



**Performance Management Systems  
(PMS) Review  
2008/09**

**JULY 2008**

**Table of Contents**

**CHAPTER 1** BACKGROUND

**CHAPTER 2** PERFORMANCE MANAGEMENT POLICY

**CHAPTER 3** PERFORMANCE MANAGEMENT – A BUSINESS IMPERATIVE

**CHAPTER 4** PERFORMANCE MANAGEMENT SYSTEM REVIEW

**CHAPTER 5** ORGANISATIONAL PERFORMANCE MANAGEMENT SYSTEM (OPMS)

**CHAPTER 6** SECTION 57 MANAGERS – PERFORMANCE MANAGEMENT

**CHAPTER 7** EMPLOYEE PERFORMANCE APPRAISAL SYSTEM  
(EPAS) TO ACTION PLANS FOR MIDDLE MANAGEMENT

**CHAPTER 8** FINANCIAL AND PERFORMANCE MANAGEMENT  
AUDIT SYSTEM

**ANNEXURES:**

**'A'** Service Delivery and Budget Implementation Plan 2008/09

**'B'** Section 57 Managers Performance Templates

**'C'** Financial and Performance Audit Committee Charter

**ACRONYMS**

<b>AC</b>	<b>Audit Committee</b>
ADM	Amajuba District Municipality
<b>AFS</b>	<b>Annual Financial Statements</b>
AG	Auditor General
<b>AO</b>	<b>Accounting Officer</b>
AR	Annual Report
<b>IA</b>	<b>Internal Audit</b>
IDP	Integrated Development Plan
<b>EPAS</b>	<b>Employee Performance Appraisal System</b>
KPA	Key Performance Area
<b>KPI</b>	<b>Key Performance Indicator</b>
LED	Local Economic Development
<b>MFMA</b>	<b>Municipal Finance Management Act, 2003</b>
MPPMR	Municipal Planning Performance Regulations, 2001
<b>PMR</b>	<b>Performance Management Regulations 2006</b>
MSA	Municipal Systems Act, 2000
<b>OPMS</b>	<b>Organisational Performance Management Systems</b>
PMS	Performance Management Systems
<b>SALGA</b>	<b>South African Local Government Authorities</b>
SALGBC	South African Local Government Bargaining Council
<b>SDBIP</b>	<b>Service Delivery and Budget Implementation Plan</b>

**BACKGROUND**

Amajuba District Municipality initiated a process of institutionalising performance management system (PMS) in 2003. The system was initially developed by Van Zyl Ruud and Associates now Friday Management Solutions (FMS) in 2002/2003 financial year. In its adoption some of the PMS elements, as outlined in Chapter 2 of this review, were not implemented. In 2004 the municipality appointed the performance management consultant, A Cubed Institute, to undertake a review of PMS; to manage performance of Section 57 Managers and to implement elements which were never implemented.

Both documents (Friday Management and A-Cubed) were used as a source of preparing the 2007/08 review. The current review (review 2008/09) focuses extensively on how Amajuba District Municipality has institutionalised its performance management system in line with government legislations, policies and regulations and how the municipality plans to improve its system in the near future.

**1. LEGISLATIVE BACKGROUND**

South Africa in general, and Amajuba District Municipality in particular, continues to be subject to the legacy of underdevelopment, poverty, poor infrastructure, backlogs and inequitable access to basic services. To respond to these, government is implementing various mechanisms and measures to resolve this situation.

In the local government context, a comprehensive and elaborate system of monitoring the performance of municipalities has been legislated. The system is intended to continuously monitor the performance of municipalities in meeting the needs of their districts. Central to the system is the development of key performance indicators as measures to assess performance. The indicators help to translate complex socioeconomic development challenges into quantifiable and measurable outputs and are therefore crucial if a proper assessment is to be done of the impact of government on improvement in the quality of life of all.

The Municipal Planning and Performance Management Regulations (2001) stipulates 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, organised and managed, including determining the roles of the different role-players" (Chapter 3, Section 7, Municipal Planning and Performance Management Regulations, 2001).

## **1.1 Policies and Legislative Framework for Performance Management**

The framework for Performance Management is informed by the following policies and legislations on performance management:

- *The South African Constitution (1996)*
- *The Batho Pele White Paper (1998)*
- *The White Paper on Local Government (1998)*
- *The Municipal Systems Act (2000)*
- *Municipal Planning and Performance Management Regulations (2001)*
- *Municipal Finance Management Act (2003)*
- *Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers (2006)*
- *Integrated Development Plan – Amajuba District Municipality (2007/08; 2008/09)*

### **The Municipal Systems Act, No 32 of 2000, states that a municipality must:**

- *Develop a performance management system (PMS)*
- *Set targets, monitor and review performance based on indicators linked to their integrated development plan (IDP)*
- *Publish an annual report on performance for the councillors, staff, the public and other spheres of government*
- *Conduct an internal audit of performance before tabling the report*
- *Have their annual performance report audited by Auditor-General*
- *Involve the community in setting indicators and targets and reviewing municipal performance.*

### **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: -**

- *Complies with all the requirements set out in the Municipal Systems Act;*
- *Demonstrates how it is to operate and be managed from the planning stage up to the stages of performance review and reporting;*
- *Clarifies the roles and responsibilities of each role player, including the local community, in the functioning of the system;*
- *Clarifies the processes of implementing the system within the framework of the integrated development planning process;*
- *Determines the frequency of reporting and the lines of accountability for performance;*
- *Relates to the municipality's employee performance management processes.*

Furthermore, **Section 43 of the MPPR** prescribes the following seven general key performance indicators:

- *The percentage of households with access to basic level of water, sanitation, electricity and solid waste removal*
- *The percentage of households earning less than R1100 per month with access to free basic services*
- *The percentage of the municipality's capital budget actually spent on capital projects in terms of the IDP*
- *The number of local jobs created through the municipality's local economic development initiatives including capital projects*
- *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*
- *The percentage of a municipality's budget actually spent on implementing its workplace skills plan*
- *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 that of fulfilling 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 systems*
- *Create pressure for change at various levels*
- *Contribute to the overall development of a local government system.*

In terms of assessment of performance, the assessment of individual performance is specified in the legislation, and is also good business practice.

The **Municipal Systems Act of 2000, as amended in 2003**, makes provision for the terms and conditions of employment of Municipal Managers and those directly accountable to Municipal Managers. In particular, with regard to the requirements of this tender, the following clauses of Section 57 of the MSA are relevant:

*57. (1) A person to be appointed as the municipal manager of a municipality, and a person to be appointed as a manager directly accountable to the municipal manager, may be appointed to that position only*

*(a) in terms of a written employment contract with the municipality complying with the provisions of this section; and*

*(b) subject to a separate performance agreement concluded annually as provided for in subsection (2).*

Also relevant to this proposal is paragraph 4, which states:

- (4) The performance agreement referred to in subsection (1)(b) must include—*
- (a) performance objectives and targets that must be met, and the time frames within which those performance objectives and targets must be met;*
  - (b) standards and procedures for evaluating performance and intervals for evaluation; and*
  - (c) the consequences of substandard performance.*

And finally, paragraph 5 states the following:

- (5) The performance objectives and targets referred to in subsection (4)(a) must be practical, measurable and based on the key performance indicators set out from time to time in the municipality's integrated development plan.*

### **The Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Manager, 2006: -**

- *Seek to set out how the performance of municipal managers will be uniformly directed, monitored and improved*
- *Address both the Employment Contract of a municipal manager and managers directly accountable to municipal managers, as well as the Performance Agreement that is entered into between respective municipalities, municipal managers and managers directly accountable to municipal managers*

The KPAs for Municipal Managers and Managers directly accountable to the Municipal Manager are stipulated in the Regulations, 2006 as follows:

- *Basic Service Delivery*
- *Municipal Institutional Development and Transformation*
- *Local Economic development (LED)*
- *Municipal Financial Viability and Management*
- *Good Governance and Public Participation*

## **1.2 Performance Management in the Municipal Systems Act**

### **1.2.1 Implementing accountability**

The White Paper on Local Government identified performance management as one of local government's tools for the implementation of its developmental mandate in terms of the Constitution. Chapter 6 of the Local Government: Municipal Systems Act 32 of 2000 provides the legal framework for performance management and places it squarely within integrated development planning (IDP). The chapter came into operation on 01 July 2001. On that same day, the Municipal Performance Management Regulations (Notice 1430 of 2001), issued by the Minister for Provincial and Local Government, took effect.

