



## SECTION I

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Framework for the Performance Management System

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### 1. INTRODUCTION

#### 1.1 Strategic Objectives of a Performance Management System

Many of South Africa's municipalities, including Buffalo City, continue to endure the legacy of under-development, poverty, infrastructure backlogs and inequitable access to basic services. In response to these, Government is putting in place various mechanisms and measures to fight poverty and unemployment.

In the local government context, a comprehensive and elaborate system of monitoring performance of municipalities has been legislated. This system is intended to continuously monitor the performance of municipalities in fulfilling their developmental mandate. Central to this is the development of key performance indicators as instruments to assess performance. These indicators help to translate complex socio-economic development challenges into quantifiable and measurable outputs. They are therefore crucial if a proper assessment is to be done of the impact of government in improving the quality of life for all.

In this regard, the Municipal Planning and Performance Management Regulations (2001) stipulate that a "Municipality's Performance Management System entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organized and managed, including determining the roles of the different role players" (Chapter 3, Section 7, Municipal Planning and Performance Management Regulations, 2001).

Buffalo City Municipality (BCM) believes that the principles of performance management should:

- Drive change and improve the performance of the organisation;
- Focus the organisation's work on its priorities
- Measure the organisation's overall performance against set objectives;
- Align strategic objectives and priorities with individual work plans;
- Identify success as well as failure; and
- Identify good practice and learning from others' successes.

#### 1.2 Policies and Legislative Framework for Performance Management

The framework for Performance Management is informed by the following policy and legislation on performance management:

- The Constitution of the RSA, 1996 ( Act 108 of 1996)
- The Batho Pele White Paper (1998)
- The White Paper on Local Government (1998)
- The Municipal Systems Act, 2000 ( Act 32 of 2000)
- Municipal Planning and Performance Management Regulations 2001(No 796, 24 August 2001)
- Regulations for Municipal Managers and Managers reporting directly to Municipal Managers, 1 August 2006
- The Local Government : Municipal Structures Act, 1998 (Act 117 of 1998)
- The Municipal Financial Management Act , 2003 (Act 66 of 2003)

In accordance to the legislative requirements and good business practices, the BCM developed and implemented a performance management system. The main objectives of the system are to guide and manage the performance of the municipality (as an organisation) and employees (as individuals) throughout the City,

### 1.2.1 The Municipal Systems Act, No. 32 of 2000, states that a Municipality must:

1. Develop a Performance Management System.
2. Set targets, monitor and review performance based on indicators linked to their Integrated Development Plan (IDP).
3. Publish an Annual Report on performance for the Councillors, staff, the public and other spheres of Government.
4. Conduct an internal audit of performance before tabling the report.
5. Have their annual performance report audited by the Auditor-General.
6. Involve the community in setting indicators and targets and reviewing municipal performance.

### 1.2.2 The Local Government: Municipal Planning and Performance Management Regulations, 2001,

Section 7(2) require that the Municipality, in developing its Performance Management System, must ensure that the system:

1. Complies with all the requirements set out in the Municipal Systems Act;
2. Demonstrates how it is to operate and be managed from the planning stage up to the stages of performance review and reporting;
3. Clarifies the roles and responsibilities of each role player, including the local community, in the functioning of the system;
4. Clarifies the processes of implementing the system within the framework of the Integrated Development Planning process;
5. Determines the frequency of reporting and the lines of accountability for performance;
6. Relates to the Municipality's Employee Performance Management processes.

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

1. The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal.
2. The percentage of households earning less than R1100-00 per month with access to free basic services.
3. The percentage of the Municipality's capital budget actually spent on capital projects in terms of the IDP.
4. The number of local jobs created through the Municipality's local, economic development initiatives, including capital projects.
5. The number of people from employment equity target groups employed in the three highest levels of management in compliance with a Municipality's approved employment equity plan.
6. The percentage of a Municipality's budget actually spent on implementing its workplace skills plan.
7. Financial viability with respect to debt coverage; outstanding debtors in relation to revenue and cost coverage.

