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# Performance Management System Framework

Xhariep District Municipality



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## **1. Introduction**

The Municipal Planning and Performance Management Regulations stipulate that a municipality's performance management system (PMS) must entail 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.

This Performance Management Framework is a proposed policy and procedure document for the Xhariep District Municipality that sets out the following:

- The policy and legislative context for Performance Management
- Objectives and principles of Performance Management in local government
- Requirements and mechanisms for the development and implementation of a Performance Management System
- Guidelines for capacity building and institutional arrangements for Performance Management

The framework focuses primarily on an organizational performance management as opposed to an employee performance management system. It details the parameters within which performance management processes will happen and deals with the following aspect, amongst others:

- the components of the system;
- lines of accountability in managing performance;
- aspects of performance that will be managed;
- performance monitoring, measurement and review approaches;
- approaches to respond to good and poor performance.

The framework is meant to assist the XDM in its development and implementation of a performance management system that is aligned to the Integrated Development Plan (IDP), is suited to their circumstances and is within their resource constraints.

The framework is intended to be adopted by the municipal council as the basis of their performance management system.

## 2. The legislative framework for performance management

### 2.1 Introduction

The major PMS policy instrument is the 1998 White Paper on Local Government supported by the so called Batho Pele principles contained in the White Paper on the Transformation of Public Service-delivery, which policies were given legal stature through the adoption of the Local Government: Municipal Systems Act 2000 (Act 32 of 2000).

### 2.2 The Local Government: Municipal Systems Act 2000 (Act 32 of 2000)

The said Act requires all municipalities to:

- ⇒ Develop a performance management system
- ⇒ Set key performance indicators and performance targets for each of the development priorities and objectives contained in Integrated Development Plan (IDP)
- ⇒ monitor and review the performance of the Municipality against the key performance indicators and targets, as well as the performance management system itself;
- ⇒ Publish an annual performance report on the performance of the Municipality as part of its annual report required by the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) (MFMA).
- ⇒ Incorporate and report on a set of general (sometimes also referred to as national) indicators prescribed by the Minister responsible for local government
- ⇒ Conduct, on a continuous basis, an internal audit of all performance measures
- ⇒ Have their annual performance report audited by the Auditor-General
- ⇒ Involve the community in setting indicators and targets and reviewing municipal performance.

To provide further guidance on the requirements of the Act, the different sections of Chapter 6 of the MSA is summarised hereunder:

- ⇒ **Section 38:** Requires municipalities to establish a Performance Management System, promote a performance management culture and administer its affairs in an economical, effective, efficient and accountable manner.

- ⇒ **Section 39:** Gives EXCO the responsibility for managing the development of a Performance Management System, as well as powers of delegation of responsibilities and the responsibility of submitting the PMS to Council.
- ⇒ **Section 40:** Places responsibility on the municipality for the monitoring and review of its PMS.
- ⇒ **Section 41:** Outlines the core components to be included in the PMS of the municipality, and refers to KPI's, targets, measurement mechanisms, steps for improvement and the reporting processes.
- ⇒ **Section 42:** Requires the municipality to establish mechanisms and procedures for community involvement in the process, in terms of Chapter 4 of the MSA.
- ⇒ **Section 43:** Allows the minister to establish general KPI's which must be included in the KPI's of municipalities, to the extent that these general KPI's are relevant to the municipality.
- ⇒ **Section 44:** Requires the municipality to notify stakeholders internally and the general public of its KPI's and targets.
- ⇒ **Section 45:** Requires the municipality to conduct an internal audit of its performance as well as an audit by the auditor general.
- ⇒ **Section 46:** Requires the municipality to prepare an annual performance report.
- ⇒ **Section 47:** Requires MEC to compile an annual performance report for the municipalities within the province
- ⇒ **Section 48:** The Minister has to compile an annual report and submit it to parliament, in terms of the performance of the municipalities in relation to general KPI's
- ⇒ **Section 49:** Allows the Minister to make regulations or issue guidelines for the purpose of Chapter 6 of the MSA

### 2.3 The Municipal Planning and Performance Management Regulations (2001)

The Minister of Provincial and Local Government published the Municipal Planning and Performance Management Regulations (2001) in terms of the Municipal Systems Act setting out in detail the requirements for performance management. The Regulations also contain the general indicators prescribed by the Minister.

