evaluative role, which would include performing an objective assessment to determine the relevance of the SDBIP targets.

Evaluation can be defined as:

“The systematic and objective assessment of an ongoing or completed project or programme, its design, implementation and results. The aim is to determine the relevance and fulfilment of objectives, development efficiency,

effectiveness, impact and sustainability.” (Austrian Development Agency, 2009:1)

The evaluation of the SDBIP is a crucial task to ensure that the objectives, as set out in the IDP, are relevant, and to ensure that the SDBIP reflects the most efficient and effective manner in which to achieve these objectives.

3.5.4 Annual Financial Statements

In terms of Section 122 of the MFMA (2003), municipalities without entities are required to submit their Annual Financial Statements to the AGSA for a regulatory audit by the end of August each year, and municipalities with entities by the end of September. The Annual Financial Statements report on the financial affairs of the municipality for the year under review and must be prepared in accordance with Generally Recognised Accounting Practice. Municipalities ultimately strive to achieve a clean audit opinion.

The AGSA describes the different audit outcomes as follows:

1. **“Clean audit outcome:** The financial statements are free from material misstatements (in other words, a financially unqualified audit opinion) and there are no material findings on reporting on performance objectives or non-compliance with legislation.
2. **Financially unqualified audit opinion:** The financial statements contain no material misstatements. Unless we express a clean audit outcome, findings have been raised on either reporting on predetermined objectives or non-compliance with legislation, or both these aspects.
3. **Qualified audit opinion:** The financial statements contain material misstatements in specific amounts, or there is insufficient evidence for us to conclude that specific amounts included in the financial statements are not materially misstated.
4. **Adverse audit opinion:** The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements.

5. **Disclaimer of audit opinion:** The auditee provided insufficient evidence in the form of documentation on which to base an audit opinion. The lack of sufficient evidence is not confined to specific amounts, or represents a substantial portion of the information contained in the financial statements.” (Auditor-General of South Africa, 2019a)

The achievement of a clean audit is a combined municipal effort, as all stages in the Municipal Accountability Cycle are interrelated and interdependent. All municipalities strive to achieve a clean audit and, once achieved, aim to maintain this status. If a municipality received a clean audit in the previous financial year, and does not achieve this status again in the current financial year, this means that the municipality regressed in one or more of the requirements for achieving a clean audit.

3.5.5 Annual Report

According to section 127 (2) of the MFMA (2003), within seven months after the financial year-end, the mayor must table the Annual Report of the municipality in council. The Annual Report must include the audited Annual Financial Statements, a report on non-financial performance, the report from the AGSA on the audit outcome of the municipality, and an action plan to address any findings raised by the AGSA during the regulatory audit. The Annual Report provides information on the performance of the municipality for the past financial year.

3.6 Compliance to the mSCOA regulations

Section 4 and 5 of the mSCOA regulations set out the minimum mSCOA compliance and implementation requirements. Section 5 states that the Standard Chart of Accounts of a municipality or municipal entity:

- (a) “must contain the segments in the Schedule as required by regulation 4(1);

- (b) must accurately record all financial transactions and data in the applicable segment; and
- (c) may not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by the municipality or municipal entity.” (Republic of South Africa, 2014)

Furthermore, Section 6(1) and 7(1) of the mSCOA regulations state that the Minister of Finance, by way of notice in the *Government Gazette*, may determine the minimum business processes and information and communications technology (ICT) system requirements to enable implementation of Section 4 and 5 of the mSCOA regulations. As of the date of completion of this thesis, these minimum business processes and system requirements have not yet been issued.

Further implementation and clarification on mSCOA compliance were issued through the following circulars: Municipal SCOA Circular 1 (July 2015); Municipal SCOA Circular 2 (September 2015); Municipal SCOA Circular 3 (November 2015); Municipal SCOA Circular 4 (March 2016); Municipal SCOA Circular 5 (July 2016); Municipal SCOA Circular 6 (August 2016); and MFMA Circular 80 (March 2016).

MFMA Circular 80 states the following:

“Systems of financial management and internal control must, as a minimum, comply with these explicit business process requirements as contained in the mSCOA Regulation, in that it:

- a) Must provide for the hosting of the mSCOA structure and associated detail as contained in the seven defined segments;
- b) Be able to accommodate and operate the classification framework across all seven segments at a transactional level as defined in the associated detail to the segments;
- c) Must provide for the data extraction functionality as per the segmented transactional string and seamless upload to the Local Government Database as hosted by the National Treasury;

- d) May not apply methodologies of data mapping or data extrapolation to provide for the segmented transactional data string at a transactional level above as explained in point c) above;
- e) Must provide for full seamless integration between the core financial system representing the general ledger, and any third party system with a direct impact on the general ledger i.e. human resource and payroll third party systems, billing etc.; and
- f) Must have access to hardware that is sufficient to run the required software solution.” (National Treasury, 2016a:6-7)

Annexure C to Municipal SCOA Circular 5 (National Treasury, 2016b) also provides information on the municipal classification structure and related business process requirements. Depending on its classification, the municipality has to comply with certain requirements. The classification structure is as follows, and Langeberg Municipality is classified as a B3 municipality (small town):

- Category A: Metros.
- Category B1: Secondary cities.
- Category B2: Large towns.
- Category B3: Small towns.
- Category B4: Mostly rural.
- Category C1: Districts without billing.
- Category C2: Districts with billing.

On 12 July 2017, the mSCOA compliance of Langeberg Municipality was assessed by National Treasury and by Provincial Treasury (through the mSCOA project manager within the Western Cape Provincial Treasury) through an mSCOA transaction verification process. The resulting report, titled *Langeberg Go-Live Verification Results* (Western Cape Provincial Treasury, 2017), was based on nine functional areas which were not defined, as would be expected in terms of Section 4 and 5 of the mSCOA regulations. This therefore raises the question: What constitutes mSCOA compliance according to the regulations?

Figure 3.3 shows the results of the mSCOA transaction verification process.

Figure 3.3: Langeberg Municipality mSCOA transaction verification process report

Executive Summary		
mSCOA Go-Live Verification Testing		
Langeberg Municipality		
Date Completed:		12-Jul-17
Ref	Detail	Results
1	Go Live Status	Yes
	<i>Modules operational:</i>	
2	Supply Chain Module	No
3	Creditors Module	Yes
4	Billing and Receipting Module:	Yes
4,3	<i>Rates</i>	Yes
4,4	<i>Services</i>	Yes
4,5	<i>Receipting</i>	Yes
5	Payroll	No
6	Budget Management	Yes
7	Inventory	No
8	Asset Accounting	No
9	Reporting	Yes

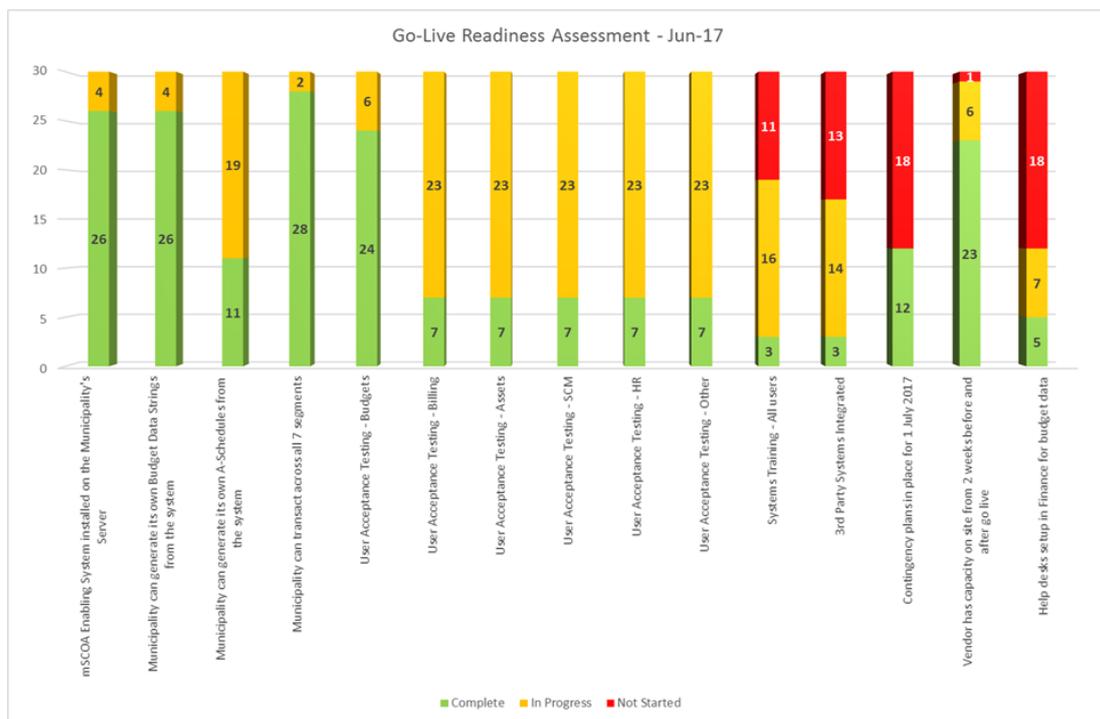
Source: Western Cape Provincial Treasury, 2017

Three months later after the release of the *Langeberg Go-Live Verification Results* (Western Cape Provincial Treasury, 2017) in October 2017, a presentation by National Treasury at the annual conference of the Chartered Institute of Government Finance, Audit and Risk Officers (CIGFARO) highlighted the results of the mSCOA transaction verification process conducted in July 2017 across the 257 municipalities, including metropolitan

municipalities, pilot municipalities and early adopters. The outcome of the verification process revealed that not one of the 257 municipalities were found to be 100% mSCOA-compliant, 203 municipalities partially transacted and reported on mSCOA, and 54 municipalities did not utilise the mSCOA chart for transacting. Langeberg Municipality was one of the 203 municipalities that partially transacted and reported on mSCOA by 1 July 2017.

In the Western Cape, the ‘Go-Live Readiness Assessment’ conducted by the Western Cape Provincial Treasury (in conjunction with National Treasury) across the 30 municipalities in the Western Cape yielded the results shown in Figure 3.4.