### **1.2.2 Performance management principles**

A number of principles that should guide a municipality in developing and implementing a performance management system (PMS) are identified in the MSA and 2001 MPPR as follows:

- *The PMS should be embedded in the circumstances of the municipality; it must be commensurate with its resources, it must be suited to its circumstances and, most importantly, it must be in line with the priorities, objectives, indicators and targets contained in the IDP (s 38(a)).*
- *The municipality must promote a culture of performance management among its politicians and within its administration (s 38(b)).*
- *The municipality must administer its affairs in an economical, effective, efficient and accountable manner (s 38(c)).*
- *The PMS must be devised in such a way that it can serve as an early warning system for underperformance (s 41(2) and reg. 8(2)(e)).*
- *The PMS must link the performance of the municipality to the performance of employees (reg. 2(f)).*
- *The national Minister has set a number of general, compulsory key performance indicators (KPIs). Municipalities must include these, together with the other KPIs that may be applicable, in their PMS (s 43 of the MSA, read with reg. 5).*

### **1.2.3 Main role-players**

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

### **1.2.4 Adoption and review**

The adoption and review of PMS is somehow problematic as at present the above mentioned legislations do not clearly set timeframes in terms of adoption and review of the system.

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

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

### **1.2.5 General requirements in the MPPR**

The MPPR stipulate a number of general requirements:

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

### **1.2.6 Management and operation**

The municipality must demonstrate in the performance management system how it plans to operate and manage the system throughout the planning, performance review and reporting stages (reg. 2(b)). Important in the operation and management of the system are the roles and responsibilities of each role-player, including the municipal manager, council, council committees, executive mayor, executive committee and the community. Regulation 2 (c) instructs the municipality to define those roles. In terms of the operation and management of the PMS, the municipality must determine the frequency of reporting and the lines of accountability for performance (reg. 2(e)).

## **2. PHASES IN PERFORMANCE MANAGEMENT**

The five phases in the performance management system are as follows:

- Phase 1:** Key performance areas (from IDP);
- Phase 2:** Setting of key performance indicators;
- Phase 3:** Target setting;
- Phase 4:** Monitoring and measurement; and
- Phase 5:** Reporting.

### **Phase 1: Key performance areas**

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

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

### **Phase 2: Setting of key performance indicators**

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

The municipality must ensure that it has KPIs for all its administrative units and employees and for every municipal entity and service provider with whom the municipality has entered into a service delivery agreement (reg. 4(3)(b)). If the municipality amends its IDP, the KPIs must be reviewed within a month of the adoption of the amendment (reg. 6(1)).

### ***Compulsory key performance indicators***

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

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

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

Each year, the national Minister must compile a report on the performance of municipalities on these general KPIs (s 48). This report will be published in the Government Gazette. Seeing the difficulty of reporting on the above-mentioned set of indicators, the national Minister is at present in process of institutionalising a new set of indicators. These will be gazetted and reported upon in 2009/10 or 2010/2011 financial year.

### ***Phase 3: Targets***

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

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

### ***Notification of KPIs and targets***

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

#### **Phase 4: Monitoring and measurement**

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

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

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

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

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

#### **Phase 5: Reporting**

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

#### **Annual report**

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

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

The report must be submitted to council within a month of receipt of the Auditor-General's

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

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

### **Audit committee**

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

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

### **Assessment**

Performance management is one of the great advantages of IDP. The objectives and strategies, identified in the IDP, provide the municipality with direction on how to improve performance. The performance management system will set targets and criteria to measure the municipality's performance on those objectives and strategies. This will be done with respect to both the development of the municipality and specific projects and departments. This enables the municipality to manage its affairs by objectives.

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

# PERFORMANCE MANAGEMENT POLICY

## 1. WHAT IS PERFORMANCE MANAGEMENT?

Performance management is an organisational process that links what individuals and teams do on a daily basis with the larger goals, values and cultural practices of Amajuba District Municipality and the needs of its community; it is a process for establishing a shared understanding about what is to be achieved and how it is to be achieved; it is an approach to managing people that, when done well, contributes to an enduring and healthy organisation.

This system seeks to facilitate the shift to a strategic approach to the management of performance and empowers managers and employees to see the performance as an integrated and dynamic, real-time feature of work life. It is not a separate stand-alone process. It must be integrated with the department of the municipality, and operational/business plans and municipal budgets.

## 2. POLICY STATEMENTS/GUIDELINES

### **Policy Statement 1: Amajuba District Municipality views Performance Management (PM) as an organisational process**

Performance management is an integral part of the Municipality's business process, and hinges on strong teamwork amongst management and employees in order to achieve the organisations goals.

### **Policy Statement 3: PM is viewed by Amajuba District Municipality as an approach AND a system to manage people and performance**

The focus of performance management in Amajuba District Municipality is on connecting people to one another, and to the municipality as a whole, its vision, mission, strategic objectives and values. The head of departments and middle managers are required to support people to work together to achieve shared vision and strategic objects.

### **Policy Statement 4: In Amajuba District Municipality, managers and employees will use the management of performance for the health, and long-term growth of the Municipality according to the strategies and objectives set, and agreed to, by the Council.**

### **Policy Statement 5: Competencies and standards drive the process of achieving performance, results and development**

Managers and employees are required to identify and define the competencies and standards to steer the work unit, teams, and individuals to produce superior performance, and foster a learning climate conducive to continuous development.

**Policy Statement 6: In Amajuba District Municipality judgment will be the most important factor in determining competence and performance ratings; mathematical calculations cannot be a substitute for the use of good judgement and common sense when it comes to performance assessments**

Managers and employees are directed to rely on a combination of subjective and objective interpretation of performance information to reach a rounded conclusion about performance and competence.

**Policy Statement 7: In Amajuba District Municipality clear, consistent, and visible involvement by EXCO and managers is mandatory for successful performance measurement and management.**

Senior leadership is directed to personally articulate/spread the word about the mission, vision, and goals to various levels within the Municipality, and are also involved in the dissemination of both performance expectations and results throughout the organisation.

**Policy Statement 8: Effective and open communication by all levels of management and employees is mandatory**

Internal communication is an inherent requirement for all employees and managers to ensure accomplishment of organisational goals.

**Policy Statement 9: Accountability for results must be clearly assigned and well understood by everyone**

Management and employees are required to proactively identify what it takes to determine success and make sure that all managers and employees understand what they are accountable for. Accountability is a key success factor.

**Policy Statement 10: Measures must be linked to performance planning and assessment for both teams and individuals**

Managers and employees are required to identify the correct measures by which performance and competence will be assessed. The municipality will have valid and reliable data for the selected measures.

**Policy Statement 11: Targets should be linked to appraisal and assessment discussions**

Targets that are linked to appraisal and assessment discussions are designed to make managers, teams, and employees at all levels accountable for their contributions to the

achievement of the overall strategy.

**Policy Statement 12: Results, and progress toward achieving outputs and results, will be openly shared/communicated with employees, customers, and stakeholders by EXCO and managers**

While sensitive information generally must be protected, performance measurement information will be openly and widely shared with managers and employees to the greatest extent practicable. Information about performance objectives and specific progress toward these objectives can be provided on an organisation's Intranet site, employee bulletin boards, and public notice boards.

**Policy Statement 13: Performance measurement results will be used to effect continuous performance change and improvement**

It is mandatory to use assessment results to build towards continuous performance improvement, and to set stretch goals for managers and employees.

*Note: There are certain significant aspects of using the results of performance measurement that should be kept in mind when deploying a performance management system. Performance measures should be used to assess strategic and 1-year goals and objectives; provide timely, relevant, and concise information for use by decision-makers at all levels to assess progress toward achieving predetermined goals.*

**Policy Statement 14: Managers are to be sufficiently well briefed and trained to take responsibility to implement a formal performance management system.**

Everyone involved in the management of the process needs to know:

- The purpose of performance management
- How all role players (EXCO, managers, employees, shop stewards and the community) will benefit from the process
- The performance management policies that guide the management of the process
- How each phase of the process works and the role they play in each phase (planning, managing, evaluating, compensating)
- How decisions about performance reviews and rewards will be made; how conflict and disagreements about ratings, and remuneration will be handled
- How flexible objectives and accountabilities will be?
- The performance and cultural values that the business seeks to conduct its affairs by (the what and how of performance)

**Policy Statement 15: Section 57 employees are mandated to sign a performance agreement within 30 days after the beginning of each financial year.**

### PERFORMANCE MANAGEMENT – A BUSINESS IMPERATIVE

It is no secret that one of the most difficult challenges facing leaders in organisations today, particularly in the public sector in South Africa, is what to do about performance management and appraisals. Study after study shows that both managers and non-managers are very dissatisfied with performance management and often view it as a necessary evil required to make defensible salary decisions.