## **2.4 Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers (2006)**

The above regulations were published on 1 August 2006 and came into effect on that date (see reg 39(1)). The regulations (as far as performance is concerned) deal with two distinct aspects, namely –

- ⇒ the content of performance agreements and assessment issues; and
- ⇒ the ability of the manager concerned to occupy her/his position with reasonable prospect of success, in other words, the extent to which the manager concerned has the core competencies required to perform the functions and discharge the duties of her/his job effectively and efficiently.

### **2.4.1 Meeting core competency requirements**

Regulation 26(8) provides for “core competency requirements” (CCRs) for each managerial position. The regulations basically provide a master list of CCRs from which a selection must be made in view of the content of each managerial position – it should be noted that the Municipality and the incumbent must agree on the CCRs. Once the selection is made and agreed upon, the Municipality must, in terms of regulation 39(4), “...ensure that such employee is assessed in order to identify competency gaps and to develop such employee”.

Regulation 39(4) requires such an assessment to be made of current managers, regardless of whether a performance agreement exists – it is apparently additional to the performance agreement. The regulations do not prescribe a procedure for assessing the competency of managers – one would assume, however, that this is not a task to be approached in a haphazard manner. For example, whilst some of the listed CCRs appear to be clear, it would be necessary for the Municipality and each of the managers to agree on a definition or the content of a CCR. Applying the different CCRs to a specific manager would have to include supervisor involvement, the manager her-/himself and analysis of the manager’s qualifications and prior work experience.

### **2.4.2 Annual performance agreement**

The regulations supplement the existing provisions of the Systems Act and the MFMA with regard to annual performance agreements – obviously the regulations cannot change the primary legislation. The main difference between the annual performance agreements for the previous financial year and those required under the regulations, is that in addition to specific objectives (deriving ultimately from the IDP) that must be met, each managers’ performance in respect of the agreed CCRs for her/his position must also be assessed. The regulations also set

a new standard for deciding whether to pay a performance bonus and the quantum of such bonus, if payable.

### 2.5 The Local Government: Municipal Finance Management Act, No. 56 of 2003.

The Local Government: Municipal Finance Management Act (MFMA) contains various important provisions related to municipal performance management. It requires that a municipality must, together with its annual budget, approve measurable performance objectives for revenue from each revenue source and for each vote in the budget, taking into account the municipality's IDP. It further requires the mayor to ensure that she/he approves a service delivery and budget implementation plan (SDBIP) within 28 days after the council adopted its budget. A SDBIP must include service delivery targets and performance indicators for each quarter. In terms of section 72 of the MFMA the municipal manager must not later than 25 January each year assess the performance of the municipality during the first half of the financial year and submit a report thereon to the mayor and the National and Provincial Treasuries. The mayor must submit the mid-year assessment report to the council not later than 30 January. The Municipality must lastly compile an annual report, which must include the Municipality's performance report compiled in terms of the Municipal Systems Act.

## 3. The Municipality's approach to performance management

The Municipality's performance management approach must be part of a broader system of strategic management. This strategic management system must ensure that the Municipality is directed through the integration of planning, budgeting and performance management processes. The figure below shows how the performance management processes both mirrors and integrates with the planning process.