Figure 1.4: Go-Live Readiness Assessment results for the Western Cape



Source: *Western Cape Provincial Treasury, 2018*

According to the assessment criteria used for the ‘Go-Live Readiness Assessment’ by Provincial and National Treasury, only three municipalities in the Western Cape were found to be compliant with the full list of assessment

criteria; 90% of Western Cape municipalities were therefore found to be non-compliant – among them Langeberg Municipality.

It should be noted that the assessment criteria used were not defined in the mSCOA regulations. Also, while the criteria were only listed in guidelines (circulars) issued in terms of Section 168 of the MFMA, these criteria were not adopted by the Langeberg Municipality municipal council.

Circulars issued by National Treasury act as guidelines only and are not binding on municipal councils, unless they are adopted by such councils in terms of Section 168(3) of the MFMA. In the case of Langeberg Municipality, MFMA Circular 80 was not adopted by council, and therefore the municipality could not have been assessed against the requirements set out in the circular. Furthermore, the Minister of Finance has not yet gazetted the implementation date for minimum business processes and ICT system requirements for mSCOA-enabled financial systems.

Langeberg Municipality began transacting according to the mSCOA segments on 1 July 2017 according to the mSCOA regulations, and was compliant with Section 4, 5(a) and 5(b). The municipality was not compliant with Section 5(c), the reason being that the municipality's current financial system does not include an IDP or Budgeting Module, and therefore data must be mapped and extrapolated from the financial system.

3.7 Role of Provincial Treasury in mSCOA compliance

The Western Cape Provincial Treasury issued a position paper on mSCOA dated 17 January 2017, in which it clarified its role under point 76 as follows:

“The role of Provincial Treasuries is to monitor, oversee and support the delegated municipalities in their respective provinces in achieving seamless integration across the municipal accountability cycle. National Treasury must provide clear guidance on how this is to be achieved and to define seamless

integration so that there can be a common understanding amongst all stakeholders. It is also important to note that the mSCOA regulations only refer to integration and not seamless integration, therefore municipalities cannot be compelled at this stage to ensure seamless integration. In the absence of direction from National Treasury, the Western Cape has already taken a stance on integration that was communicated to all municipalities, vendors and National Treasury in March 2018.” (Western Cape Provincial Treasury, 2018)

The position paper also states that ongoing communication, collaboration and coordination by Provincial Treasury are necessary for the purpose of leading and supporting municipalities to ensure mSCOA compliance. The researcher agrees and maintains that in order to ensure the successful implementation of regulations, there needs to be consultation, collaboration and communication between the three spheres of government.

3.8 Conclusion

This chapter outlined the legislative prescripts for mSCOA compliance. The Provincial and National Treasury assessed municipalities for compliance based on circulars, which were issued as guidelines. However, if these circulars are not adopted by a particular municipal council, they are not binding and therefore cannot be used as a basis for determining mSCOA compliance.

Municipalities face increasing challenges in implementing the mSCOA regulations. A major risk for municipalities is that the AGSA expresses anything other than a clean audit outcome, and this may result from non-compliance to the mSCOA regulations. However, it is clear that many municipalities are not complying with the mSCOA regulations. The next chapter discusses the financial governance and performance of Langeberg Municipality.

CHAPTER 4: CASE STUDY: FINANCIAL GOVERNANCE AND PERFORMANCE OF LANGEBERG MUNICIPALITY

4.1 Introduction

This chapter focuses on Langeberg Municipality as a case study. The objective of this chapter is to provide a background on the municipality, as well as an overview of its political and administrative leadership, and its financial governance and performance.

4.2 Background on Langeberg Municipality

Langeberg Municipality is one of 205 Category B municipalities in South Africa (Yes! Media, 2018). As indicated in section 2.5.2 of this thesis, a Category B municipality shares municipal executive and legislative authority in its demarcated area with a Category C (district) municipality. Langeberg Municipality's demarcated area includes the towns of Robertson, Ashton, Montagu, Bonnievale and McGregor, and it shares municipal executive and legislative authority with the Cape Winelands District Municipality.

At the time of completion of this thesis, the municipality was led by a Democratic Alliance majority. There are 23 seats on the municipal council, and the Democratic Alliance holds 12 of these seats, which gives the party an outright majority (Langeberg Municipality, 2018:31).

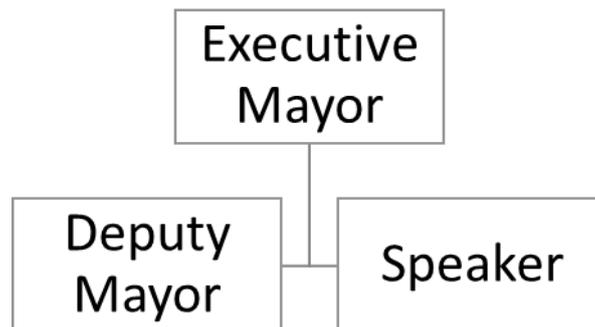
4.3 Political and administrative leadership

The municipality's leadership consists of a political and administrative leadership component. The mayor is the political head of council and provides general political guidance in terms of Section 52 of the MFMA. The municipal

boundaries are divided into 12 wards, each with an elected ward councillor and eight proportional representatives (Langeberg Municipality, 2018:36).

Figure 4.1 illustrates the top political governance structure of Langeberg Municipality.

Figure 2.1: Top political governance structure of Langeberg Municipality



Source: Langeberg Municipality, 2018:36

The mayor is further assisted by an executive mayoral committee, which consists of the following portfolios: Corporate Services; Finance; Engineering Services; Strategy and Social Development; and Community Services (Langeberg Municipality, 2018:36). In Langeberg Municipality there is a mayoral committee system, with a member for each directorate to ensure oversight over the respective directorate.

The primary role of the municipal council:

“...is that of political oversight of the municipality’s functions, programmes and the management of the administration. All of the powers of local government are vested in the municipal council. It has the power to make by-laws (legislative authority) and the power to put those laws into effect (executive authority). The municipal council has executive and legislative authority over the matters set out in Part B of Schedule 4 and Schedule 5 of the Constitution.

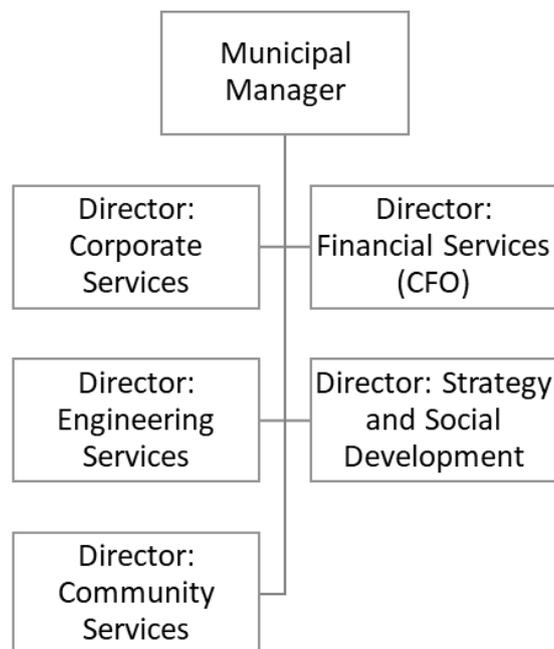
The municipality may also administer any other matter assigned to it by national or provincial legislation.” (Makana Municipality, 2013:1)

Furthermore, Section 160 of the Constitution (1996) lists the following functions which cannot be delegated by a municipal council: the passing of by-laws; the approval of budgets; the imposition of rates and other taxes, levies and duties; and the raising of loans.

Since the council is responsible for formulating the vision of the municipality, a municipality cannot function without administrative leadership, which is responsible for ensuring that the vision and strategic objectives of the council are met. The administrative leadership is headed by the Municipal Manager (also referred to as the Accounting Officer).

Figure 4.2 illustrates the top administrative governance structure of Langeberg Municipality.

Figure 4.2: Top administrative governance structure of Langeberg Municipality



Source: Langeberg Municipality, 2018:38

At the time of conducting this study, the position of Director: Engineering Services was vacant as the incumbent retired on 31 July 2019.

Section 62(1) of the MFMA (2003) lists the general financial management functions of the Accounting Officer:

- (1) “The accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure –
 - (a) that the resources of the municipality are used effectively, efficiently and economically;
 - (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
 - (c) that the municipality has and maintains effective, efficient and transparent systems –
 - (i) of financial and risk management and internal control; and
 - (ii) of internal audit operating in accordance with any prescribed norms and standards;
 - (d) that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented...” (Republic of South Africa, 2004)

4.4 Financial governance and performance

Financial governance and performance form an integral part of the sustainability of a municipality. Municipal duties with regard to financial governance and performance are described in Section 153 of the Constitution (1996), which states that a municipality must “structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community” (Republic of South Africa, 1996).

Langeberg Municipality has positioned itself as a well-run municipality in the Western Cape. The vision of the municipality is “to move from being one of the best municipalities, to becoming the best municipality through strong

leadership, good governance and sound management of our finances”, and the municipality received six consecutive clean audits from the periods 2011/2012 to 2017/2018 (Langberg Municipality, 2018:8, 10).

The *Government Performance Index*, a report issued by Good Governance Africa, ranked Langeberg Municipality as number 20 under the top 20 municipalities in the country in 2019 (Good Governance Africa, 2019:2). Twelve of the top 20 municipalities are located in the Western Cape. The study covered 205 Category B municipalities in South Africa, and excluded the 44 district and eight metropolitan municipalities. Municipalities were assessed on the indicators listed and described in Table 4.1.

