

**International best practice technical assistance
performance for the South African local government
financial management reform and capacity-building
program from 2003**

by

Nigel Robert Graves

DipLG¹, B.Bus.², FCPA³, MBA⁴, GCBR⁵

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**University of New England
Armidale, N.S.W.
Faculty of the Professions, School of Business,
Economics and Public Policy**

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¹ Diploma Local Government Administration: Adelaide TAFE, South Australia

² Bachelor of Business (Accountancy): University of South Australia

³ CPA program: Deakin University, Victoria, Fellow CPA Australia

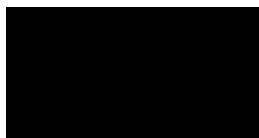
⁴ Master in Business Administration, Adelaide University, South Australia

⁵ Graduate Certificate Business Research, University of Southern Queensland

Declaration

The material in this thesis has not previously been submitted for a degree in any University, and to the best of my inquiry and knowledge does not contain any material published or written by another person except where due acknowledgement is made within this thesis.

I certify that any help received in preparing this thesis and all sources used have been acknowledged in this thesis.



Statement of contribution by others

During the thesis research the writer and the writer's supervisor (Professor Brian Dollery, University of New England) co-authored and published two (2) peer-reviewed journal papers (Dollery and Graves, 2009) and (Graves and Dollery, 2009). The papers initiated the core concept explored in the research, applying a measurement of funding compliance to assess budget reform progress, as well as the development of a scale measurement to simplify the measurement of funding compliance. Professor Dollery has therefore directly and indirectly contributed to this research. Alison Basden provided editorial polish.

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Applicable analysis exchange rate

“**ZAR 1.00 = US\$0.127**” (World Bank, 2008, p.2), the exchange rate is included for the purpose of readers appreciating the currency value relativity between the South African Rand values discussed in the research analysis. Therefore, as at the time of the preparation of the 2008/09 Medium Term Revenue and Expenditure Framework (MTREF) by South African municipalities, one United States dollar (US\$1) would have purchased Rand 7.87.

This thesis, as well as the associated data CD Rom, contains numerous tables and charts with values denominated in South Africa Rand. The exchange rate to the US\$, at the time of the preparation of the 2008/09 MTREF by the respective South African municipalities, gives some perspective as to the comparative size of the sample municipalities and their budgets. For example, the total annual operating expenditure budget for the City of Cape Town for the 2008/09 MTREF expressed in US\$ was \$1.77 billion and the total annual capital expenditure budget was \$0.497 billion.

In July 2008 the Australia dollar (AUD) to US\$ was approximately 0.96 (Ozforex, 2008). Therefore, amounts referred to in AUD in the Australian sample were at the time approximately equal to the US\$.

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Abbreviations and acronyms

AG	Auditor-General (South African National Government)
ANC	African National Congress
AUD	Australian dollar
BCC	Brisbane City Council
BPTA	Best Practice (International) Technical Assistance, or otherwise known as the application of the ‘expert model’, has been defined as the engagement of an expert to “transfer positive experiences from one setting to new settings with reasonable prospects of success”, generally referred to in the literature as “technical assistance through the application of best practice” (Straussman, 2001, p.1-2). BPTA is also known internationally as ‘TA’.
CCC	‘3Cs’ rule or the ‘cash is the cash is the cash’ (amount of cash disbursed, cash received and cash ‘held’). The 3Cs is a key measurement focus of the funding compliance procedure to ensure all municipalities secure sound cash positions aligned to the requirements of the MFMA and only approve financial plans to spend genuinely available funds as prescribed.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMIP	Consolidated Municipal Infrastructure Program
CPI	Consumer Price Index
CPIX	Consumer Price Index excluding interest payments
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DPLG	Department of Provincial and Local Government
EM	Executive Mayor (South Africa)
FC	Funding Compliance
FH	Financial health (or condition)
FMG	Financial Management Grant
GAMAP	Generally Accepted Municipal Accounting Practice
GAP	Gap filling advisors
GDP	Gross Domestic Product
GFOA	Government Finance Officers Association
GFC	Global Financial Crisis <i>circa 2008</i>
GRAP	Generally Recognised Accounting Practice (South Africa)
IC	Individual Consultant
IDP	Integrated Development Planning
IFAC	International Federation of Accountants

IMFO	Institute of Municipal Finance Officers (South Africa)
IPSAS	International Public Sector Accounting Standards
LG	Local Government
LGA	Local Government Authority (Australian accepted terminology)
LGCI	Local Government Cost Index
LGPI	Local Government Price Index
M&E	Monitoring and Evaluation
MCI	Municipal Cost Index (also refer LGCI and LGPI))
MFMA	Municipal Financial Management Act, 2003 (South Africa) (National Treasury 8, 2007)
MFMTAP	Municipal Finance Management Technical Assistance Program - South Africa's local government municipal (M) financial (F) management (M) technical (T) assistance (A) program (P) (known as MFMTAP ... commonly pronounced 'miffumtap') was to reform municipal financial management; achieve credible, realistic budgets and prevent financial failure. The South African National Treasury (NT) embarked on this technical assistance capacity-building program in 2000. NT's website states their primary objective was to secure sound and sustainable management of government financial affairs, including local, and to lead these reforms (National Treasury 19, 2012). NT's MFMTAP was a local government reform and capacity-building 'pilot' program. MFMTAP was supported by international expert advisors commencing in 2003 with seven municipalities and later expanded to 36 municipalities. The expert technical assistance advisors were mainly required to guide the preparation and tabling (at meetings of the municipal council itself) of multi-year budgets.
MM	Municipal Manager (equivalent to a CEO) in South Africa
MSIG	Municipal Systems Improvement Grant
MTEF	Medium Term Expenditure Framework "a process by which governments indicate the multi-year perspective of budgets. An MTEF has three main functions: to increase fiscal discipline, define strategic prioritisation, and ensure effectiveness of the money spent" (Guess, 2007, p.176). The MFMA requirements and the MFMA funding compliance procedure emphasises the fiscal discipline factor.
MTREF	Medium Term Revenue and Expenditure Framework, being a municipal budget that has a format that must comprise three years of prior year audited actuals; current year budget, adjustments and forecasts; as well as three years of budgets and estimates. The MTREF is a modified version of a MTEF because of the importance of business revenues to municipalities.
NIIF	National Infrastructure Investment Framework
NoBTPA	Municipality that was <u>not</u> provided with MFMTAP expert technical assistance
NPM	New Public Management
NT	South African National Treasury (national government department with oversight responsibility of the MFMA and MFMTAP)