The problems associated with performance management and appraisal, in most organisations, is consistent, chronic, and predictable. Employee objectives are not focused or aligned with business strategy. Performance information and feedback is not widely accessible or very helpful. There is little meaningful dialogue between people about performance and improvement. Both managers and employees dread the end-of-year “conversation” and managers often avoid giving an honest assessment, choosing the pain of another year of an under-performing employee over the pain of delivering a critical review. Employee cynicism abounds with the belief that, even if they do participate in the process, nothing will fundamentally change in their working lives. And the list goes on.

In a survey conducted among many employees about performance management and appraisal systems and processes, the conclusion was that employers are not tapping into the employee involvement that can be a powerful engine for productivity. As evidence, only 26% of the study respondents said that they are involved in the decisions that affect them. This data reflects a workforce that is not fully engaged in the task of the organisation.

What does engagement and disengagement mean in actual behaviour? Chris Argyris, writing in the Harvard Business Review (May 1998) in his article “*Empowerment: The Emperor’s New Clothes*” refers to two levels of employee commitment: external and internal.

**External commitment**, or contractual compliance, is the level of commitment displayed by employees when (1) they feel they have little control over their destinies and (2) they work in what Argyris calls a “command and control environment”. Externally committed employees operate at the level necessary to satisfy the demands of their leaders.

**Internal commitment** occurs where employees are committed to a particular project, person or programme. Internally committed employees operate at a level of engagement necessary to

provide individual rewards consistent with employee self-satisfaction. Of the two, it is the internally committed, self-satisfied or motivated employee who is most likely to make significant contributions to the success of the enterprise.

Recent research by the Gallup Organization solidly supports the above conclusion. Analysing data from a diverse organisational database, Gallup found that 60% of employees are “not engaged” in their work - that is, they report to work on a daily basis, but show a level of commitment consistent with what Argyris calls “external commitment”. These employees tend to report to work, but limit their contribution to the “what I have to do to get by” level.

Gallup found that only 24% of employees are “engaged” with their work to the level where they are likely to enjoy a measure of job satisfaction. Conversely, Gallup found that 16% of employees are “actively disengaged” which for Gallup means that they are disengaged to the degree that they are likely to interfere with the work of others, and undermine the achievement of individual and organisational goals and objectives.

If these findings are viewed in risk management terms, the risks to organisations of disengaged or partially engaged employees are significant in terms of lost productivity, potential disasters arising from slovenliness and negligence, high turnovers (and the consequent costs associated with staff replacement), etc.

### **Implications for Modernising Performance Management and Appraisal Processes**

Is this a call to eliminate performance appraisals? Definitely not. However, both the surveys mentioned above, and the Gallup study results, call for a re-examination of the employee appraisal process, particularly the negative outcomes of appraisal as discussed above. The data show that there is a lack of appreciation of the weaknesses of such programmes. There is also much room for improvement in how appraisals are done and a need to foster upward communication in organisations, and above all to take a hard look at management behaviour and practices that undermine the positive working relationship between managers and their direct reports.

It is reasonable to challenge the direction of the argument put forward in this discussion, if it suggests that performance management *per se* is the root cause of the poor statistics quoted here. It is not our purpose to suggest that performance management and appraisal should be abandoned as a management process. However, there is a broader issue that should be of concern to managers and human resources professionals alike—the impact on employee commitment to the organisation of any programme or process that functions at the expense of a strong working relationship between leader and direct report. Performance appraisal is merely one such process, implemented with the best of intentions. All too often, however, those responsible for the design and implementation of those processes are unaware of the

unanticipated negative outcomes, such as impact on employee commitment and motivation, which result.

Current research, and our direct experience, have shown that, through boosting bottom-up communication, most particularly between each employee and his/her manager and development of “supportive managerial behaviours”, an organisation can tap into huge reserves of employee good will, commitment and effort. We call this process *relationship-based management*.

Relationship-based management requires organisations to switch focus from the employee-employer relationship, to building the employee-supervisor relationship.

What is missing in most organisations is the recognition that each level of management is also a level of leadership. While the General Manager has the responsibility for ensuring that the vision is the “right” vision, and broadly and effectively communicating that vision, each manager in the enterprise, including front line supervisors, has a responsibility to lead as well as manage. Implicit in that responsibility is the communication of the vision, and the translation of the vision to actual managerial and employee behaviours.

The evidence strongly supports the view that employee productivity rises and falls with the quality of the relationships between the leader and the employee. In today’s business environment, the ability to increase worker productivity and commitment through supportive leadership and managerial behaviours is the key to organisational survival in the new millennium.

So the question becomes: can performance management be saved? Indeed, should it be saved? Yes, of course. But effective performance management in Amajuba District Municipality will require some investment and a lot of follow-through. Many of the causes of ineffective performance management have to do with its treatment as a task-based, transactional activity as opposed to a key business process that is integrated with other business processes and that must be managed, similar to strategic planning or new product development.

Good performance management is, in essence, good business management, and there are four elements to performance management that are helpful in thinking about it as a key business process - the four Ms:

- **Model:** The performance *model* of the company that is aligned with its business model. The performance model reflects the organisation’s distinct set of beliefs about how it will achieve performance levels that are superior to its competition. Research has shown that the best performing companies do not have the most elaborate systems for managing performance, but have a strong commitment to a distinct performance ethic and hold leaders accountable to its principles.

- **Messages:** Performance *messages* are the principles and guidelines that are repeatedly and consistently communicated to the organisation about the levels of performance that are required, why the organisation must achieve those levels, how that performance will be achieved, and the role of performance management as a key process.
- **Methods:** Performance *methods* reflect the roles, tasks, tools, technologies and activities used to carry out the performance management and appraisal process at the organisational, departmental, and individual levels.
- **Management:** Performance *management* reflects the rigor and discipline associated with the ongoing execution and management of performance management and appraisal as a business process (not just a series of transactions), including the ways in which the organisation reviews, assesses, and holds itself accountable for carrying out good performance management and appraisal practices.

In the end, performance management is a classic case of not being about design, but about intention and execution. With this in mind, five proven and integrated strategies for improving the impact of performance management should be considered:

- ***Invest heavily in the performance model, or ethic, of the organisation.*** Define the intent of performance management and appraisal and champion the cause relentlessly. Demonstrate that performance management is, in essence, good business management. Give managers and employees the training and tools to carry out, and participate fully in, the process, and then hold them accountable for its success.

At a major diversified organisation, performance management and appraisal is considered to be the number one most important responsibility of managers and part of the fabric of the culture - and this behaviour is role-modelled at the top of the organisation, beginning with the Managing Director in case of the company or Accounting Officer/Municipal Manager in case of the municipality.

- ***Explicitly connect individual and team goals to relevant strategic business objectives.*** This is less about cascading goals, and more about helping individuals and teams become more literate about the business and how their contributions can have an impact. It is about a combination of top-down and bottom-up goal setting that can remain fresh and meaningful even in the most dynamic environment.
- ***Integrate disciplined organisational performance management with individual performance management.*** Begin by ensuring that performance management is effective at the enterprise level with respect to goal setting, strategic business planning, measurement, and performance information sharing. Then focus on individual and departmental performance management and its linkage with the organisation.
- ***Create an environment that fosters great feedback.*** Help people learn how to seek, give, and receive feedback in constructive ways. Create a "culture of appraisal": i.e. a culture within the organisation where appraisal is not simply an annual event which is foreign to the company's management practices, but rather a "way of being" between managers and subordinates which entrenches practices such as monitoring, mutual support and empowerment. Hold managers

accountable for initiating performance conversations. Develop multiple sources of performance information that employees can access through user-friendly tools and technologies.

- ***Build close partnerships between managers and employees for performance improvement.*** Reinforce the concept of shared accountability for managing performance. Define the manager's role as a coach who provides tools, information, and direction as needed. Expect employees to drive the process and take ownership for their own performance. Use the performance management process as a key way to engage people in the business and as a mechanism for helping them understand how to impact business results.

Implementing one or more of these strategies is not easy. It takes courage, commitment and belief in performance management and appraisal as a key driver of business success. And it begins with leadership role-modelling the desired process and behaviours. It is with this introduction from a business perspective in mind that this system have been prepared.