Table 4.1: Indicators used in the Government Performance Index

Indicator		Definition
Administration:		This is a governance category that demonstrates whether there are sufficient numbers of personnel with the requisite qualifications; indicates proof of proper or improper financial management; and assesses whether municipalities comply with the guidelines for the annual reports as specified by relevant authorities. The indicators in this category include:
1	Municipal capacity	The indicator is drawn from the Auditor-General's assessment of auditees' key controls at the time of the audit and particularly focuses on the human resources management performance of the local authority.
2	Financial soundness	The indicator is drawn from the Auditor-General's opinion on the financial position of the local authority.
3	Compliance	This indicator measures how well the annual reporting by a local authority meets the standards set by the National Treasury.
Economic development:		The indicators under this category show the attractiveness of the municipality for economic opportunities, investments and habitation. The indicators identified to measure economic opportunity are the following:
4	Poverty	The poverty rate indicates the percentage of households with an income below R2, 300 per month.

Indicator		Definition
5	Individual income	This indicator shows the percentage of the population that receives some form of monthly income, including social grants.
6	Work opportunities	Work opportunity is paid work created for an individual as indicated by South African municipalities in their employment statistics.
7	Unemployment rates	A person is unemployed only if they have “taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview”.
Service delivery:		The indicators under this category reflect the performance of the municipality. They assess whether the municipality is realising its potential to enhance public service delivery in relation to fulfilling its mandate as prescribed by the Constitution. The indicators measuring service delivery are the following:
8	Water	The percentage of people in the municipality who have access to piped water.
9	Sanitation	The percentage of people with access to flush toilets with connection to sewerage.
10	Education	The percentage of the population in the municipality with a matric qualification.
11	Electricity	The percentage of people within the municipality who have access to electricity.
12	Informal housing to formal housing	This is the percentage of formal dwellings to total dwellings in the municipality.
13	Refuse removal	The percentage of people in the municipality who have their refuse collected on a weekly basis.
14	Health facilities	The total number of people per clinics and healthcare facilities in the municipality.
15	Police coverage	The number of people per police station in the municipality.

Source: *Good Governance Africa, 2019:5*

Figure 4.3 shows the ranking of municipalities in the top and bottom 20.

Figure 4.3: Good Governance Performance Index municipal ranking (2019)

TOP 20				BOTTOM 20			
1	Mossel Bay	WC	DA	194	Nyandeni	EC	ANC
2	Senqu	EC	ANC	195	Jozini	KZN	IFP +
3	Swartland	WC	DA	196	Nongoma	KZN	ANC
4	Sol Plaatje	NC	ANC	197	Makhuduthamaga	LIMP	ANC
5	Greater Kokstad	KZN	ANC	198	Thembisile Hani	MPUMA	ANC
6	Midvaal	GP	DA	199	Greater Taung	NW	ANC
7	Khai-Ma Local	NC	ANC	200	Ratlou	NW	ANC
8	Bergrivier	WC	DA/KGP	201.	Mbhashe	EC	ANC
9	Cape Agulhas	WC	DA	202	Maphumulo	KZN	ANC
10	Prince Albert	WC	DA/KGP	203.	Ndwedwe	KZN	ANC
11	Swellendam	WC	DA	204.	Nquthu	KZN	IFP
12	Cederberg	WC	DA	205.	Umzumbe	KZN	ANC
13	Matzikama	WC	DA	206.	Mbizana	EC	ANC
14	Overstrand	WC	DA/COPE	207.	Engcobo	EC	ANC
15	Witzenberg	WC	DA	208.	Matatiele	EC	ANC
16	Koukamma	EC	ANC	209.	Nkandla	KZN	IFP
17	Hantam	NC	ANC +	210.	Ntabankulu	EC	ANC
18	Nama Khoi	NC	ANC/KSR	211.	Port St Johns	EC	ANC
19	Hessequa	WC	DA	212.	uMhlabuyalingana	KZN	ANC
20	Langeberg	WC	DA	213	Msinga	KZN	ANC

Source: *Good Governance Africa, 2019:2*

Each year, National Treasury issues a report on the state of local government finances and financial management. The most recent report, published in 2019 (National Treasury, 2019), is the seventh edition, and is based on data collected

on the fourth quarter of the 2017/2018 municipal financial year across all 257 municipalities in the country. The report is based on the information contained in the unaudited Annual Financial Statements for 2017/2018, the current MTREF, and reports submitted by municipalities in terms of Section 71 of the MFMA (as verified annually by both National and Provincial Treasuries).

The report found that of the 257 municipalities, 125 face various degrees of financial distress (National Treasury, 2019:3). The report highlights (inter alia) that some municipalities do not have suitable cash cost coverage; the overspending of operating budgets has decreased; debtors collection periods have expanded from previous financial years as a result of the increase in outstanding debtors; underspending of capital budgets continues to be a problem; creditors repayment periods remains high; there is inadequate spending on asset maintenance; there are high electricity and water losses; some municipalities adopted unfunded budgets that are in contradiction with Section 18 of the MFMA; and there is a deterioration of municipal audit outcomes (National Treasury, 2019:3-4).

The report further states:

“South Africa performs relatively well against other developing countries in terms of public financial management. This was confirmed by the findings in 2018 by the Mo Ibrahim Index of African Governance (IIAG) which ranked South Africa 4th of the 54 countries in Africa. The IIAG is a tool that measures and monitors governance performance in African countries.

The World Economic Forum’s Global Competitiveness Report 2017-18 ranked South Africa 61 while it was ranked 47 out of 138 countries in 2016/17. The report noted the strength of auditing and reporting standards in South Africa, where it was ranked first. However, it also highlighted the three problematic factors for doing business with SA as corruption, crime and theft, and government instability.” (National Treasury, 2019:8).

The report evaluated the state of municipal finances using eight key measures, as described in Table 4.2.

Table 4.2: National Treasury measures of municipal financial health

No.	Measure	Purpose
1.	Cash as a percentage of operating expenditure	To determine cost coverage: does the municipality have adequate cash available to meet its operating expenditure requirements?
2.	Persistence of negative cash balances	Identifies whether cash shortages/bank overdrafts pose a 'chronic' problem for the municipality.
3.	Over spending of original operating budgets	Tests the effectiveness of municipal spending in accordance with the resources available to them. What is the credibility of the budget, and are municipalities able to adjust expenditure should planned revenues not materialise?
4.	Under spending of original capital budgets	Tests the effectiveness of municipal spending and also provides an indication of whether, for example, municipalities are compromising on capital programmes to resolve cash flow challenges. Are there planning deficiencies which are impacting on service delivery?
5.	Debtors as a percentage of own revenue	Examines municipalities' revenue management capabilities.
6.	Year-on-year growth in debtors	Is the municipality exercising fiscal effort in collecting outstanding debt? To what extent is financial distress the result of poor debtor management?
7.	Creditors as a percentage of cash and investments	Is the municipality able to meet its monthly commitments? Does it have sufficient cash to pay its creditors in line with the requirements of the MFMA (cost coverage)?
8.	Reliance on national and provincial government transfers	Determine the levels at which municipalities are able to generate own funds to finance revenue generating assets to enhance and sustain revenue generating streams.

Source: National Treasury, 2019:9

Municipalities were scored according to the above eight measures, with 1 indicating good performance, 2 indicating fair performance, and 3 indicating

poor performance. A cumulative score above 16 indicates that a municipality is showing signs of distress. Included in figure 4.4 it shows the points scored by Langeberg Municipality along with other municipalities.

Figure 4.4: Financial distress scores of municipalities in the 2019 National Treasury report

Mun_Name	Mun_Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operational	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Financial Distress	>=16
Moretele	NW371	2	1	3	1	2	3	2	3	17	YES
Moses Kotane	NW375	3	1	1	1	1	3	3	3	16	YES
Mafikeng	NW383	3	1	3	1	3	3	3	1	18	YES
Ditsobotla	NW384	2	1	1	1	1	3	2	3	14	-
Ramotshere Moiloa	NW385	3	1	3	1	3	3	3	3	20	YES
Tswaing	NW382	3	1	2	1	1	3	3	3	17	YES
Ratlou	NW381	1	1	1	1	3	1	1	1	10	-
Lekwa-Teemane	NW396	3	1	2	2	1	3	3	3	18	YES
Mamusa	NW393	2	1	3	1	2	3	3	3	18	YES
Naledi (Nw)	NW392	1	1	3	3	3	3	3	3	20	YES
Greater Taung	NW394	1	1	2	2	1	1	1	1	10	-
Kagisano-Molopo	NW397	1	1	1	1	1	3	1	1	10	-
Maquassi Hills	NW404	3	1	1	1	1	3	3	1	14	-
Saldanha Bay	WC014	3	1	1	1	2	2	2	1	13	-
Bergrivier	WC013	1	1	2	1	1	3	3	1	13	-
Cederberg	WC012	3	1	2	1	3	2	3	3	18	YES
Matzikama	WC011	2	1	3	1	3	2	3	2	17	YES
Swartland	WC015	1	1	2	1	1	1	1	1	9	-
Breede Valley	WC025	2	1	2	1	2	2	2	3	15	-
Langeberg	WC026	2	1	2	1	2	1	1	1	11	-
Witzenberg	WC022	2	1	1	1	1	1	2	1	10	-
Overstrand	WC032	1	1	2	1	2	1	1	1	10	-
Cape Agulhas	WC033	2	1	2	1	1	3	2	2	14	-
Swellendam	WC034	2	1	1	1	3	1	1	1	11	-
Theewaterskloof	WC031	2	1	2	1	3	3	3	2	17	YES
Krystna	WC048	2	1	1	1	1	1	3	3	13	-
Mossel Bay	WC043	3	1	1	1	2	3	1	3	15	-
Oudtshoorn	WC045	2	1	3	1	2	1	2	1	13	-
Bitou	WC047	2	1	1	1	1	1	2	2	11	-
Hessequa	WC042	1	1	2	1	3	1	2	1	12	-
Kannaland	WC041	1	1	3	1	2	1	3	1	13	-

Source: National Treasury, 2019:9

4.5 Report from the AGSA

With the promulgation of the mSCOA regulations in 2014, and leading up to the implementation date of 1 July 2017, the AGSA highlighted its concern regarding the mSCOA-readiness of municipalities and their ability to produce reliable Annual Financial Statements for the 2017/2018 financial year (Auditor-General of South Africa, 2017:11).