The objective of institutionalising a Performance Management System (PMS), beyond the fulfilling of legislative requirements, is to serve as a primary mechanism to monitor, review and improve the implementation of the Municipality's IDP. In doing so, it should fulfil the following functions:

- Promoting accountability
- Decision-making and resource allocation
- Guiding development of municipal capacity-building programmes
- Creating a culture of best practice, share learning among Municipalities
- Develop meaningful intervention mechanisms and early warning system
- Create pressure for change at various levels
- Contribute to the overall development of a Local Government system

### 1.2.3 The Municipal Financial Management Act

It is also important to note that the Municipal Finance Management Act (MFMA) contains various important provisions related to municipal performance management. It requires municipalities to annually adopt a Service Delivery and Budget Implementation Plan (SDBIP) with service delivery targets and performance indicators. Whilst considering and approving the annual budget the Municipality must also set measurable performance targets for each revenue source and vote.

## 2. THE MUNICIPAL SCORECARD

A number of performance models are available and any of them could be applied by the Buffalo City Municipality. Some of the available models include the Municipal Scorecard, Balanced Scorecard and the Key Performance Area Model. However, the Municipality has chosen the Municipal Scorecard (MS) as its preferred performance management model. In terms of the MS model all indicators are grouped together into five (5) perspectives as depicted in figure 1.1. below e.g. costs, inputs, outputs, outcomes and process.

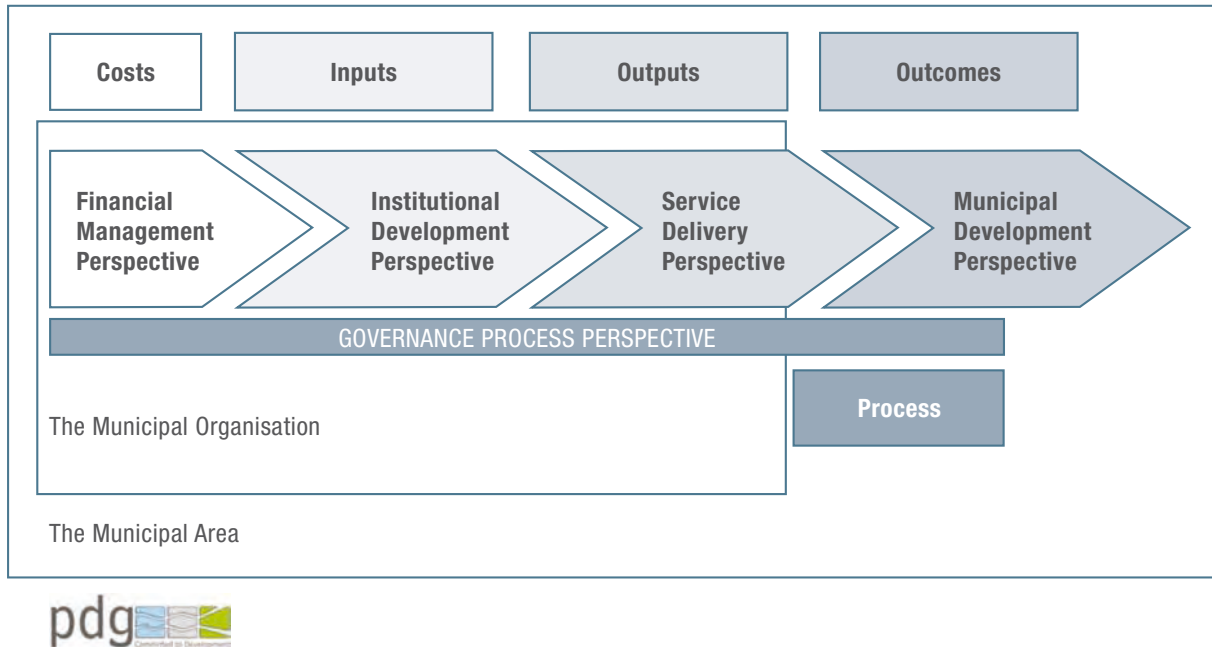


Figure 1.1: Municipal Scorecard

### 2.1. The Municipal Development Perspective

In this perspective, the municipality will assess whether the desired development impact in the municipal area is being achieved. It incorporates social, environmental and economic development aspects. This perspective will constitute the development of priorities for the municipal area and indicators that tell us whether the desired development outcomes are being achieved. It is expected that the development priorities and indicators, will often lie within the shared accountability of the municipality, other spheres of government and civil society. The measurement of developmental outcomes in the municipal area will be useful in informing whether policies and strategies are attaining the desired development impact.