## **PERFORMANCE MANAGEMENT SYSTEMS REVIEW**

### **1. WHY PERFORMANCE MANAGEMENT?**

*"You cannot manage what you cannot measure!*

*What gets measured gets done!*

*If you do not measure results, you cannot tell success from failure!*

*If you cannot reward success, you are probably rewarding failure!*

*If you cannot see success, you cannot learn from it!*

*If you cannot recognise failure, you cannot correct it!*

*If you can demonstrate results, you can win public support!"*

***Osborne L. Gaebler, 1992***

### **2. WHY PERFORMANCE MANAGEMENT SYSTEMS (PMS) REVIEW?**

The need to review the PMS arises from provisions in the 2000 MSA, the 2001 MPPR and the 2003 MFMA.

- *Section 40 of the Municipal Systems Act provides for the review of the Performance Management System.*
- *Section 11 and 13 of the Municipal Planning and Performance Management MPPR, 2001 deal with the review of the PMS.*

The review is also necessitated by the promulgation by the Minister of DPLG during August 2006 of the PMR for Municipal Managers and Managers directly accountable to the Municipal Manager. The PMR prescribe a new system in terms of performance monitoring, evaluation and reporting for Municipal Managers and Managers accountable to Municipal Manager.

This report indicates the review of the following PMS elements:

- ***PMS Framework*** - *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.*
- ***Customer Satisfaction Survey*** – *Links PMS to regular testing of customer views through customer satisfaction surveys. The review focuses on assisting the municipality to establish normative standards for such surveys in terms of survey content, cycles, data analysis and reporting.*
- ***Organizational Performance Management System*** – *Allows for the planning, monitoring, measurement and reporting on performance at the level of the organization. This is more than just a sum total of performance by individual departments of the municipality. It should assist the municipality to plan, monitor and measure its performance. The performance outcomes have to be linked to the mission, vision or goals of the municipality and the extent to which these are being achieved through such performance.*

- **Employee Performance Appraisal System (EPAS)** – EPAS was designed to include all staff members into a performance management environment but was never implemented at the level below Section 57 Managers. It was rejected by staff and SALGA advised that the SALGBC needed to approve the system before it could be implemented. The review will have to unlock these bottlenecks or establish a way to ensure service delivery at a level lower than that of the Section 57 Managers. The review will have to examine whether the Action Plans for the Middle Managers is a workable strategy.
- **Annual Performance Report** – This report is required in terms of Sec 46 of the MSA. The review should come up with a framework for this report and the linkages with other reports such as the Annual Report and the Annual Financial Statements. In 2007, DPLG proposed a format to be used for an municipal annual performance report.
- **Proposed IT Solution** – This will be informed by the PMS model that the municipality chooses to implement. At this stage the municipality utilises an Excel spreadsheet.
- **Performance Audit Committee** – The municipality has a well functional audit committee combining both financial and performance management audit functions. At this stage the review is required to identify and recommend capacity building programmes for the committee members to attain higher levels of PMS comprehension.
- **Internal Audit** – At this stage the municipality has outsourced this activity. The challenge is to have internal auditors that are skilled in term of performance auditing. The review is thus required to identify and recommend capacity building programmes for performance auditing.
- **Public Participation** – the review should analyse other public communication mechanisms and advise which would be appropriate for the communication of the PMS of the municipality. At this stage the municipality has put in place the Public Participation Policy, this policy needs to be effectively implemented.

### **3. REVISED KEY PERFORMANCE AREAS (KPA'S)**

#### **3.1 Alignment of the IDP to PMS KPAs**

The 2008/9 IDP has been aligned with the Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to the Municipal Managers (2006). Section 26 (6) of these regulations outlines five Key Performance Areas (KPAs) for Municipal Managers and Managers directly accountable to the Municipal Manager, these are as follows:

- *Basic Service Delivery;*
- *Municipal Institutional Development and Transformation;*
- *Local Economic Development;*
- *Municipal Financial Viability and Management; and*
- *Good Governance and Public Participation*

The KPA's of the IDP have been amended accordingly.

**LINKAGES OF THE IDP TO THE LOCAL GOVERNMENT: MUNICIPAL PERFORMANCE REGULATIONS FOR MUNICIPAL MANAGERS AND MANAGERS DIRECTLY ACCOUNTABLE TO THE MUNICIPAL MANAGERS (2006)**

Key Performance Areas (KPAs)	IDP
<b>Basic Service Delivery</b>	Integrated Service Delivery; Economic Development; Social Facilitation; Institutional and Governance;
<b>Municipal Institutional Development and Transformation</b>	Institutional and Governance; Economic Development
<b>Local Economic Development (LED)</b>	Economic Development; Integrated Service Delivery
<b>Municipal Financial Viability and Management</b>	Institutional and Governance
<b>Good Governance and Public Participation</b>	Institutional and Governance; Social Facilitation; Environmental Management; Municipal Planning

### 3.2 Development Strategies

The development strategies for the DM have also been reviewed during this round of the IDP in line with the Vision and Mission of the new Council.

KPA	SUB-KPA	STRATEGIC OBJECTIVE	SPECIFIC STRATEGY
Basic Service Delivery	Integrated Service Delivery	To ensure access to free basic water and expansion of water service delivery to all consumers by 2009	The development of O&M plans for all physical infrastructure
			The balancing of affordability with levels of service delivery.
			Review of the WSDP and its alignment with DWAF's Internal Strategic Perspective
			Linking potable water supply plan (WSDP) with economic development initiatives
			The provision of rudimentary water services
			Aligning water asset management with operation and maintenance requirements
		Attract additional investment in the expansion of water networks	
		To ensure access to free basic sanitation delivery to all consumers by 2011-2012	Attract additional investment in the expansion of access to free basic sanitation
To ensure water balance between household, commercial and agricultural water demand by 2009	Linking water supply plan (WSDP) with economic development initiatives		
To ensure sustainable	Review of Waste Management Plan		

<b>KPA</b>	<b>SUB-KPA</b>	<b>STRATEGIC OBJECTIVE</b>	<b>SPECIFIC STRATEGY</b>
		waste management in the district	Promoting environmental friendly methods of waste disposal in areas outside the urban areas
		To ensure implementation of the electricity supply development plan for the district in line national targets	Facilitate additional investment for the extension of grid and non-grid system to areas that are currently not serviced
			Explore future involvement in the generation of electricity
		To ensure greater accessibility for communities in the District.	Ensure greater accessibility for rural communities.
	Economic Development	To ensure 4% economic growth per annum by 2011; To ensure 15% reduction in unemployment by 2011 To ensure diversification and beneficiation in the economy by 2011	Implement Infrastructure Investment Plan
			Employment of labour intensive methods
	Social Facilitation	To contribute towards the achievement of universal access to social services by 2011	Support local municipalities in implementing the cemetery plan
		To contribute towards the facilitation of universal access to sport facilities for all sport codes by 2011	Facilitate the promotion of scarce sport codes in identified areas
		To contribute towards the facilitation of universal access to sport facilities for all sport codes by 2011	Implementation of sports facilities
	Institutional and Governance	To ensure progressive compliance with institutional and governance requirements by 2007/2008	Undertake developmental business planning and streamline business processes to meet council and community needs
Municipal Institutional Development and Transformation	Institutional and Governance	To ensure progressive compliance with institutional and governance requirements by 2007/2008	Review the organisational structure and policies of the municipality in line with the strategic & operational requirements
			Address skills, capacity building and change management issues that affect development and functioning of the municipality

<b>KPA</b>	<b>SUB-KPA</b>	<b>STRATEGIC OBJECTIVE</b>	<b>SPECIFIC STRATEGY</b>
			Undertake developmental business planning and streamline business processes to meet council and community needs
			Ensure that the IT requirements of ADM are met
		To ensure ongoing implementation and review of the PMS	Measure the performance of senior managers
			Develop Action Plans for middle management level
	Economic Development	To ensure 4% economic growth per annum by 2011 To ensure 15% reduction in unemployment by 2011 To ensure diversification and beneficiation in the economy by 2011	Skills Analysis & Development
			Targeted Employment
Local Economic Development (LED)	Economic Development	To ensure 4% economic growth per annum by 2011 To ensure 15% reduction in unemployment by 2011 To ensure diversification and beneficiation in the economy by 2011	Implementation of the Tourism Sector Plan
			Implementation of the Signage Development Plan
			Implementation of the Battlefields Development Plan
			Implementation of the Agricultural Sector Plan
			Revitalisation of the formal Mining Sector
			Implementation of the Manufacturing Sector Plan
			Targeted Employment
			Business support (facilitate markets & capacity) for SMMEs & Co-operatives
	Facilitate Targeted Investment		
	To ensure ongoing partnership development and coordination among various stakeholders	Retain and develop institutional arrangements for economic development in the district	
Municipal Financial Viability and Management	Institutional and Governance	To ensure progressive compliance with institutional and governance requirements by 2007/2008	Prepare and implement an Service Delivery and Budget Implementation Plan (SDBIP)
			Ensure the municipality has adequate financial resources to meet the annual performance objectives of the District
			Full compliance with Chapter 11 of the MFMA (SCM)