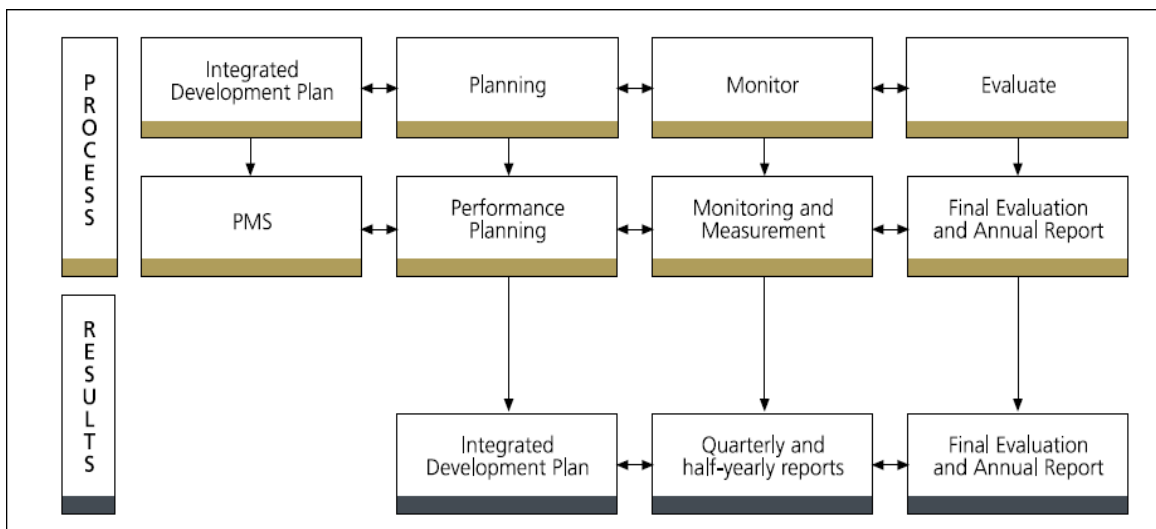


Figure 1: Relationship between the performance management and the planning process

The performance management process then unfolds at a number of different levels, each aligned to the next.

Performance management can be applied to various levels within any organisation. The legislative framework as set out above provides for performance management at various levels in a municipality including strategic (sometimes also referred to as municipal, organisational, institutional or corporate) level, operational (also referred to as services, departmental or section/team) level and lastly, individual level.

At strategic level the five-year IDP of a municipality forms the basis for performance management, whilst at operational level the annual SDBIP forms the basis. The IDP is a long-term plan and by its nature the performance measures associated with it will have a long-term focus, measuring whether a municipality is achieving its IDP objectives. A SDBIP is more short-term in nature and the measures set in terms of the SDBIP, reviewing the progress made with implementing the current budget and achieving annual service delivery targets.

The key performance indicators and performance targets set for XDM are captured in the organisational scorecard containing the national key performance indicators set by the Minister for Local Government and Housing.

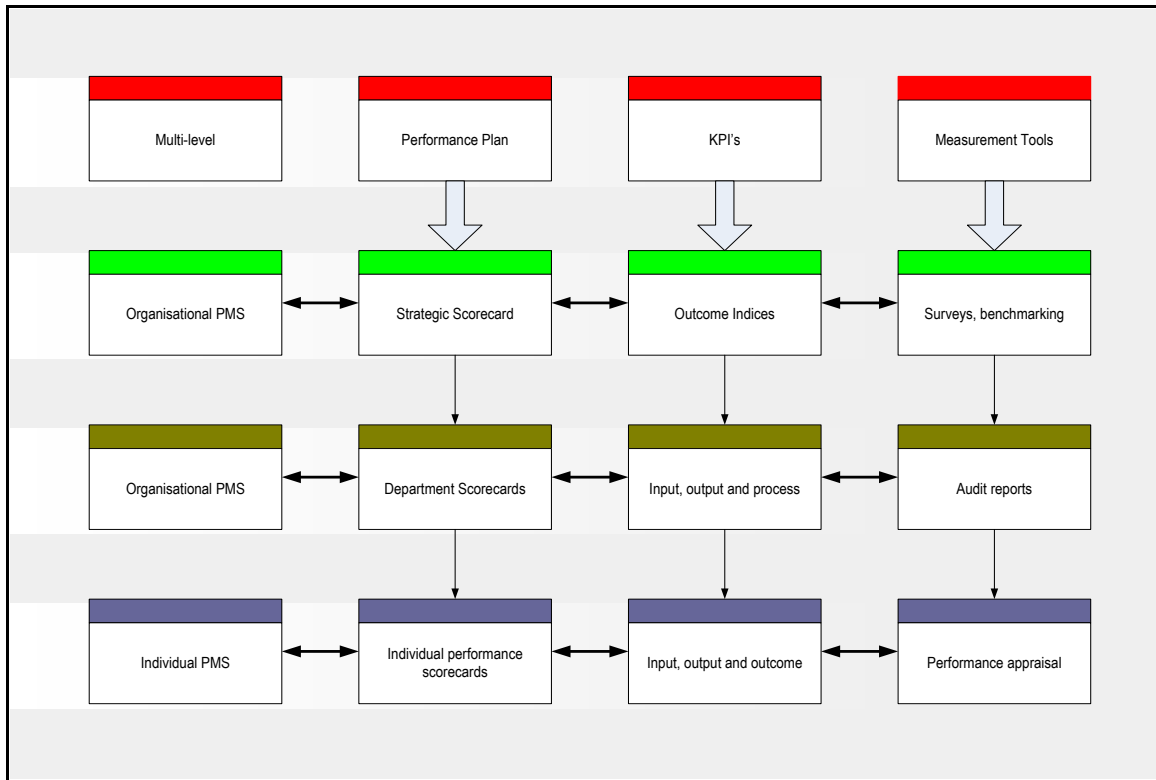
Scorecards for each department contain the performance indicators and targets set for each departments based on the objectives set in the IDP.