Concerns raised by the AGSA were forwarded to National Treasury. The researcher argues that National Treasury should have taken these concerns into account, since the AGSA is an independent Chapter 9 institution that expresses an audit opinion on the financial state and position of municipalities during the annual regulatory audit, and therefore makes an independent observation and evaluation of the financial management of municipalities.

The audit outcomes of municipalities for the 2016/2017 financial year were released by the AGSA in May 2018 (Auditor-General of South Africa, 2018). According to the report, the overall audit outcomes regressed from the previous year, with 45 municipalities regressing and only 16 improving. Only 33 municipalities (13%) managed to present Annual Financial Statements that were free from material statements, included reliable performance information, and adhered to all laws and regulations – which are the requirements of a clean audit (Auditor-General of South Africa, 2018:2). Langeberg Municipality was one of the 33 municipalities which received a clean audit, and for the sixth consecutive year.

The AGSA further reported that 86% of municipalities had material non-compliance issues with key local government legislation, which was the highest percentage of non-compliance since the 2012/2013 audit (Auditor-General of South Africa, 2018:2). This concern was raised by many municipalities, as mSCOA compliance would be part of the regulatory audit for the first time in the following year (2017/2018).

Since the promulgation of the mSCOA regulations, municipal managers and CFOs have raised their concerns at various IGR forums in the Western Cape, expressing their opinion that municipalities are not mSCOA-ready. These concerns were raised at the quarterly Municipal Managers Forum and Chief Financial Officers Forum, which are chaired by the Department of Local Government and Provincial Treasury in the Western Cape.

In order to be proactive, the CFO of Langeberg Municipality submitted a report to the municipal council on 28 March 2017 highlighting concerns regarding mSCOA implementation and the associated risks. Table 4.3 indicates the major risks associated with mSCOA that were identified in this report.

Table 1.3: Major risks associated with mSCOA implementation

Risk identification	Risk cause(s)	Consequence
The AGSA not issuing clear audit file requirements on the implementation of a new system or changes made to comply with the mSCOA regulations. The integration of external auditors in the planning of the project.	Negative audit finding due to the AGSA requiring audit information that was not kept as priority during the implementation process.	Negative management report.
Possible loss of Langeberg Municipality's clean audit status due to the implementation process.	Audit done based on regulations and not mSCOA objectives, as mSCOA will be implemented in July 2017.	Clean audit lost to Langeberg Municipality.
Langeberg Municipality not fully compliant with mSCOA due to deadlines not being met.	The deadline for actions is repeatedly postponed by service providers.	Non-compliance with mSCOA implementation date.
Delayed issuing of accounts to consumers.	Accounts cannot be generated due to non-existence of accounts.	Non-payment or late payment of accounts by consumers. This can create serious cash flow problems.

Risk identification	Risk cause(s)	Consequence
Incorrect reporting to third parties.	Annual Financial Statements incorrect; in-year reports incorrect.	Audit outcome can be negatively affected. Incorrect decisions made with incorrect information.
Instability of the current system due to changes in the system.	Proper version control on the financial system not in place.	Loss or incompleteness of data.
Legislative non-compliance with reporting requirements relating to supply chain management.	Reports generated from Collaborator instead of from the core of the financial transactions, namely Promun.	Value of monthly reports and the discloser notes in the Annual Financial Statements might be incorrect, therefore leading to misstatements.
Capital assets will not be mSCOA-compliant by 1 July 2017.	Classification of asset transactions not catered for in the financial system.	Non-compliance with mSCOA regulations.

Source: Langeberg Municipality Chief Financial Officer, 2017

The report highlighted the fact that the financial system used by Langeberg Municipality did not include a functional IDP or Budgeting Module, and the absence of these modules would make it challenging to comply with Sections 4 and 5 of the mSCOA regulations. The absence of these modules made it impossible to achieve seamless alignment in the Municipal Accountability Cycle, which is one of the main objectives of mSCOA (as indicated in section 3.4 of this thesis). Furthermore, data was extracted, manipulated and imported into the financial system; this contravenes Section 5(c) of the mSCOA regulations, which states that the municipality's SCOA may not contain data which is mapped or extrapolated.

Further concerns highlighted by CFOs in the Western Cape were that they were not allowed to attend meetings during which National Treasury met with system vendors, even though discussions at these meetings had a direct bearing on the municipalities. Municipalities were not aware of what was being discussed, and minutes of the meetings were not made available.

A request was made that one CFO per system user be delegated to attend the meetings, and then provide feedback to the CFOs of other municipalities using the same financial system (Western Cape Provincial Treasury, 2018). In the Western Cape, the following municipalities use the same financial system as Langeberg Municipality: Swartland, Mossel Bay, Oudtshoorn and Knysna. At the time this study was concluded, CFOs had not yet been given attendance rights at the meetings between system vendors and National Treasury.

Events leading up to the Annual Financial Statements submission date of 31 August 2018 (for municipalities without entities) and 30 September 2018 (for municipalities with entities) were challenging for many municipalities. The following municipalities in the Western Cape were unable to submit their Annual Financial Statements by the legislative deadline of 31 August 2018 for municipalities without entities: Langeberg (7 September 2018), Swartland (7 September 2018), Overstrand (1 September 2018) and Mossel Bay (14 September 2018).

It is also interesting to note that the four municipalities that were unable to submit their Annual Financial Statements by the submission date are also listed as being among the top 20 municipalities in the country in 2019 (Good Governance Africa, 2019:2). The question then becomes: What was the cause of the late submissions of these four municipalities, especially considering that three of them use the same financial system?

At a Chief Financial Officers Forum held on 14 September 2018 in the Western Cape, it was noted that the biggest contributing factors to the late submissions were the time-consuming processes associated with mSCOA implementation, and the fact that the financial systems were not seamlessly aligned in respect of certain components of the Municipal Accountability Cycle. The late submissions of the Annual Financial Statements of Langeberg, Mossel Bay and Swartland Municipalities resulted in material non-compliance to laws and regulations, resulting in these municipalities losing their clean audit status (Auditor-General of South Africa, 2019c).

The audit outcomes of municipalities for the 2017/2018 financial year were released by the AGSA in May 2019. The report states:

“The audit outcomes of 63 municipalities regressed while those of 22 improved. Only 18 municipalities managed to publish quality financial statements and performance reports and to comply with key legislation applicable to financial and performance management, thereby receiving a clean audit – a regression from 33 in the previous year.” (Auditor-General of South Africa, 2019b:8)

Furthermore, the report indicates that 21 municipalities submitted their Annual Financial Statements late, and the Annual Financial Statements of eight municipalities were still outstanding by 31 January 2019 (Auditor-General of South Africa, 2019b:8).

Langeberg Municipality was one of the 21 municipalities countrywide that was unable to submit its Annual Financial Statements timeously on 31 August 2018, as prescribed by Section 122 of the MFMA. The Annual Financial Statements were submitted on 7 September 2018, and a report was submitted to the municipal council in terms of Section 126 of the MFMA. Among the main reasons for the late submission were the time-consuming processes associated with mSCOA-compliance, and the fact that the asset register in the financial system was not functional.

The AGSA’s report for the 2017/2018 financial year discusses the Western Cape’s significant regression from the previous year, and states that the lapses in control were “largely non-adherence to statutory submission dates of financial statements for auditing as well as non-adherence to supply chain requirements in confined areas already identified and actioned by management only after the audit” (Auditor-General of South Africa, 2019b:12).

4.6 Conclusion

This chapter discussed the financial governance and performance of Langeberg Municipality. The late submission of Annual Financial Statements in the 2017/2018 financial year was not an isolated incident affecting Langeberg Municipality only; three other municipalities in the Western Cape missed the legislative deadline of 31 August 2018 for municipalities without entities.

These municipalities are all well-performing and have received clean audits for three to six years up to 2017, but not for 2018. What these municipalities also share in common are: the time-consuming processes associated with mSCOA compliance; the fact that their financial systems were not seamlessly aligned for all the stages within the Municipal Accountability Cycle; and the fact that no clear guidance on mSCOA implementation was provided by National or Provincial Treasury.

The next chapter discusses the perception of senior management in Langeberg Municipality on IGR and cooperative government in ensuring mSCOA compliance within the municipality.

CHAPTER 5: RESEARCH DESIGN, METHODOLOGY AND INTERPRETATION OF FINDINGS

5.1 Introduction

This chapter discusses the methods used in conducting the research for this thesis, the research design, as well as the data collection methods. The case study also discusses the perception of senior management in Langeberg Municipality on IGR and cooperative government in ensuring mSCOA compliance. Also included is an analysis of what the respondent from the Western Cape Provincial Treasury considers to be mSCOA compliance, as well as an assessment of Langeberg Municipality's level of compliance achieved on 1 July 2017.

Research is not an exact science, and there is no single specific approach to address research aims and objectives. Therefore, the design classification will include a number of different dimensions to address the aim and objectives of the study.

Mdliva (2012:103), citing De Wet et al., Brynard and Hanekom, and Johnson, states:

“A hypothesis proceeds from a statement of the research problem and as a directive for a planned research, and serves as a point of departure...[A] hypothesis serves as the basis for experimentation to test theories, as a conjecture put forth to explain relationships, or as a statement that specifies the relationship between variables.”

A hypothesis can either be deductive or inductive. Mdliva (2012:103), citing Brynard and Hanekom, states that a deductive hypothesis is “derived from existing theories by means of deductive reasoning and indicates an expected relationship between two variables, whereas an inductive hypothesis is based on what the researcher observes as the problem”. As stated in section 1.7 of

this thesis, inductive data analysis has been applied, using the content of the sources of data consulted.

The aim of this study, as stated in section 1.2 of this thesis, was to assess the extent to which IGR and cooperative government impacted on the ability of Langeberg Municipality to comply with the mSCOA regulations on 1 July 2017. As discussed in section 3.4 of this thesis, the mSCOA regulations can be regarded as a business reform that affects the entire Municipal Accountability Cycle, from the IDP through to the Annual Report. All municipalities – Category A, B and C – had to comply with the mSCOA regulations on 1 July 2017.