KPA	SUB-KPA	STRATEGIC OBJECTIVE	SPECIFIC STRATEGY
			<p>Develop and implement a policy on targeted procurement</p> <p>Compliance with Generally Recognised Accounting Practice (GRAP) requirements</p> <p>Ensure effective management of the municipality and its functionaries</p> <p>Ensure preparation and timeous submission of statutory reports</p>
		Source alternative funding for appropriate projects	To actively source and secure alternative funding for IDP projects
		Ensure the municipality has adequate financial resources & controls to meet the annual performance objectives of the district	<p>Compile the annual financial plan of the municipality</p> <p>Monitor &amp; control implementation of the annual financial plan through the SDBIP</p> <p>Manage the organisation within the budgetary and policy frameworks of the municipality</p>
Good Governance and Public Participation	Institutional and Governance	To ensure progressive compliance with institutional and governance requirements by 2007/2008	<p>Undertake developmental business planning and streamline business processes to meet council and community needs</p> <p>Ensure that governance and statutory requirements are met in joint operations with municipal entities</p> <p>Ensure preparation and timeous submission of statutory reports</p> <p>Maintain good co-operation and understanding between and amongst councillors, staff and customers</p>
		Maintain ongoing intergovernmental relations among the three spheres of government	Establish and maintain forums that meet regularly in order to ensure sound relations between the ADM and local councils, service providers and other government and non-government organisations
		Encourage & promote ongoing public participation in the affairs of the district municipality	Develop and implement a public participation policy for the district municipality
		To ensure ongoing implementation and review of the Performance Management System	<p>Measure customer satisfaction regularly</p> <p>Measure the performance of the municipality</p> <p>Measure the performance of senior</p>

KPA	SUB-KPA	STRATEGIC OBJECTIVE	SPECIFIC STRATEGY
			managers
	Social Facilitation	To ensure sufficient capacity to prevent/reduce the risk of disasters, mitigate, manage, respond to disasters and facilitate post recovery activities	Implement and maintain an effective Disaster Management Plan and Framework
			Maintain a fully functioning District Disaster Management Centre
		To ensure poverty alleviation/reduction (national targets)	Implementation of the poverty alleviation programme and vertical alignment
		To contribute towards the achievement of universal access to social services by 2011	Improve the accessibility of social services through the concentration of service provision at central points and the utilisation of existing facilities (i.e. Multi-purpose centres)
			Facilitate arts and culture activities in the Amajuba District
			Facilitate the implementation of the HIV & AIDS plan
			Facilitate access of social services to all communities.
		To contribute towards the facilitation of universal access to sport facilities for all sport codes by 2011	Facilitate the promotion of scarce sport codes in identified areas
		To contribute towards facilitation of access to skills development, economic empowerment, human rights for vulnerable groups	Facilitate programmes that promote the rights of women, children and the disabled
			Facilitate programmes that promote the welfare of the elderly
	Facilitate youth empowerment programmes		
	Integrated Service Delivery	To ensure water balance between household, commercial and agricultural water demand by 2009	Alignment with national water resource strategies
		To ensure sustainable waste management in the district	Regular monitoring of environmental health hazards associated with waste disposal sites Promoting environmental friendly methods of waste disposal in areas outside the urban areas
	Environmental Management	To ensure sustainable human settlement in the district by 2011.	Completion of the DM's Integrated Environmental Programme in line with IDP requirements
			Conserve areas of environmental, conservation and tourism

KPA	SUB-KPA	STRATEGIC OBJECTIVE	SPECIFIC STRATEGY
			significance
			Facilitate programmes for soil rehabilitation in areas of high erosion
			Facilitation programmes for the eradicate alien vegetation
			Address the pollution of water catchments by mining and industrial activity
	Municipal Planning	To facilitate and plan for ongoing sustainable human settlement and economic development in the district	Provide guidance that ensures integrated service delivery in the District
			Develop shared service systems to provide co-ordinated service delivery
			Prepare, monitor implementation and review the IDP
			Support local municipalities in the facilitation of the provision of housing
			Support the facilitation of integrated planning and implementation of land reform projects in the District
			Implementation of the Public Transport Plan
			Reconstitution and continuation of the Passenger Transport Forum
	Public Relations	To ensure good public relations as well as effective events management and marketing for the municipality	Facilitate municipal events
			Ensure good relations with the press
			Corporate Image and marketing.

#### 4. MUNICIPAL VISION, MISSION AND VALUES

The Executive Committee of ADM reviewed the District's Vision and Mission and identified core values for the municipality as summarised below:

##### i) Vision

Amajuba will be a fully developed district, with a vibrant and sustainable economy, a better quality of life, preserved within its own cultural and traditional values.

##### ii) Mission

The ADM will through good governance and management, strive to achieve its vision, within the

legal framework by:

- *Promoting shared and integrated service delivery*
- *Creating an enabling environment for economic development*
- *Increasing opportunities for previously disadvantaged communities*
- *Providing and maintaining integrated, affordable, equitable and sustainable services*
- *Facilitating access to land and social services*
- *Promoting development of a safe and healthy environment, and*
- *Effective planning of infrastructure and technical services*

### **iii) Values**

The following values to be followed by the organisation were identified:

- **Accountability:** *We will discharge our responsibilities with the appreciation that we are public servants and will hold ourselves accountable to them.*
- **Transparency:** *We will make the necessary information available to our stake holders.*
- **Democracy:** *We will consult our stakeholders as prescribed.*
- **Developmental Approach:** *We will seek, develop and implement solutions that will contribute to the development of our society.*

# ORGANISATIONAL PERFORMANCE MANAGEMENT SYSTEM

## 1. BENEFITS OF AN ORGANISATIONAL PMS

- *Provides appropriate management information for informed decision-making.*
- *Manages expectations and ensuring increased accountability between the role-players within and external to the municipality.*
- *Provides early warning signals .*
- *Identifies major or systematic blockages and guides future planning.*
- *Encourages the direction of resources*
- *Checking that the delivery is happening as planned.*
- *Promotes the efficient utilization of resources.*
- *Promotes the delivery of the envisaged quality of service.*
- *Assists municipalities in making timeous and appropriate adjustments in the delivery and management of resources.*
- *Identifies capacity gaps in both human and non-human resources, assists in determining right-sizing requirements.*
- *Identifies communities and areas that lag behind others in terms of development and thus assists in spatial and sectoral integration.*
- *Assists municipalities in their "developmental" role/focus.*

## 2. ORGANISATIONAL PERFORMANCE REPORTS

The municipality prepares organisational performance report on a quarterly basis. This report is closely aligned PMS to the IDP and Budget in order to ascertain that developments are related to the strategies and objectives of the IDP and are within the allocated budget. These reports are informed by the SDBIP.

The report covers the following areas:

- Key performance areas – each project has been linked to the district municipality's KPA from which the departmental KPA is established and in turn KPIs are formed.
- Budget, time frame/frequency - linked to each project is a budget, frequency or timeline
- Actual expenditure – which indicates the total amount spent thus far for the project
- Actual % progress – which indicates the actual implementation of the project independent of the actual expenditure on each project

During the quarterly performance assessment of the Section 57 Managers (as described in the next chapter), each Section 57 Manager is expected to provide further explanations on every project being conducted by the department. Matters pertaining to underperformance and/or bottlenecks are addressed during these assessments. In cases where for instance, a project

cannot meet its target date due to lack of resources; the Municipal Manager, Portfolio Councillor and/or Executive Committee may intervene. There are also site visits that are conducted on a regular basis to evaluate the successful implementation of the project. This is a responsibility of an official facilitating the project, the Municipal Manger, Portfolio Councillor and/or Executive Committee.

The quarterly reports build up to a consolidated financial year end organisation performance report. The financial year end organisational report is part of that financial year annual performance report.

### **3. CUSTOMER SATISFACTION SURVEY**

A critical element of performance management systems is the survey of perceptions of customers (the community) serviced by the municipality.