### 2.2. The Service Delivery Perspective

This perspective will assess performance with respect to the delivery of services and products. This relates to the output of the municipality or municipalities.

### 2.3. The Institutional Development Perspective

This perspective will assess performance with respect to the management of municipal resources:

- Human Resources
- Information
- Organizational Infrastructure
- Asset management

This relates to the inputs of the municipality or municipalities.

## 2.4. The Financial Management Perspective

The perspective will assess performance with respect to financial management and viability, including:

- Financial viability indicators
- Operating income vs. Operating expenditure performance
- Financing infrastructure investment vs. capital expenditure performance
- Financial management performance.

## 2.5. Governance Process Perspective

This perspective will assess performance with respect to engagements and relationships with its stakeholders in the process of governance. This perspective will include, amongst others:

- Public participation, including the functionality and impact of ward committees
- Functionality and impact of municipal governance structure (council structures including the offices of the speaker, and portfolio committees/clusters and executive)
- Access to information
- Intergovernmental relations

This relates to the governance processes of the municipality.

### The Process of Managing Organisational Performance

The process of performance management is central to modern notions of management i.e. it is inseparable from the things that a manager must do. It is important that performance management is mainstreamed in a municipality as an approach to daily management.

Performance management cycle is illustrated on figure 1.2. below:

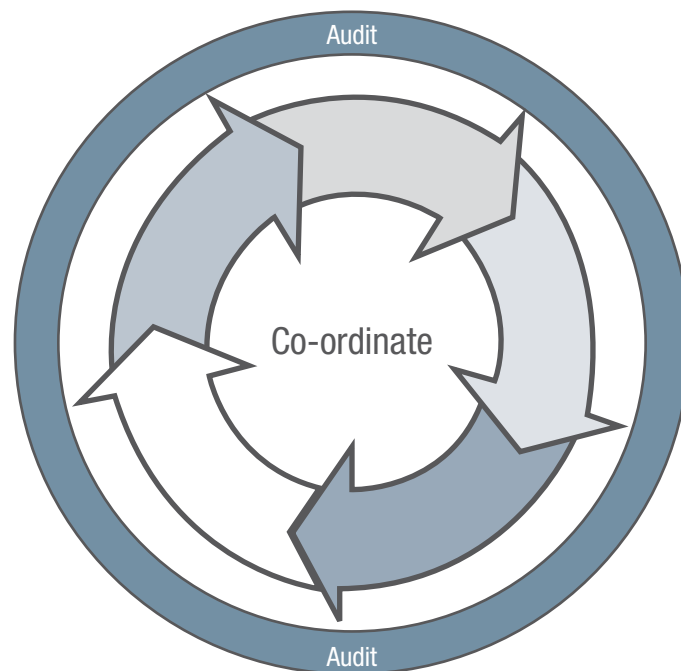


Figure 1.2

It is important to note that the Municipal Scorecard model assumes the following cause-and-effect hypothesis based on an open-systems theory by which inputs are used through process to develop or deliver, in this case products and services which eventually would benefit the community as a whole. This cause and effect relationship is depicted schematically in Figure I.3.