In October of the same year, at the CIGFARO annual conference, National Treasury reported that not one of the 257 municipalities fully complied with the mSCOA regulations on 1 July 2017. This raised the research question of this study, which is as follows: To what extent did IGR and cooperative government impact on the ability of Langeberg Municipality (in the Western Cape) to comply with the mSCOA regulations from 1 July 2017?

In order to answer the research question, the research objectives needed to be established, and to do this a suitable research design needed to be selected. According to Babbie and Mouton (2004: xxi), social research is the systematic observation of social life for the purpose of finding and understanding patterns in what is being observed. Therefore, as indicated in section 1.5 of this thesis, this study adopted a 'case study' research approach in order to achieve the research objectives.

5.2 Research design

The research question, aim and objectives informed the research design, which includes various dimensions aimed at addressing the objectives of the study.

According to Mdliva (2012:102), citing Zainal, case study research “allows the exploration and understanding of complex issues. It can be considered a robust research method particularly when holistic in-depth investigation is required”. Citing Walsham, Mdliva (2012:102) also argues that the validity of the case study approach, derived from an interpretive epistemological stance, is based on the “plausibility and cogency of the logical reasoning applied in describing and presenting the result from the cases and in drawing conclusions from them”.

Yin (1994:43) agrees with Walsham and Mdliva, and argues that case studies are used in cases where the researcher’s aim is to generalise a particular set of results to some broader theory. He also maintains that the case study method:

“...allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, small group behaviour, organisational and managerial processes, neighbourhood change, school performance, international relations, and the maturation of industries.” (Yin, 1994:4).

Furthermore, Yin (1994:2) explains that the case study approach is especially useful in situations where contextual conditions of the event being studied are critical, and where the researcher has no control over the events as they unfold. For these reasons, the case study approach is used in this study.

As discussed in section 1.5 of this thesis, low control was achieved in the study, as the qualitative researcher observed and interpreted the events in the research process and could not influence the process as in quantitative research, where the researcher interferes and intervenes in the process.

5.3 Limitations to the study

There are some limitations to this study, in particular the fact that the study focuses only on one municipality (Langeberg Municipality in the Western Cape), and it is limited in scope in that it focuses primarily on the challenges of IGR within cooperative government in terms of the implementation of the mSCOA regulations. However, although the study focuses primarily on Langeberg Municipality, reference is also made to other municipalities in and outside the Western Cape, as well as other spheres of government, in order to substantiate the arguments.

Qualitative questionnaires were sent out to all five senior managers within Langeberg Municipality reporting to the Accounting Officer, with the exclusion of the CFO, who is the researcher in the study. A questionnaire was also sent to the mSCOA project manager within the Western Cape Provincial Treasury. Therefore, six questionnaires in total were sent out, and four participants responded, resulting in a response rate of 66.67%. One of the senior managers in Langeberg Municipality retired on 31 July 2019 and therefore did not respond; the reasons for the second participant from Langeberg Municipality not responding to the questionnaire are unknown to the researcher.

5.4 Data collection

A qualitative research approach was applied in the study. Data and documentation were obtained from relevant literature, books and reports. Hybrid data obtained in the study are classified as primary and secondary data.

Qualitative primary data was obtained from responses to questionnaires that were sent to the Accounting Officer and senior managers reporting directly to the Accounting Officer within Langeberg Municipality. A questionnaire was also sent to the mSCOA project manager within the Western Cape Provincial Treasury.

Secondary data was obtained through an extensive literature review, which was conducted in order to gain a broad understanding of IGR and the relations between the three spheres of government in South Africa. Secondary data was gathered from available literature on the local government legislative framework, specifically Acts, journals, articles, dissertations, magazines and publications relating to IGR and mSCOA.

After the secondary data was collected, and as stated in section 1.6 of this thesis, the data was collated and documented in order to develop recommendations on IGR to ensure cooperative governance between the three spheres of government for the future implementation of financial management reforms within municipalities.

5.5 Data analysis and interpretation of findings

The data collected in this study was qualitative, and was therefore interpretative in nature. As indicated in section 1.5 of this thesis, interpretivism is a form of qualitative methodology that relies on both the researcher and the subject being researched as instruments to measure some phenomenon that involves observation and interpretation (Babbie & Mouton, 2004: 270).

The research was conducted in the natural setting of the social actors. Langeberg Municipality was the case study, and the researcher was the main instrument in the research process as he has insider perspective into the operations of the municipality. The focus of the research stressed the process rather than the outcome in answering the research question. The primary aim was to understand and describe the events in terms of the specific context (Babbie & Mouton, 2004:270).

South Africa has a relatively young democracy, and only held its first democratic elections on 27 April 1994. Prior to this, there was a system of apartheid which was marked by autocratic rule and segregation across racial lines.

As stated in section 2.2 of this thesis, and as background to IGR in South Africa, between 1948 and 1994 the country's demarcated jurisdictions and organised governance were based on race rather than functional linkages or similar criteria. The governance system was decentralised and consisted mainly of white local authorities and black local authorities (Ncube and Monnakgotla (2016:76). The white local authorities provided services mainly to white, coloured, Indian and Asian communities; they had access to a large part of the tax base, and were therefore mostly self-sufficient and economically viable. However, services were not rendered to the total population but only to a small privileged portion.

Furthermore, prior to the introduction of the 1996 Constitution, local government was regarded as an administrative function of central government. Under the apartheid regime, "political and administrative power had been, for the most part, concentrated from the centre [and] South Africa's transitional leadership sought rather to negotiate these powers between equal partners under a system of cooperative government" (Levy & Tapscott, 2001:1).

Local government was only recognised as an independent sphere of government in the 1996 Constitution, which provides for three spheres of government: national government, provincial government and local government. These spheres are distinct, interdependent and interrelated; they cannot function in isolation, and therefore it is called a system of cooperative government. The manner in which government departments interact with one another is referred to as IGR.

The White Paper on Local Government (Republic of South Africa, 1998b) defines IGR as "the set of multiple formal and informal processes, channels, structures and institutional arrangements for bilateral and multilateral interaction within and between spheres of government". According to the former DPLG (2007), IGR is about the relationship between the three spheres of government, and how these spheres can be made to work together for the good of the country as a whole.

Therefore, the researcher concludes in section 2.1 of this thesis that IGR is a set of rules that govern conduct, cooperation and collaboration within a multi-sphere government to ultimately achieve the objectives of government as a whole. As such, IGR is the vehicle to ensure that there is an effective cooperative government.

Edwards (2008:66) states that the intention of IGR is to promote and facilitate cooperative governance and public policy decision-making by ensuring that the activities across all spheres of government encourage services to meet the needs of communities in the most effective and efficient manner.

Municipalities are classified into three categories: Category A (metro), Category B (local) and Category C (district). These categories are defined in section 2.5.2 of this thesis. Furthermore, municipalities are classified as secondary cities, high-capacity municipalities, medium-capacity municipalities and low-capacity municipalities – depending on their financial and human resources capacity. In other words, it is evident that municipalities do not have the same capacity in terms of financial and human resources.

As indicated in section 3.6 of this thesis, since the inception of the MFMA on 1 July 2004, a number of regulations have been promulgated under the Act: the Municipal Investment Regulations (April 2005), the Municipal Supply Chain Management Regulations (May 2005), the Municipal Regulations on Debt Disclosure (June 2007), the Municipal Regulations on Minimum Competency Levels (June 2007), the Municipal Asset Transfer Regulations (August 2008), the Municipal Budget and Reporting Regulations (April 2009), the mSCOA regulations (April 2014), the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings (May 2014), and the Municipal Cost Containment Regulations (June 2019).

National Treasury describes mSCOA as the largest reform in local government since the inception of the MFMA; it is a complete business reform whose main objective is to bring seamless alignment in the Municipal Accountability Cycle. However, following the completion of the mSCOA transaction verification

conducted by National Treasury, it was revealed that not one of the 257 municipalities were 100% mSCOA-compliant on 1 July 2017. Twenty-one municipalities submitted their 2017/2018 Annual Financial Statements late, and the Annual Financial Statements of eight municipalities were still outstanding by 31 January (Auditor-General of South Africa, 2019b:8). Of the 21 municipalities who submitted their Annual Financial Statements late, four were in the Western Cape – Langeberg Municipality being among them. Challenges cited by these municipalities include those related to the implementation of mSCOA.

In order to address the research question, a qualitative questionnaire was sent to all five senior managers in Langeberg Municipality to determine their perception of IGR and cooperative government in ensuring mSCOA compliance. Five questionnaires were sent out to participants on 12 August 2019 via e-mail, and three participants completed the open ended questionnaires and submitted the original signed hard copies to the researcher in the study.

The summary of the findings emanating from the questionnaires is as follows:

- All three respondents are aware of the mSCOA regulations, and have read and understood the objectives. One respondent feels that the mSCOA regulations lead to unnecessary cost (which is transferred to rate payers), while two respondents indicated that there are challenges with regard to mSCOA implementation.
- Regarding respondents' perception of IGR, the first respondent indicated that the concept exists in theory but not in practice; that IGR is centrally driven from national government using a top-down approach; and that IGR does not assist in service delivery. The second respondent indicated that although IGR is meant to improve the functioning of government as a whole, it is in fact more about compliance than about working together to seek solutions. The third respondent indicated that IGR relates to the different governments

working together to achieve the goals of the National Development Plan.