Chapter 6, section 42 of the MSA 2000 stipulates that "*a municipality must in terms of Chapter 4 of the said act, involve the local community in the development; implementation and review of the municipality's performance management system and, in particular, allow the community to participate in the setting of appropriate key performance indicators and performance targets for the municipality*". Chapter 4, Section 16 (1) of the said act highlights the significance of developing a culture of community participation in the municipal affairs.

Some of the benefits of the survey are as follows:

- *It would assist the municipality in determining the level of community satisfaction with services delivered by the District Municipality.*
- *It would assist the municipality to identify or confirm gaps in service delivery.*
- *It is also one of the tools that assist decision making in relation to forward planning.*

The questionnaire of the survey is divided into 7 sections as follows:

- *Section A: Looks at the situation of the household. This section will give us information in terms of poverty levels in the district*
- *Section B: Focuses on the services and programmes provided by Amajuba DM either on its own or in partnership with other role players*
- *Section C: Illustrates the perception of households on their interaction with government departments which in their own right provide services or programmes to communities*
- *Section D: Illustrates how households perceive the departments of Amajuba DM*
- *Section E: Provides households perceptions about the 3 local municipalities in our district as well as about the district entity which is a WSA*
- *Section F: Deals with issues of involvement of households in public participation meetings and whether information communicated via different media does reach them*
- *Section G: Allows interviewee to give general comments*

The municipality intends to conduct this kind of survey on an annually basis. In the 2006/07

financial year, the Amajuba District Municipality conducted the first customer satisfaction survey, within its local municipalities, which aimed at assessing the level of community satisfaction. The study was conducted during the IDP, PMS and Budget road shows. In 2007/2008, the municipality again conducted the survey. Findings received will be compared to the 2006/07 findings and comprehensive analysis is said to be performed.

#### 4. ANNUAL REPORT

The Municipal Finance Management Act requires all municipalities to compile an annual report which must amongst others include a municipality's performance report compiled in terms of section 46 of the MSA. The annual report timeline and process plan as guided by the relevant legislations are as stated in the tables below.

##### 4.1 Annual Report Timeline

Milestone	Due by:	MFMA
AO to submit AFS to AG	31 August	Sect 126(1)(a)
AG to return audit report	30 November	Sect 126(4)
Mayor to table quarterly reports	<30 days after end of quarter	Sect 52(d)
Mayor to table AR to council	31 January	Sect 127(2)
Council to consider & adopt oversight report	31 March	Sect 129(1)
AO to publicise report	7 April	Sect 129(3)
AO to submit copy to Provincial Legislature (MEC LG)	7 April	Sect 132(2)

##### 4.2 Annual Report Process Plan

MONTH	ACTIVITIES	
July	4th Quarterly Report (Previous Year)	
August	MAPR & AFS to AG	
<b>September</b>		
October	1st Quarterly Report	
November	AG Audit Report	
<b>December</b>		
January	Mayor AR to Council	2nd Quarterly Report
February		
<b>March</b>	Oversight Report	
April	Publicise AR Submit AR to Provincial Legislature	3rd Quarterly Report
May		
<b>June</b>		

As a low capacity municipality, Amajuba district municipality became obligated to produce an

annual report for 2006/07 financial year.

### **4.3 2006/07 Annual Report (AR)**

As guided by the Municipal Finance Management Act and Municipal Systems Act, the 2006/07 draft annual report was submitted to Council on its meeting held on 28 January 2008. On adoption of the draft annual report by Council, it was resolved that the draft annual report be publicised for community comments.

The community within the Amajuba District jurisdiction was advised regarding the availability of the 2006/07 Annual Report through print media and radio broadcasting. The report was advertised for 21 days. The closing date for submission of comments was 29 February 2008. Comments were only received from Auditor General on financial statements and performance information of the municipality. No comments were received from the community.

Both the oversight report and an annual report were submitted to Council on 10 April 2008, for Council to fully consider and approve the annual report without reservations.

### **4.4 2008/09 Annual Report**

As required by Section 46 of the MSA in conjunction with Chapter 12 of the MFMA, the annual municipal performance report (AMPR) will be submitted together with the annual financial statement (AFS) to auditor general end of August. The municipality will fully comply with the prescribed format of AMPR reporting once a backlog study for 2008/09 and 2009/10 has been conducted.

The Mayor will table the draft AR to Council by the 31 January as indicated in section 127(2) of the MFMA. AR will be advertised at least 21 days for public comments. AG's comments and public comments will be considered and incorporated in an oversight report. Council will then fully consider and annual report and adopt the oversight report.

It is anticipated that by mid-April, an AR will then be publicised and copies to be distributed to relevant stakeholders.

### SECTION 57 MANAGERS – PERFORMANCE MANAGEMENT

#### 1. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN

The MFMA also requires all municipalities to annually adopt a service delivery and budget implementation plan (SDBIP) with service delivery targets and performance indicators. The Municipal Planning and Performance MPPR stipulates that a municipality must set key performance indicators (KPIs), for each financial year set performance targets, measure and report on the prescribed KPIs as part of its internal audit process audit the results of performance measurement, annually appoint a performance audit committee.

This section presents the findings of discussions, meetings and workshops conducted in the formulation of the Service delivery and Budget Implementation Plan (SDBIP) for 2008/09 financial year (*attached as annexure A*). The SDBIP is utilised as the base in the formulation of the Section 57 Managers KPIs. This SDBIP is assessed on a quarterly basis.

#### 1.1 Defining the KPAs

The KPA's are the main tasks areas to be executed by the municipality. The KPA's should together cover all key aspects of service delivery in the municipality which then combine to achieve the vision, mission and strategic objectives of the municipality. There are five national KPAs which inform the municipal KPAs which in turn inform the departmental KPAs. The departmental KPAs inform the KPIs of the Section 57 Managers. Typically these are the areas in which the employee is accountable for the achievement of objectives and will, as far as possible, be quantifiable as targets, projects, etc. The description of each main task will typically start with an active verb of purpose such as prepare, produce, plan, schedule, test, supervise, maintain, monitor, ensure, etc. It might look something like: To [do something] in order to achieve a [stated result or standard]. The Key Performance Indicators are the measures against which the success of the KPAs are indicated. The Performance Targets are the specific targets associated with the KPAs.

Good work or operational KPAs are:

- consistent: with the values of the organisation and departmental organisational objectives;
- precise: clear and well-defined, using positive words;
- challenging: to stimulate high standards of performance and to encourage progress;
- measurable: they can be related to quantified or qualitative performance measures;

- achievable: within the capabilities of the individual — account should be taken of any constraints which might affect the individual's capacity to achieve the objectives; these could include lack of resources (money, time, equipment, support from the manager or team leader or other people), lack of experience or training, external factors beyond the individual's control etc;
- agreed: by the manager and the individual concerned — the aim is to provide for the ownership, not the imposition, of objectives, although there may be situations where individuals have to be persuaded to accept a higher standard than they believe themselves to be capable of attaining;
- time-related: achievable within a defined time scale (this would not be applicable to a standing objective);
- teamwork oriented: emphasise teamwork as well as individual achievement.

## 1.2 What are objectives?

Objectives need to be clear, concise and measurable

- It is useful to have a timeframe attached to objectives
- Objectives should be outcome and impact focused
- Objectives should indicate the scope and nature of desired change

These requirements can be summed up by the acronym SMART to define a good objective:

- **Specific**: clear about what, where, when, and how the situation will be changed;
- **Measurable**: able to quantify the targets and benefits;
- **Achievable**: able to attain the objectives (*knowing the resources and capacities at the disposal of the community*);
- **Realistic**: able to obtain the level of change reflected in the objective; **and**
- **Time-bound**: stating the time period in which they will each be accomplished.

## 2. PERFORMANCE MEASUREMENT

### 2.1 What is performance measurement?

- Performance measurement is the use of indicators to show how the organisation is performing on its objectives
- It means setting clear objectives and indicators and gathering information to use these indicators to see how well the municipality is doing
- Review of performance against targets happens regularly
- Refines the Key Performance Areas (KPA's) of the Municipality to assist with monitoring and evaluation of KPA's

Measurement is a key aspect of performance appraisal on the grounds that *'if you can't measure it you can't improve it'*. It is pointless to define objectives or performance standards unless there is agreement and understanding on how performance in achieving these objectives or standards will be measured.

Performance measures should provide evidence of whether or not the intended result has been

achieved and the extent to which the job holder has produced that result. This will be the basis for generating feedback information for use not only by managers but also by individuals to monitor their own performance.