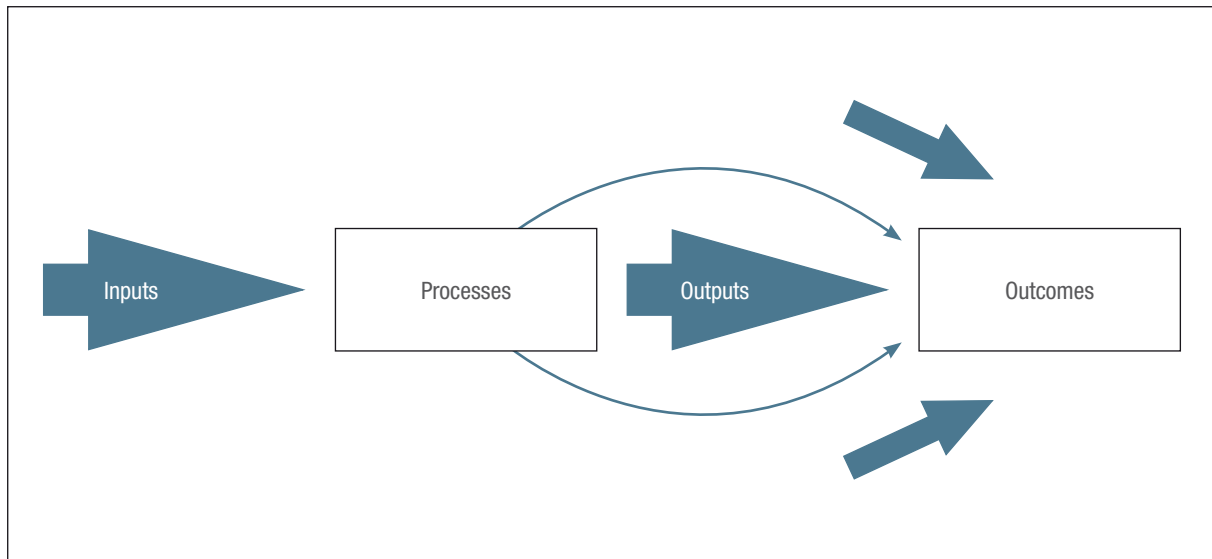


Figure I.3: A Systems Approach

### 3. THE CAUSAL EFFECT

The value-add of a framework is that it gives guidance to the integrating process of performance objectives and indicators at the different levels within an institution. A major issue of resistance to performance management within municipalities is usually the argument of individual control, by implication the individual is hesitant to commit to certain indicators as he or she has little control over the outcome or ultimate achievement of a relevant performance objective and indicator. The MS model is one of the few models which accommodate this area of contention as it allows for the clear demarcation of accountability.

It should be clear from the above that the senior employee is accountable for all three levels which feed into the outcomes to be achieved and which should be under the control of the municipality. The Municipal and/or Institutional Scorecard should therefore have a healthy balance of indicators clustered into the different categories of inputs, process, outputs and outcomes. The emphasis should be placed on outputs because these indicators directly reflect the results of the indicators achieved through input and process.

### 4. SCORECARDS

A Scorecard is a logical and visually powerful method of representing performance management information, at both the Organizational/ Institutional (Municipal and Directorate) and Individual (Manager and Employee) levels.

Scorecards must be:

1. Tightly aligned to the strategic planning and IDP processes.
2. Directly relevant to the notion of developmental local government.
3. A balanced view of performance based on inputs, outputs, outcomes and process.
4. A simple portrayal of municipal performance, where inter-relations can be mapped.

There are two levels of scorecards for BCM, i.e. the Institutional and Individual Scorecards.

## 4.1 Institutional Scorecard

Buffalo City Municipality adopted a Framework for Institutional Performance that contains an Annual Work plan which is meant to ensure the integration of Performance Management System activities with general management processes that provides for reporting to the Municipal Council bi-annually.

BCM Institutional Scorecard reflects 6 strategic priorities; namely:

KEY ISSUES	BCM KEY OBJECTIVES
Buffalo City lacks a clearly defined long-term development strategy, which negatively impacts on the ability of BCM & Buffalo City stakeholders to work towards the achievement of Buffalo City's vision.	<b>BCM1</b> Local, Provincial & National stakeholders support and work together to achieve the vision for Buffalo City
The sustainability of BCM is dependent on expanding its revenue in relation to costs and its financial viability, whilst implementing its mandate.	<b>BCM2</b> Effective, efficient, co-ordinated financial management and increased revenue - enabling BCM to deliver its mandate*.
Inefficiencies exist within the institution, which compromise BCM's ability to deliver services.	<b>BCM3</b> BCM's institution is capacitated and structured to enable efficient, effective, and sustainable service delivery.
Low economic growth, high unemployment, low skills levels, high levels of poverty and high inequality exist within BCM.	<b>BCM4</b> BCM creates an enabling environment for an economy that is growing, diversifying, generating increasing number of sustainable employment opportunities and contributing to increased incomes and equality.
Whilst BCM delivers basic services (water, sanitation, waste removal & electricity) to about 70% of households, many households still lack adequate transport, social services, economic opportunities & an enriching environment.	<b>BCM5</b> Buffalo City is well structured, efficient and supports sustainable human settlements, thus enabling residents to meet their physical, social, developmental, environmental, cultural & psychological needs. (live, work & play)
Lack of sustainable development and inappropriate use of resources has a harmful impact on the health and well-being of present and future generations of BCM.	<b>BCM6</b> BCM has a safe, healthy and sustainable environment protected for the benefit of present and future generations through securing ecologically sustainable development and use of natural resources, whilst promoting justifiable social and economic development.