- All three respondents indicated that Langeberg Municipality did not receive sufficient assistance from National and Provincial Treasury with regard to the implementation of mSCOA. They also indicated that no proper training was provided, and that the cost implications are significant (and must be covered by rate payers).
- The challenges of mSCOA implementation identified by respondents include the fact that the municipality must have a financial system that can accommodate mSCOA, as well as the need to create specific accounts in line with the regulations.
- Respondents were asked whether they think that local government is equal to the other two spheres of government in the post-1994 era. Two respondents indicated that they are only equal in the Constitution (1996), and that in practice there are still tiers in the system of cooperative government; local government is treated as a subordinate of national government and is not properly consulted on the implementation of new regulations. One respondent indicated that local government is equal to the other two spheres of government.
- With regard to whether mSCOA enhances or hampers services, there were mixed responses. One respondent indicated that mSCOA does not enhance service delivery; instead, it complicates service delivery planning, and funds that could have been used for service delivery must now be used to procure an mSCOA-compliant financial system. Two respondents indicated that once the implementation challenges are addressed, mSCOA will enhance service delivery.
- Two respondents believe that the implementation of mSCOA should have been conducted using a phased approach since municipalities differ in terms of category, size and capacity.
- Respondents were asked whether they believe that mSCOA reporting is beneficial to them as heads of department. Two respondents indicated that the reporting is complicated.

- Respondents were asked whether they believe that IGR is driven centrally from national government. The first respondent indicated that IGR forums are only ‘talk shops’ and make no difference to service delivery. The second respondent felt that it is a top-down approach from National and Provincial Treasury, and that the agenda is set at a higher level. The third respondent agreed that IGR is centrally driven.
- All three respondents indicated that the current IGR forums do not create a platform where issues affecting local government are discussed; they are merely information sessions.
- All three respondents feel that local government is overregulated, and that there are too many laws and regulations to comply with.
- Challenges currently facing local government, as indicated by the three respondents, include: the impact of court rulings; unfunded mandates imposed by laws and regulations; poverty and unemployment; concerns around Eskom’s ability to provide electricity; the burden on current infrastructure caused by illegal land invasions; financial sustainability; demands for the free provision of basic services; and available land for housing.

In addition to the open ended questionnaires sent to senior managers in Langeberg Municipality, a questionnaire was also sent to the mSCOA project manager within the Western Cape Provincial Treasury. As discussed in section 1.4 of this thesis, the purpose of the questionnaire was to analyse the view of the Western Cape Provincial Treasury on what constitutes mSCOA compliance, and to assess the level of compliance achieved by Langeberg Municipality on 1 July 2017. Next to follow is a summary of the findings emanating from the questionnaire that was responded to by the mSCOA project manager within the Western Cape Provincial Treasury as well as the response on the findings by the researcher in this study.

According to respondent from the Western Cape Provincial Treasury, the legal requirements for mSCOA compliance pertaining to business processes and system functionality are listed in MFMA Circular 80, which states:

“Municipalities must ensure when examining the functionality of their current systems of financial management and internal control that it meets the minimum business processes and system requirements as stated in the objective of the mSCOA Regulation, namely; a system of financial management and internal control capable of providing for the uniform recording and classification of both municipal budget and financial information at a transaction level in the prescribed municipal standard chart of accounts, for both municipalities and municipal entities.

Systems of financial management and internal control must, as a minimum, comply with these explicit business process requirements as contained in the mSCOA Regulation, in that it:

- a) Must provide for the hosting of the mSCOA structure and associated detail as contained in the seven defined Segments;
- b) Be able to accommodate and operate the classification framework across all seven segments at a transactional level as defined in the associated detail to the Segments;
- c) Must provide for the data extraction functionality as per the segmented transactional string and seamless upload to the Local Government Database as hosted by the National Treasury;
- d) May not apply methodologies of data mapping or data extrapolation to provide for the segmented transactional data string at a transactional level above as explained in point c) above;
- e) Must provide for full seamless integration between the core financial system representing the general ledger, and any third party system with a direct impact on the general ledger i.e. human resource and payroll third party systems, billing etc.; and
- f) Must have access to hardware that is sufficient to run the required software solution.” (National Treasury, 2016a:6-7)

The researcher does not agree fully with the view of the Western Cape Provincial Treasury and National Treasury regarding the legislative prescripts for mSCOA compliance. Only three of the six requirements listed above (in MFMA Circular 80) are listed in Section 5 of the mSCOA regulations, which states that the standard chart of accounts of a municipality or municipal entity:

- a) “must contain the segments in the Schedule as required by regulation 4(1);
- b) must accurately record all financial transactions and data in the applicable segment; and
- c) may not contain data which is mapped or extrapolated or which otherwise does not reflect transactions recorded or measured by the municipality or municipal entity.” (Republic of South Africa, 2014)

In terms of Section 168(3) of the MFMA, circulars issued by National Treasury are guidelines only and are not binding on municipal councils unless they are adopted by the councils. This was not the case in Langeberg Municipality; MFMA Circular 80 was not adopted by the council, and therefore it cannot be used as a basis for determining mSCOA compliance.

Furthermore, the mSCOA regulations were issued by the Minister of Finance, who is granted this right under Section 168 of the MFMA. Therefore, these regulations were made by national government, and are being administered by National and Provincial Treasury, which is assessing the compliance of Langeberg Municipality against a circular that was not adopted by the municipal council. Next, the assistance provided by Provincial Treasury in ensuring mSCOA compliance will be discussed.

According to the respondent Provincial Treasury provided the following assistance to Langeberg Municipality to ensure mSCOA compliance on 1 July 2017:

- a) The Provincial Treasury supplied project templates to measure mSCOA implementation. These included: Regular Self-Assessments as a high-level project plan; a System Implementation Status Report as a high-level system implementation plan; and System Sign-off Sheets to enable the municipality to check if its system meets the requirements stated in MFMA Circular 80, and in Municipal SCOA Circulars 5 and 6.

- b) The Provincial Treasury monitored the municipality's progress and provided support.
- c) The Provincial Treasury facilitated ICT due diligence reviews of the municipality's current financial system, in conjunction with the system vendor and other municipalities using the same system.
- d) The Provincial Treasury engaged with National Treasury on behalf of municipalities with regard to challenges faced by municipalities. The result was a comprehensive Western Cape mSCOA Implementation Position Paper (Western Cape Provincial Treasury, 2018) that was sent to National Treasury for review and comment.
- e) On behalf of the municipality, the Provincial Treasury engaged with the system vendor with regard to specific implementation issues being experienced.
- f) The Provincial Treasury arranged engagements between the system vendor and all its Western Cape clients to ensure that there was a common understanding of the issues, and to agree on a way forward to resolve these issues.

Some of the challenges experienced by Langeberg Municipality relate to points d to f above. As discussed in section 4.5 of this thesis, CFOs in the Western Cape were not allowed to attend meetings during which Provincial Treasury met with system vendors, even though discussions at these meetings had a direct bearing on the municipalities. Also, the Provincial Treasury's respondent states that it engaged with National Treasury on behalf of municipalities with regard to challenges faced by municipalities. Therefore, Provincial Treasury maintains that one sphere of government is being represented by another.

The Provincial Treasury's respondent is of the view that adequate guidance was provided to municipalities, and highlighted the following challenges:

- a) System vendors were still in the process of developing their systems to be mSCOA-enabled at the date of implementation.

- b) Municipalities were not ready to go-live since they: did not complete the user acceptance testing before the go-live date; they did not do the required data cleansing before go-live; and they did not convert their trial balances to mSCOA trial balances before go-live in order to take on the opening balances with the required segmentation allocated.
- c) Changes to the mSCOA from v5.4 to v6.1 were of such a nature that vendors were required to reconfigure their systems to host the chart. (At the time of concluding this research, it is probable that a new version of mSCOA, v6.4, will be released for implementation on 1 July 2020. This means that municipalities must already start preparing their 2020/2021 budgets in the new format.)

The Provincial Treasury also indicates that although system vendors claim that their systems can accommodate the objectives of mSCOA, an independent systems audit must still be done by National Treasury.

With regard to the assessment of Langeberg Municipality's mSCOA compliance, the Provincial Treasury's respondent is of the view that Langeberg Municipality could have anticipated that it would not be mSCOA-ready on 1 July 2017, based on the information contained in the Municipal Self-Assessment dated 3 May 2017. At this point NT should have anticipated that LM will not be mSCOA compliant by 1 July 2017.

The Provincial Treasury's respondent expressed the view that municipalities are not subordinate to the other spheres of government. The Provincial Treasury indicated that municipalities were properly consulted on mSCOA implementation, and that some municipalities were not taking the regulations seriously and were instead hoping that National Treasury would extend the implementation date. Furthermore, the Provincial Treasury's respondent indicated that not even National Treasury fully understood the implications that mSCOA reform would have on municipalities.

The respondent from Provincial Treasury indicated that mSCOA was centrally driven from National Treasury, while Provincial Treasury was co-opted to provide assistance, guidance and oversight.

The Provincial Treasury's respondent maintained that mSCOA classification and reporting are beneficial to the Provincial Treasury in fulfilling its oversight role and that, with the data currently available to the Provincial Treasury, it is now better equipped to perform its oversight role and provide meaningful input to assist municipalities. The Provincial Treasury now has access to information that it did not have before, reporting can be more granular and targeted if required, and it is easier to benchmark municipalities when granular data is available.

5.6 Conclusion

Chapter 5 discussed the methods used in conducting the case study research, and provided information on the specific research design that was used as well as the data collection methods. Furthermore, this chapter discussed the following research objectives: the perception of senior management in Langeberg Municipality on IGR and cooperative government in ensuring mSCOA compliance; and the view of the Western Cape Provincial Treasury respondent on mSCOA compliance, and its assessment of Langeberg Municipality's level of compliance achieved on 1 July 2017.

Overall, senior managers within Langeberg Municipality are of the view that: mSCOA should have been implemented using a phased approach; local government is overregulated; IGR is centrally driven from national government; and the current IGR forums do not create a platform where issues affecting local government can be discussed, as they are merely information sessions.

The Provincial Treasury has assessed mSCOA compliance against MFMA Circular 80; however, this circular was issued as a guideline only and was not adopted by the Langeberg Municipality municipal council.

Of great concern are the challenges regarding mSCOA implementation that were highlighted by Provincial Treasury's respondent in the questionnaire: that a systems audit must still be done; that Provincial Treasury represented local government on IGR forums with National Treasury (instead of local government being allowed to attend such forums); that municipalities were not ready for implementation on 1 July 2017 (including Langeberg Municipality); and that system vendors were still in the process of developing mSCOA-enabled systems at the date of implementation.