The focus and content of performance measures will, of course, vary considerably between different occupation and levels of management. Performance measures will work only if they are derived from clear main task definitions which focus on end results and suggest measurement. The definitions can indicate the measure to be used.

It is important to agree performance measures at the same time as objectives are defined. This is the only way in which a fair assessment of progress and achievements can be made and the successful definition of performance measures will provide the best basis for feedback.

The following are guidelines for defining performance measures:

- Measures should relate to results, not efforts.
- The results must be within the job holder's control.
- Measures should be objective and observable.
- Data must be available for measurement.
- Existing measures should be used or adapted wherever possible.

## **2.2 What are indicators?**

- Indicators are measures that tell us whether progress is being made in achieving our objectives
- Quantitative and qualitative: An indicator is a statement with a quantitative value (number, percentage, ratio) that allows progress to be quantified and a qualitative factor that allows for factual analyses
- Indicators are important because they:
  - enable the review of objectives
  - provide a common framework for measuring and reporting
  - translate complex concepts into simple operational measurement variables
  - help to provide feedback to organisation and staff
  - help when comparing the municipality's performance to that of others

### **2.2.1 Criteria for good indicators**

A good indicator must be:

- Measurable: easy to calculate from data that can be generated speedily, easily & at reasonable cost
- Specific: measure only those dimensions that the municipality intends to measure
- Relevant: measure those dimensions that enable measurement of progress on its objectives
- Simple: avoid combining too much in one indicator and avoid ambiguity
- Reliable: degree to which repeated measures under exactly the same conditions will produce the same results
- Minimises perverse consequences: do not alter actions in an unintended manner

### 2.2.2 Type of indicators

- **Input indicators:** These are typically related to costs or inputs in terms of human resources. It measures what inputs have been made towards achieving an objective
- **Process indicators:** These indicators describe process issues around an objective. They cover the activities and operations that convert inputs into outputs
- **Output indicators:** These refer to the 'products' produced by processing inputs for example the number of houses built or the number of electricity connections made
- **Outcome indicators:** These measure the extent to which strategic goals or outcomes are being met. Outcomes are usually based on the results of different variables acting together

### 2.2.3 Section 43 of the MPPR of 2001 prescribes 7 national KPIs:

1. Percentage of households with access to water, sanitation, electricity and solid waste removal.
2. Percentage of households earning < R 1100 per month with access to free basic services.
3. Percentage of Municipal Capital Budget spent on capital projects in terms of the IDP.
4. Number of local jobs created through Municipalities LED activities.
5. Employment Equity in the three highest levels of management.
6. Percentage of Municipal budget spent on implementing Workplace Skills plan.
7. Financial viability with respect to debt coverage.

### 2.2.4 Baseline Measurements

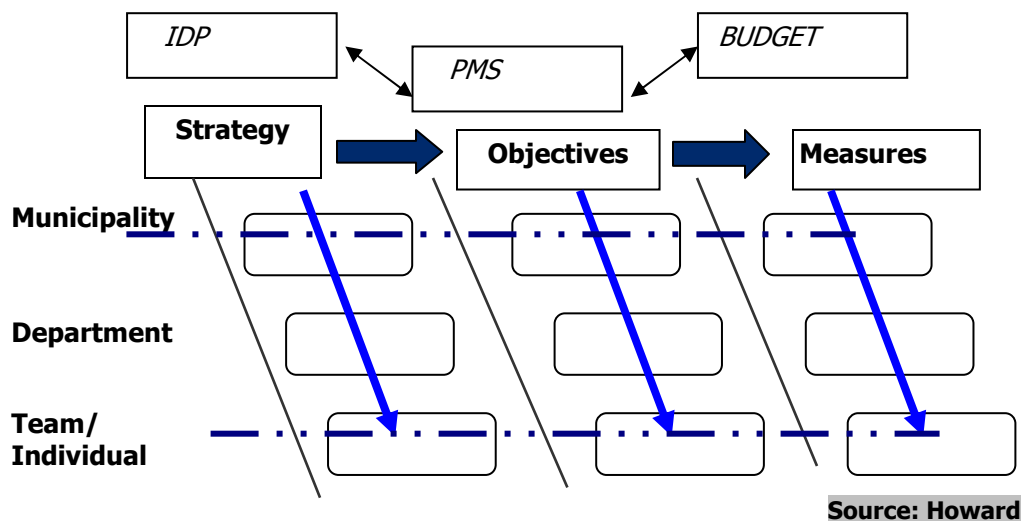
"Where am I starting from?"

- Baseline measurements measure the status quo before a project or programme is implemented
- Baseline measurements should precede finalisation of targets

## 3. TOP-DOWN APPROACH OF PERFORMANCE MANAGEMENT

The diagram below illustrates the flow of performance management. The process is initiated by the municipal vision, mission, objectives and KPAs, these inform departmental KPAs which are the KPAs of the section 57 Manager (**performance templates attached as annexure B**), this then goes down to the action plans of the middle managers.

The performance of each individual will impact on the performance of the division in which the individual is located. The performance of each of the divisions will impact on the overall performance of the organisation.



#### 4. THE CURRENT PERFORMANCE APPRAISAL PROCESS

As stipulated in the MPR 2006, Amajuba DM has established an evaluation panel to assess the Section 57 Managers. The **performance appraisal** is designed substantially to measure all of the elements of the performance agreement.

The Executive Committee on its meeting held on 16 November 2006 resolved that the evaluation panel be set up as follows:

- **THAT** a panel for the evaluation of the performance of the **Municipal Manager** comprising the Mayor, Deputy Mayor , Chairperson of the Audit Committee, Mayor of Newcastle Local Municipality is established.
- **THAT** a panel to evaluate the performance of **Director Corporate Services** comprising the Municipal Manager, Portfolio Councillor, Chairperson of the Audit Committee or representative and Municipal Manager of Utrecht Local Municipality is established.
- **THAT** a panel to evaluate the performance of **Director Community Services** comprising the Municipal Manager , Portfolio Councillor, Chairperson Audit Committee or representative and Municipal Manager Utrecht Local Municipality is established.
- **THAT** a panel to evaluate the performance of the **Chief Financial Officer** Services comprising the Municipal Manager, Portfolio Councillor, Chairperson of the Audit Committee or representative and Municipal Manager of Newcastle Local Municipality is established.
- **THAT** a panel to evaluate the performance of the **Manager Strategic Support** comprising the Municipal Manager, Portfolio Councillor, Chairperson of the Audit Committee or representative and Municipal Manager of Dannhauser Local Municipality is established.
- **THAT** a panel to evaluate the performance of the **Director Engineering Services** comprising the Municipal Manager, Portfolio Councillor, Chairperson of the Audit Committee or representative and Municipal Manager of Newcastle Local Municipality is established.

- **THAT** a panel to evaluate the performance of the **Director Planning & Development Services** comprising the Municipal Manager, Portfolio Councillor, Chairperson of the Audit Committee or representative and Municipal Manager of Dannhauser Local Municipality is established.
- **THAT** it be noted that the District Municipality panels cannot include a ward committee member as it would be impractical to choose such ward committee members.
- **THAT** the chairperson of the panel should with the assistance of the secretariat and Manager Strategic Support or PMS Officer compile evaluation reports and table such reports to the relevant authority, namely, Executive Committee or Council as the case may be.
- **THAT** the Mayor or the Municipal Manager of Amajuba District Municipality, as the case may be is the chairperson of each evaluation panel.

The assessments are done on a quarterly basis as per 2006 Regulation's guidelines. Each KPA has an indicative rating of not more than 5-points. The table below illustrates the definition of the each of the 'indicative rating'.