At institutional level the five-year IDP of a municipality forms the basis for performance management, whilst at operational level the annual SDBIP forms the basis. The IDP is a long-term plan and by its nature the performance measures associated with it will have a long-term focus, measuring whether a municipality is achieving its IDP objectives.

The measures set for the Municipality at institutional level is captured in an **institutional scorecard** structured in terms of the preferred performance management model of the Municipality. The measures at operational level are to be captured in the SDBIP of the Municipality and the SDBIPs of the various Departments in the Municipality. BCM's performance management data is also informed by the five (5) Key Performance Areas (KPA) which were identified by DPLG namely:

- Municipal Transformation & Organisational Development
- Infrastructure Development and Service Delivery
- Local Economic Development
- Municipal Financial Viability & Management
- Good Governance & Public Participation

The performance of both organisation and individual is measured against these key performance areas.

## 4.2 Individual Scorecards

### 4.2.1. Individual Performance Management System (IPMS)

Individual or staff Performance Management deals with performance on the level of the individual employee. BCM has identified four (4) phases of performance management process, which are; planning, coaching, reviewing and rewarding phase. Individual performance targets are formulated during business planning process referred to in section 8.2. Measuring staff performance provides Council and management with appropriate information on the behaviour of staff and outcomes in the workplace. Coaching is an ongoing process; it assists to identify performance gaps and interventions that will empower employees to be able to achieve planned objectives. Reviewing staff performance at regular intervals will provide the Council and management with appropriate information on performance gaps or excellence.

By cascading performance measures from strategic to operational level, both the IDP and the SDBIP, forms the link to individual performance management. This ensures that performance management at the various levels relate to one another which is a requirement of the Municipal Planning and Performance Regulations and the MFMA. The MFMA specifically requires that the annual performance agreements of managers must be linked to the SDBIP of a municipality and the measurable performance objectives approved with the budget (circular 13 of the MFMA). The SDBIP in essence becomes the main operational tool to translate and manage the performance objectives as formulated in the IDP.

This process is illustrated by the diagram below and as described in circular 13.

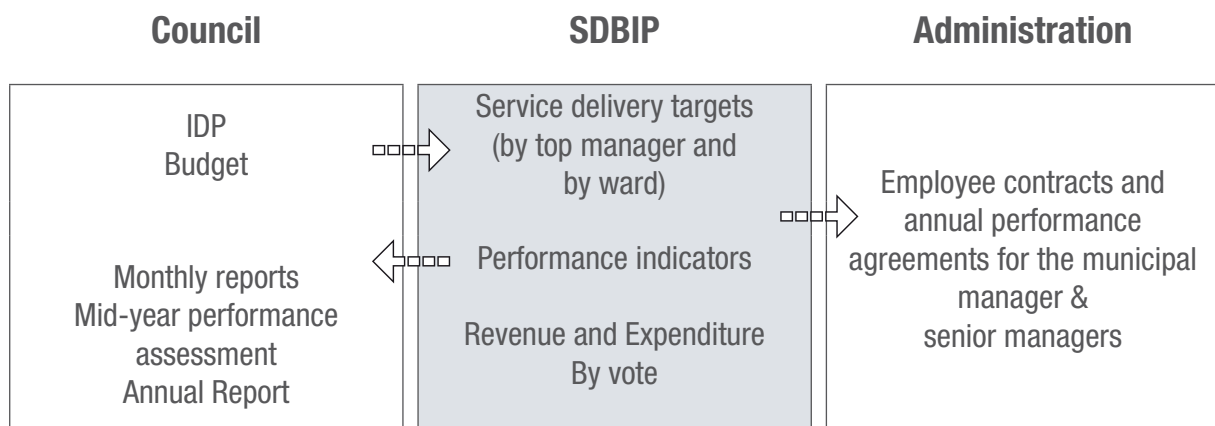


Figure I.4: SDBIP as a Management Tool