The researcher concludes that Langeberg Municipality, other municipalities, Provincial Treasury, National Treasury and the country as a whole were not yet geared and ready for mSCOA implementation on 1 July 2017. There is therefore a strong argument that mSCOA should have been implemented using a phased approach, especially since municipalities differ in terms of categories, and their financial and human resources capacity.

Furthermore, since the implementation of the MFMA, a large number of circulars have been issued under the Act. However, the AGSA's report for the 2017/2018 financial year indicates that there is an increase in the number of municipalities that are not materially complying with legislation (Auditor-General of South Africa, 2019b:3). Therefore, this researcher argues that National Treasury should consider not implementing any new financial management reforms until local government has stabilised and municipalities are on the same level.

The next chapter presents the conclusions and recommendations of the study. It provides guidelines for IGR in the hope of enhancing cooperative governance between the three spheres of government for the future implementation of financial management reforms in municipalities.

CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This study discusses the challenges of IGR within cooperative government between the different spheres of government since 1996, when local government was established as a distinct sphere of government in the Constitution. Chapter 3 of the Constitution makes provision for a system of cooperative government that includes local, provincial and national government.

As indicated in section 1.3 of this thesis, the aim of the research was to assess the challenges of IGR within cooperative government faced by Langeberg Municipality in the Western Cape in complying with the mSCOA regulations and the requirements of National and Provincial Treasury.

Based on the aim of the research, the research question was as follows: To what extent did IGR and cooperative government impact on the ability of Langeberg Municipality (in the Western Cape) to comply with the mSCOA regulations from 1 July 2017?

The Constitution of 1996 assigns different roles and responsibilities to the different spheres of government within the cooperative government framework. The roles and responsibilities of local government are contained in Schedule 4B and 5B of the Constitution. Although they are distinct, the three spheres of government are interdependent and interrelated, and neither sphere can exist on its own. The manner in which the three spheres interact, communicate and collaborate with one another to achieve the vision of government as a whole is referred to as IGR. Therefore, a cooperative government cannot exist in the absence of IGR.

6.2 Addressing the objectives of the study

6.2.1 Review of IGR in South Africa

The first objective of this study was to discuss the IGR and cooperative government framework, as well as arrangements between National Treasury, Provincial Treasury and Langeberg Municipality, in ensuring mSCOA compliance. This objective was addressed in Chapter 2 of this thesis through a literature review which focused on available literature on IGR, cooperative government and mSCOA that is relevant to the study.

Chapter 2 investigated the history and evolution of local government since 1996, as well as IGR and the establishment of local government as a distinct sphere of government. In order to unpack IGR within a multi-sphere government, the point of departure was to investigate the features of government in South Africa. It was established that the Constitution of 1996 provides for a decentralised state with a strong central government. Nine provinces with elected legislatures and executives were established, having jurisdiction over a number of functional areas. Local government was given relative autonomy on local service delivery matters, and the provinces and local government are to exercise their authority within a framework and direction established and supervised by national government. In fiscal matters, the role of national government is to be paramount.

In the post-apartheid system of cooperative government, the three spheres of government are distinct, interrelated and interdependent. The White Paper on Local Government (Republic of South Africa, 1998b) indicates that IGR is “the set of multiple formal and informal processes, channels, structures and institutional arrangements for bilateral and multilateral interaction within and between spheres of government”.

Current literature indicates that IGR in South Africa is centrally driven from national government. Although Chapter 3 of the Constitution provides a

framework for cooperative government, and the IGRFA (2005) establishes a set of principles for IGR, laws and regulations on how IGR should be implemented are lacking.

IGR underpins the effectiveness of cooperative government in South Africa. The different spheres of government must collaborate rather than compete with one another. Cooperation, relationship-building, collaboration, consultation and communication between the three spheres of government are the fundamental elements of IGR in order to ensure an effective system of cooperative government. However, a lack of these elements appears to be at the core of the challenges experienced with the implementation of mSCOA. The following section will investigate how the second and third objectives of the study were addressed.

6.2.2 mSCOA

The second and third objectives of the study were to examine the theory on mSCOA, discuss the regulatory framework and legislative prescripts for mSCOA compliance, and assess the level of compliance achieved by Langeberg Municipality.

Chapter 3 of the study focused on the available theory on mSCOA, and discussed the regulatory framework and legislative prescripts for mSCOA compliance. mSCOA is a business reform and not just a financial management reform, and its main objective is to bring seamless alignment in the Municipal Accountability Cycle.

The Minister of Finance issued the mSCOA regulations in terms of Section 168 of the MFMA. The regulations were promulgated in April 2014 with an inception date of 1 July 2017. All 257 municipalities were required to implement the regulations, irrespective of their grading or capacity. The minimum implementation requirements were set out in Section 4 and 5 of the mSCOA regulations, and further clarity was provided in mSCOA circulars.

However, Section 168(3)(a) of the MFMA (Republic of South Africa, 2004) states that no guidelines issued in terms of subsection (1) are binding on a municipality unless adopted by its council. In the case of Langeberg Municipality (and many other municipalities), these circulars were not adopted by the municipal council, and yet National Treasury used the circulars as the basis to conduct the assessment of mSCOA compliance.

It is also concerning that, although SCOA was introduced in government departments in 1998, it was only operationally functional by 2004. Considering that national and provincial departments are fully dependant on the national government for revenue and do not need to generate any revenue, as well as the fact that these departments use a simplified method of cash-based accounting, six years is a substantial period in which to be allowed to become fully SCOA operational. In contrast, local government was given only three years to become mSCOA-compliant – from the promulgation of the mSCOA regulations in 2014 to the implementation date of 1 July 2017.

Municipalities face numerous challenges with the implementation of the mSCOA regulations. In October 2017, three months after the mSCOA implementation date, a presentation by National Treasury at CIGFARO's annual conference revealed that not one of the 257 municipalities were found to be 100% mSCOA-compliant, 203 municipalities partially transacted and reported on mSCOA, and 54 municipalities did not utilise the mSCOA chart for transacting. Once again, it is important to note that the assessment of mSCOA compliance was conducted against circulars that may not have been adopted by municipal councils.

Although the mSCOA regulations place the onus of mSCOA compliance on the municipality, the municipality requires an Enterprise Resource Planning (ERP) system, as well as the required ICT infrastructure, to transact according to mSCOA. In practice, this means that if the ERP system used by the municipality is not fully mSCOA-enabled, the municipality is not mSCOA-compliant.

The mSCOA project manager within the Western Cape Provincial Treasury indicates that although system vendors claim that their systems can accommodate the objectives of mSCOA, an independent systems audit must still be done by National Treasury. This raises the question: Should a thorough systems audit not have been completed prior to the implementation of the mSCOA regulations?

In addition, at the time of completing this thesis, the Minister of Finance had not yet issued the minimum requirements for business processes and ICT systems. The researcher maintains that it would be in the best interest of local government if the Minister of Finance were to publish these minimum requirements only after a thorough systems audit has been conducted by National Treasury.

The researcher further maintains that it will take approximately three to five additional years for municipalities to be mSCOA-compliant in terms of the requirements set out in the mSCOA regulations. In assessing the compliance of Langeberg Municipality, it was found that the municipality was not 100% compliant since data was extracted, manipulated and imported into the financial system. However, Langeberg Municipality's core financial system does not have an enabled IDP or Budgeting Module, and therefore there is no seamless alignment in the Municipal Accountability Cycle – which is one of the main objectives of mSCOA. The following section will investigate how the fourth objective of the study was addressed.

6.2.3 Financial governance and performance of Langeberg Municipality

The fourth objective of the study was to provide an overview of the political and administrative leadership, and the financial governance and performance, of Langeberg Municipality.

Langeberg Municipality was listed under the top 20 municipalities in the 2019 *Government Performance Index* (Good Governance Africa, 2019), based on its performance on a number of indicators. Furthermore, in *The State of Local Government Finances and Financial Management as at 30 June 2018* (2019) issued by National Treasury, Langeberg Municipality is not included in the list of 125 municipalities that face various degrees of financial distress. Langeberg Municipality has received six consecutive clean audits from the periods 2011/2012 to 2016/2017 (Langeberg Municipality, 2018:8, 10).

Langeberg Municipality submitted its Annual Financial Statements late (the submission date was 31 August 2018, and the municipality submitted on 7 September 2018), and it is evident that all municipalities that submitted their Annual Financial Statements late had in common: the time-consuming processes associated with mSCOA compliance; the fact that their financial systems were not seamlessly aligned for all the stages within the Municipal Accountability Cycle; and the fact that no clear guidance on mSCOA implementation was provided by National or Provincial Treasury. The following section will investigate how the fifth objective of the study was addressed.

6.2.4 Interpretation of findings

The fifth objective of the study was to assess the perception of senior management in Langeberg Municipality on IGR with respect to mSCOA implementation, to analyse the view of the mSCOA project manager within the Western Cape Provincial Treasury on what constitutes mSCOA compliance, and to assess the level of compliance achieved by Langeberg Municipality on 1 July 2017.

Overall, the view of senior management within Langeberg Municipality is that IGR is centrally driven from national government, as the agenda is set at a higher level. Furthermore, there is a perception that the current IGR forums in the Western Cape are merely informative rather than consultative, since the

needs of local government are not taken into account when regulations are implemented.

Senior management noted a number of challenges that are currently being faced by local government, including: the impact of court rulings; unfunded mandates imposed by laws and regulations; poverty and unemployment; concerns around Eskom's ability to provide electricity; the burden on current infrastructure caused by illegal land invasions; financial sustainability; demands for the free provision of basic services; and available land for housing.

It was also noted that mSCOA compliance places an additional burden on municipal coffers – since the municipality must now pay for specialised services to ensure compliance to laws and regulations – and that these funds could have been used to enhance service delivery. Furthermore, some respondents (and the researcher agrees) believe that the implementation of mSCOA should have been conducted using a phased approach since municipalities differ in terms of category, size and capacity.