Term	Description	Rating
<b>Level 5:</b> Outstanding performance	Performance far exceeds the standard expected of a member at this level. The appraisal indicates that the jobholder has achieved exceptional results against all performance criteria and indicators and maintained this in all areas of responsibility throughout the year.	<b>5</b>
<b>Level 4:</b> Performance significantly above expectations	Performance is significantly higher than the standard expected in the job. The appraisal indicates that the member has achieved better than fully effective results against more than half of the performance criteria and indicators and fully achieved all others throughout the year.	<b>4</b>
<b>Level 3:</b> Fully effective	Performance fully meets the standard expected in all areas of the job. The appraisal indicates that the member has achieved effective results against all significant performance criteria and indicators and may have achieved results significantly above expectations in one or two less significant areas throughout the year.	<b>3</b>
<b>Level 2:</b> Performance not fully satisfactory	Performance is below the standard required for the job in key areas. The appraisal indicates that the member has achieved adequate results against some indicators but has not fully achieved adequate results against others during the course of the year. Improvement in these areas is necessary to bring performance up to the level expected in the job despite management efforts to encourage improvement.	<b>2</b>
<b>Level 1:</b> Unacceptable performance	Performance does not meet the standard expected for the job. The appraisal indicates that the member has not met one or more fundamental requirements and/or is achieving results that are well below the performance criteria and indicators in a number of significant areas of responsibility. The member has failed to demonstrate the commitment or ability to bring performance up to the level expected in the job despite management efforts to encourage improvement.	<b>1</b>

## FOR THE KPAs

- For each KPA, fill in the weighting that you have allocated to it. Ensure that the weighting adds up to 100.
- The Manager then rates each KPA according to the extent to which performance has met the criteria specified in the standards and indicators. Use the five point scale described in the guidelines.
- The MM then rates each KPA according to the extent to which performance has met the criteria specified in the standards and indicators. Use the five point scale described in the guidelines.
- Calculate the Managers and the MMs final scores for each KPA by multiplying the weighting by the rating.

<b>Key Performance Areas (80% of Total)</b>	<b>Weighting</b>
Basic Service Delivery	
Municipal Institutional Development and Transformation	
Local Economic Development	
Municipal Financial Viability and Management	
Good Governance and Public Participation	
<b>Total</b>	<b>100%</b>

## FOR THE CORE COMPETENCY

- For each relevant Core Competency fill in the weighting that you have allocated to it. Ensure that the weighting adds up to 100. Note that there are certain CC's that are compulsory for employees with managerial responsibilities.
- The Manager then rates each CC according to the extent to which performance has met the criteria specified in the standards and indicators. Use the five point scale described in the guidelines.
- The MM then rates each KPA according to the extent to which performance has met the criteria specified in the standards and indicators. Use the five point scale described in the guidelines.
- Calculate the Managers and the MMs final scores for each CC by multiplying the weighting by the rating.

<b>Core Competency Requirements for Employees (20% of Total)</b>		
<b>Core Managerial Competencies (CMC)</b>	<b>(Indicative Choice)</b>	<b>Weight</b>
Strategic Capability		
Programme and Project Management		
Financial Management	<b>COMPULSORY</b>	
Change Management		
Knowledge Management		
Service Delivery Innovation		
Problem Solving and Analytical Thinking		
People Management and Empowerment	<b>COMPULSORY</b>	
Client Orientation and Customer Focus	<b>COMPULSORY</b>	
Communication		
Accountability and Ethical Conduct		
Policy conceptualisation and implementation		
Mediation skills		
Advanced negotiation skills		
Advance influencing skills		
Partnership and Stakeholder Relations		
Supply Chain Management		
<b>Total</b>		<b>100%</b>

**EMPLOYEE PERFORMANCE APPRAISAL SYSTEM  
(EPAS) TO ACTION PLANS**

EPAS was proposed as part of the 2004/5 PMS Policy. The process of institutionalising EPAS continued to the 2005/06 financial year. EPAS was rejected by staff and SALGA advised that the SALGBC needed to approve the system before it could be implemented. The municipality has reached a decision not to implement EPAS. This has subsequently been replaced by Middle Management Action Plans which have been rolled out in the 2007/08 financial year to all Middle Management posts by the respective directors.

Unlike the Section 57 Managers, the Middle Managers are not assessed. Also there are neither rewards nor punitive measures attached to the action plans. The approach is a way of reporting to the respective directors on the day to day activities; which then feeds into the reports generated by the Section 57 Manager. This report is then submitted to the Municipal Manager.

## **FINANCIAL AND PERFORMANCE MANAGEMENT AUDIT SYSTEM**

### **1. STATUTORY REQUIREMENTS FOR THE MUNICIPAL AUDIT FUNCTION**

#### **1.1 Municipal Finance Management Act (MFMA)**

The MFMA addresses a number of financial and fiscal reforms. The most significant reforms being the new budget process and its link to the Integrated Development Plan (IDP), new accounting standards and formats, the establishment of audit committees and other internal controls, improvements to procurement and supply chain management, performance measurement reporting, staff competency levels and new mechanisms to resolve financial problems and misconduct. MFMA could be major tool for bringing stability in the finances of municipalities.

#### **Objectives of MFMA:**

- To modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximise the capacity of municipalities to deliver services to all its residents, customers, users and investors.
- To put in place a sound financial governance framework, by clarifying and separating the roles and responsibilities of the mayor, executive and non-executive councillors, and officials.
- Chapter 14 Section 165 of MFMA requires that:
- Each municipality and each municipal entity must have an internal audit unit.
- The internal audit unit must:
  - prepare a risk-based audit plan and an internal audit program for each Financial Year.
  - advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal audit; internal controls; accounting procedures and practices; risk and risk management; performance management; loss control; and compliance with this Act, the annual Division of Revenue Act and any other applicable legislation. These duties may be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective

#### **Chapter 14 Section 166 of MFMA requires that:**

- Each municipality and each municipal entity must have an audit committee.
- An audit committee is an independent advisory body which must:
  - advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to:
    - internal financial control internal audits

- risk management
  - accounting policies
  - the adequacy, reliability and accuracy of financial reporting and information
  - performance management
  - effective governance
  - compliance with this Act, the annual Division of Revenue Act and any other applicable legislation
  - performance evaluation and
  - any other issues referred to it by the municipality or municipal entity
  - review the annual financial statements to provide the council of the municipality or, in the case of a municipal entity, the council of the parent municipality and the board of directors of the entity, with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation.
  - respond to the council on any issues raised by the Auditor-General in the audit report.
  - carry out such investigations into the financial affairs of the municipality or municipal entity as the council of the municipality, or in the case of a municipal entity, the council of the parent municipality or the board of directors of the entity, may request.
  - perform such other functions as may be prescribed.
- In performing its functions, an audit committee:
    - has to have access to the financial records and other relevant information of the municipality or municipal entity.
    - must liaise with the internal audit unit of the municipality and the person designated by the Auditor-General to audit the financial statements of the municipality or municipal entity.

## **1.2 Municipal Systems Act (MSA)**

This is part of a series of legislation, which aims to empower local government to fulfil Constitutional objectives.

### **The objectives of the Constitution are to:**

- Provide democratic and accountable government for local communities.
- Ensure the provision of services to communities in a sustainable manner.
- Promote social and economic development.
- Promote a safe and healthy living environment.
- Encourage the involvement of communities and community organisations in the matters of local government.

### **The MSA also requires that:**

- The Auditor General will audit every municipality's measurement of their performance every year, and include his report in the municipality's annual report. The annual report will also include the municipality's financial statements, and an audit report on these financial statements.

## 2. THE ROLES OF INTERNAL AND EXTERNAL AUDITORS

INTERNAL AUDITORS	EXTERNAL AUDITORS
Dependent on management in performing their reviews	Independent of management in performing their reviews
Responsible to management	Responsible to ExCo and Council
Provide an assurance function – function checking on systems, procedures & fraud	Provide an attestation function
Consulting - report to management on internal controls of the company (municipality) & make recommendations	Report to the shareholders (ExCo) on the financial position and financial performance of the company (municipality)
Information management – evaluation of documents, IT, computer systems, accounting records and reports	Report to ExCo on the performance of the directors (Sect 57 Managers)
Budget and target management	Produce audit report
Future risk management function/analysis, including systems evaluation and the management of IT	Report on accuracy of annual financial statements
Financial auditing	Should be able to detect accounting fraud
Responsible for monetary/financial elements of the entity	Responsible for monetary/financial elements and the well-being of the entity

## 3. ESTABLISHMENT OF THE FINANCIAL AND PERFORMANCE AUDIT COMMITTEE

The municipality established a joint (financial and performance) audit committee in 2004 for the duration of two years. This audit committee consisted of three members. In Sep 2006, the contracts of those members expired.

In November 2006, new members were appointed on a three year contract. The committee now consists of five members, two of whom are graduates.

- Declaration of interest for each member has been signed. This is examined at the beginning of each meeting in order to continuously certify audit committee members independence.
- The audit committee charter has been developed and approved (***attached as annexure C***)

## **REFERENCES**

Amajuba DM's IDP Review 2006/07 and 2007/08

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Batho Pele White Paper, 1998

Local Government: Municipal Systems Act, 32 of 2000

Local Government: Municipal Finance Management Act, 56 of 2003

Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, 2006

Local Government: Municipal Planning and Performance Management, 2001

South African Constitution, 1996

White Paper on Local Government, 1998