NT	National Treasury
PEFA	Public Expenditure and Financial Accountability (performance framework)
PFM	Public Financial Management
PT	Provincial government treasuries (South Africa)
QA	Quantitative analysis
R&M	Repairs and maintenance expenditure
SALGFMG	South Australian Local Government Financial Management Group
SCC	Sydney City Council
TA	Technical Assistance
US\$	United States dollar

Abstract

Quantitative research of local government financial management reform in a developing country, focussed on the measurement of international technical assistance contributions, promised to be a useful practical addition to the literature and of practical assistance to reform assessment. There is an abundance of public sector financial management reform literature, but it is most often qualitative and does not provide an analysis of the real financial impact of technical assistance, especially in the international public sector financial management reform field. Gaining an understanding of the real financial condition and performance improvements of target organisations, as a fundamental success measure of success, is more important than qualitative assessments simply of process improvement.

South African local government financial management reform provided a unique research opportunity. Extensive technical assistance over many years to its municipalities, including some with international expert advisors for long periods, provided a research sample of municipalities with and without experts for comparison. A World Bank-sponsored local government financial management technical assistance program (known as *MFMTAP*), commencing in early 2003 and concluding in May 2008, provided a research opportunity that was witness to financial management outcomes prior to, during and post the program. Research techniques developed during the research and outcomes would be useful for evaluating the MFMTAP post completion, and might support monitoring and evaluation of similar programs in other developing countries.

The South African National Government, recognising the need for municipal financial management reform, passed financial management legislation in 2003, the Municipal Finance Management Act (MFMA). The MFMA imposed strict budget requirements on municipalities to improve and maintain good financial health and avoid poor high risk practices. The South African National Treasury (NT) developed a comprehensive funding compliance procedure to test municipal adherence to the MFMA which are mainly of a quantitative compliance analysis nature. The test results on municipality sample of municipalities provided another excellent opportunity to analyse MFMA funding compliance before, during and after the MFMTAP to understand reform success or otherwise.

Preliminary analysis had already indicated that ‘adapted self-survey’ Likert-type scales can be used to rate the funding compliance procedure and form the basis of a comparative

performance index, especially designed to understand MFMA funding compliance performance change over time (Graves and Dollery, 2009).

The research explored associated data, including financial health assessments and election results, to understand if MFMTAP improvement benefits were limited by political pressure and interference. This is important, as to the maximum extent possible the research needed to thoroughly pursue alternative explanations for the data other than the MFMTAP. Alternatively, poor municipality financial health at the beginning of the MFMTAP may be so fundamental that it prevented municipalities from improving its financial performance and position to achieve the required level of funding compliance.

It was initially disconcerting for the MFMTAP evaluation to learn that ‘a review of international experiences suggests that failures in local government finance reform are probably much more common than success stories’ (Boex and Martinez-Vazquez, 2006, p.213). The hypotheses presented in this research was that the planned quantitative analysis will provide a basis for concluding, success or otherwise, on the financial health aspect of South African local government financial management reform.

The literature review supported the need for this research, but also provided an extensive record of public sector financial management reform in many countries. The literature displayed that there have been many local government financial management reform programs internationally, using various reform methodologies, and illustrating that many others have sought to understand techniques for measuring genuine financial management reform.

The conclusions of the research revealed a balance between successful and useful findings. An important positive outcome was the development and enhancement of the funding compliance and financial health instruments. An associated positive outcome is that the instruments likely have international application, subject to further sampling and repeat analysis, especially the financial health measurement funding compliance instruments, the later even though it had its origins in very specific South African municipal financial management legislation (National Treasury 2, 2003).

Importantly, the research also provided evidence that instruments can be developed to undertake quantitative assessments of the progress of financial management reforms to ascertain if real financial progress is achieved.

An especially promising outcome is that factoring can be applied to reduce the complexity of the 18-item MFMA funding compliance instrument. This is limited somewhat by the finding that confirmation would be needed by applying financial data from a later more mature reform period. The practicalities of the finding would be evident to governments undertaking oversight of municipal finances, such as the South African National Treasury and the provincial treasuries. When faced with the task of making legislated funding compliance conclusions annually, regarding hundreds of the municipalities, the task of analysing 18 items funding compliance items for all municipalities is daunting. This is especially difficult when the results are conflicting and inconclusive. Yet a two-factor analysis, developed during this thesis, would enable the oversight agencies, and even the municipalities themselves using a self-test, to quickly ascertain which municipalities are likely to be non-compliant and then undertake the required comprehensive analysis only on the clearly defaulting agencies. This efficiency improvement outcome would enable prompt advice requesting corrective action prior to Councils approving budgets and new property taxes and service charges being levied, which by this stage is normally too late to require corrective requirements. Further confirmatory analysis of this preliminary finding in the future, based on more mature financial information, would likely be welcomed by oversight agencies.