According to the Western Cape Provincial Treasury's respondent, the legal requirements for mSCOA compliance pertaining to business processes and system functionality are listed in MFMA Circular 80. However, this circular acts as guidance only and was not adopted by the Langeberg Municipality council.

The respondent from Provincial Treasury also indicated: that a systems audit must still be done; that Provincial Treasury represented local government on IGR forums with National Treasury (instead of local government being allowed to attend such forums); that municipalities were not ready for implementation on 1 July 2017 (including Langeberg Municipality); and that system vendors were still in the process of developing mSCOA-enabled systems at the date of implementation.

The researcher concludes that Langeberg Municipality, other municipalities, Provincial Treasury, National Treasury and the country as a whole were not geared and ready for mSCOA implementation on 1 July 2017. There is

therefore a strong argument that mSCOA should have been implemented using a phased approach, especially since municipalities differ in terms of categorisation, and their financial and human resources capacity. The following section will investigate how the final objective of the study was addressed.

6.3 Recommendations

The sixth and final objective of the study was to develop recommendations on IGR to achieve and enhance cooperative governance between the three spheres of government for the future implementation of financial management reforms in municipalities.

Much progress has been made since 1996 in the structuring of IGR. The framework for IGR was set in Chapter 3 of the Constitution of 1996, which paved the way for the IGRFA in 2005. However, although a framework has been set, there are no clear guidelines on how IGR must be conducted in a multi-sphere government.

Levy and Tapscott (2001), citing a 1999 IGR audit conducted by the former DPLG, made the following recommendations for improvement which was implemented:

- That legislation be formulated and implemented to enhance and promote the evolution of an effective IGR system. The IGRFA was passed by parliament in 2005 and as indicated in section 2.5.4 of this thesis the objective is to provide a framework for the three spheres of government in South Africa to promote and facilitate IGR.
- IGR structures was established in terms of the IGRFA (2005) like the President's Co-ordinating Council, MinMec, FFC and SALGA.

Furthermore 20 years ago Levy and Tapscott (2001), citing a 1999 IGR audit conducted by the former DPLG made the following recommendations which are still applicable in 2019 due to the challenges within IGR:

- There must be a linkage between planning, policy and legislation.
- There must be integrated planning across the three spheres of government.
- Intergovernmental accountability must be promoted by enhancing and expediting information flow within and among spheres.
- IGR structures must be coordinated to avoid uncoordinated growth.
- Decisions made within spheres and among spheres must be reached by consensus and must be constitutionally binding.
- The IDPs of local governments must be credible, and there must be a linkage to the Municipal Accountability Cycle.
- Budget committees must be established to monitor priorities, targets, business plans and indicators.
- National government needs to play a facilitating role in IGR.
- Mechanisms need to be developed for dispute resolution.
- Officials need to be trained for capacity-building.

6.3.1 IGR

The recommendations emerging from the study with regard to IGR are as follows:

1. National government should investigate the promulgation of regulations in terms of the IGRFA of 2005 that clearly state the conduct of and relations between the three spheres of government to ensure that these forms are not just consultative and centrally driven from national government in order for the enhancement of cooperative governance.
2. National government should regulate the terms and references on the scope and limitations of the IGR forums.

3. National Government should implement a system of monitoring the effectiveness of IGR forums. This would involve the continuous assessment of project activities prior to, during and after implementation, as well as an assessment of how project inputs have been used by the targeted population towards meeting pre-planned expectations (Ijeomah, 2010).
4. The role and functioning of IGR forums should be evaluated annually to ensure that they remain relevant, and their outcomes should be measured against the objectives. Evaluation can be defined as the systematic and objective assessment of an ongoing or completed project or programme, its design, implementation and results, with the aim of determining the relevance and fulfilment of objectives, development efficiency, effectiveness, impact and sustainability. (Austrian Development Agency, 2009:1)
5. NT must do an assessment with the PT and the local government sphere on whether the objectives of the different IGR forums have been achieved since 2005, list the challenges facing IGR and implement suitable strategies.
6. Local government must be given a seat at the relevant IGR forums where issues relating to local government are discussed, instead of local government being represented by another sphere of government. It would be impractical to give local government 257 seats on the required forums (i.e. one seat per municipality), and therefore one Municipal Manager per province could be delegated to sit on the relevant IGR forum in order to ensure that every province is represented and not create a forum with too many members as it might not be effective.
7. The autonomy of each sphere of government should be respected within the system of cooperative government, and the interrelatedness of the three spheres should not be used by officials in the National and Provincial Treasury to dictate to local government how to run its affairs.
8. Improved strategies should be adopted to ensure effective communication and collaboration between the three spheres of

government, in order that the objectives of government as a whole may be met, as contained in the National Development Plan. Collaboration is the governing arrangement between the three spheres of government where decisions are made collectively, it is formal and the aim is to implement public policy

6.3.2 Financial reforms

The recommendations emerging from the study with regard to financial reforms are as follows:

1. South African municipalities differ in terms of their category, size, and financial and administrative capacity. Therefore, financial reforms should be implemented according to the capacity of the municipality, rather than being applicable to all municipalities at once as the human and financial resources of municipalities differ.
2. NT and COGTA must first conduct an assessment of each municipality based on their human and financial capacity, and the results of such assessment should be considered by NT and COGTA before financial reforms are implemented to ensure that the municipality has the required implementation capacity.
3. COGTA, in conjunction with the National Treasury, should investigate a phased in approach for financial reforms, based on the capacity and category of municipalities. Implementation should start with the metro municipalities, then the high capacity, medium and then lastly low capacity municipalities. In the case of pilot municipalities the reforms must first be functionally operational before rolled out to other municipalities.
4. NT should investigate placing a moratorium on the issuing of any new financial management reforms until all municipalities have implemented and are compliant with the MFMA regulations issued to date.

5. Financial reforms should be rolled out first in districts that have the necessary financial and administrative capacity for implementation. Once fully implemented, these districts can be used as best-practice case studies to assist other districts with implementation. Such a model is endorsed by the President's Coordinating Council (Department of Cooperative Government and Traditional Affairs, 2019).
6. When piloting anticipated new financial reforms at municipalities, National Treasury should ensure the representation of municipalities of all categories and capacity, from all over the country, and representing all districts.
7. The roles and responsibilities between departments within national government needs to be clearly defined, also the functions of the three spheres of government in terms of the Constitution to ensure that provincial and local government are not delegated certain functions that are not their function that could possibly lead to unfunded mandates like library services.
8. Financial reporting requirements between COGTA and NT needs to be centralised to one specific database where municipalities can send monitoring reports and then all sector departments can extract the required reports from the specific database then the current reporting does not have to be send to all the different sector departments.

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ANNEXURE A QUALITATIVE QUESTIONS POSED TO PARTICIPANTS FROM LANGEBERG MUNICIPALITY

1. Briefly explain your job description and area of responsibility within the Langeberg Municipality?
2. What do you understand on the term mSCOA and how does this impact on your area of responsibility.
3. Have you read the regulations on mSCOA and understand the objectives of and what is your interpretation of it?
4. What is your understanding or perception of intergovernmental relations and cooperative government?
5. Do you think Langeberg Municipality was properly assisted by National and Provincial Treasury in ensuring that it is mSCOA compliant on 01 July 2017?
6. Did you attend any training sessions on mSCOA and if yes was it adequate?
7. What are some of the challenges experienced with mSCOA in relation to your area of responsibility?
8. Do you think that municipalities in the post-apartheid era after 1994 are equal to the other two spheres of government or is it still subordinate to the two other spheres, if yes please explain?
9. Does mSCOA enhance service delivery or hampers it, please explain?
10. Do think that the implementation of mSCOA should have been a phased in approach as municipalities differ in grading and category, if yes please explain?
11. Is mSCOA classification and reporting beneficial to you as a budget vote custodian, please explain?
12. Do you think intergovernmental relations is centrally driven from national government, please explain?

13. Does the attendance of all the IGR forums in your view create a platform where issues affecting local government are discussed or is it merely an information session and not a consultative session?
14. Do you think local government is over regulated?
15. In your view what are the main challenges affecting local government and its future sustainability?

ANNEXURE B QUALITATIVE QUESTIONS POSED TO MSCOA PROJECT MANAGER WITHIN THE WESTERN CAPE TREASURY

1. Briefly explain your job description and area of responsibility within the Western Cape Provincial Treasury?
2. What are the legal requirements for mSCOA compliance on 1 July 2017?
3. Please elaborate on the intergovernmental relations and assistance provided to Langeberg Municipality in ensuring mSCOA compliance on 1 July 2017?
4. In your view was the guidance that was provided by National Treasury to municipalities adequate to ensure mSCOA compliance on 1 July 2017? If no please provide reasons.
5. What are some of the challenges experienced by municipalities in the Western Cape in relation to mSCOA compliance on 1 July 2017?
6. Are municipalities represented on the Intergovernmental Forums when National Treasury meets with system vendors on mSCOA?
7. Is there currently a financial system that is used by a municipality or that is available that can accommodate the objectives of mSCOA to ensure seamless alignment in the Municipal Accountability Cycle?
8. Do you think Langeberg Municipality and municipalities in general were mSCOA ready on 1 July 2017?
9. Municipalities differ in grading on human and financial capacity, as mSCOA is a business reform that affects the whole Municipal Accountability Cycle what are the reasons that National Treasury did not follow a phase in approach on mSCOA implementation?
10. Do think that municipalities in the post-apartheid era after 1994 are equal to the other two spheres of government or still subordinate to the two other spheres? Further to the question, in your view were municipalities properly consulted on the practical implications associated with mSCOA?

11. What was the level of mSCOA compliance achieved by Langeberg Municipality on 1 July 2017?
12. What will the impact be on municipalities when the mSCOA business processes and minimum system specifications are regulated?
13. Do you think intergovernmental relations pertaining to mSCOA was centrally driven from national government, please explain?
14. Does the attendance of all the Intergovernmental forums within the Western Cape and nationally in your view create a platform where issues affecting local government are discussed or is it merely an information session and not a consultative session?
15. Is mSCOA classification and reporting beneficial to Provincial Treasury in fulfilling their oversight role, please explain?