By cascading performance measures from strategic to operational level, both the IDP and the SDBIP, form the link to individual performance management. This ensures that performance management at the various levels relate to one another as required by the Municipal Planning and Performance Regulations. Once the municipality has finalised the SDBIP it should be integrated with the performance management system to ensure the cascading of performance measures into the performance agreements of the Municipal Manager and managers directly accountable to him.

The MFMA specifically requires that the annual performance agreements of managers must be linked to the SDBIP and the measurable performance objectives approved with the budget.

**Figure 2** demonstrates the alignment between the three levels and also indicates the different measurement and the tools used in each level.





**Figure 2: Levels of performance management**

The Municipality's performance management system should be both dynamic and evolving. It is premised on principles of continuous need for improvement. In ensuring continuous improvement to the Municipality's system, a number of initiatives should be undertaken to nurture and harness the system's capability at all three levels:

- ⇒ Cascading of the performance management to individuals within the Municipality is the cornerstone of the system. The performance management system at the individual level is aimed at clearly identifying what it takes to achieve the strategic agenda and political priorities;
- ⇒ Ensuring that management and staff understand what they are responsible for in achieving the Municipality's goals. The following initiatives should be undertaken to ensure that accountability for performance is constantly assigned and well understood:
  - Managers and strategic support official's needs to be capacitated on the utilization of the automated system to simplify performance management and performance reporting
  - Performance agreements of all section 57 employees must be concluded within one month after the beginning of the municipal financial year;

- Scorecards must outline both the annual as well as quarterly targets to accommodate the automated performance tracking system developed by the Municipality
- All employees must be encouraged to develop individual development plans in order to acquire competencies necessary to ensure higher levels of performance on their key performance areas.

#### 4. Objectives of the Performance Management System

As indicated above the Municipality's PMS is the primary mechanism to monitor, review and improve the implementation of its IDP and to gauge the progress made in achieving the objectives as set out in the IDP. The PMS should in addition seek to achieve the following objectives:

⇒ ***Facilitate increased accountability***

The PMS should provide a mechanism for ensuring increased accountability of employees to the Council and councillors to local communities and other external stakeholders

⇒ ***Facilitate learning and improvement***

The PMS should facilitate learning in order to enable the Municipality to improve delivery.

⇒ ***Provide early warning signals***

It is important that the system ensure decision-makers are timeously informed of performance related risks, so that they can facilitate intervention, if necessary.

⇒ ***Facilitate decision-making***

The PMS should provide appropriate management information that will allow efficient, effective and informed decision-making, particularly on the allocation of resources.

#### 5. Principles governing the PMS of the Municipality

The process of developing a PMS for the Municipality was guided by the planning framework, which includes the principles that informed the development of the Municipality's PMS. The said principles are the following:

- ⇒ **simplicity** so as to facilitate implementation given any current capacity constraints,

- ⇒ **politically acceptable** to all political role-players
- ⇒ **administratively managed** in terms of its day-to-day implementation,
- ⇒ **implementable** within any current resource constraints,
- ⇒ **transparency and accountability** both in terms of developing and implementing the system,
- ⇒ **efficient and sustainable** in terms of the ongoing implementation and application of the system,
- ⇒ **public participation** in terms of granting citizens their constitutional right to participate in the process,
- ⇒ **integration** of the PMS with the other management processes within the Municipality,
- ⇒ **objectivity** based on credible information and lastly,
- ⇒ **reliability** of the information provided on the progress in achieving the objectives as set out in its IDP.

## 6. Preferred performance management model

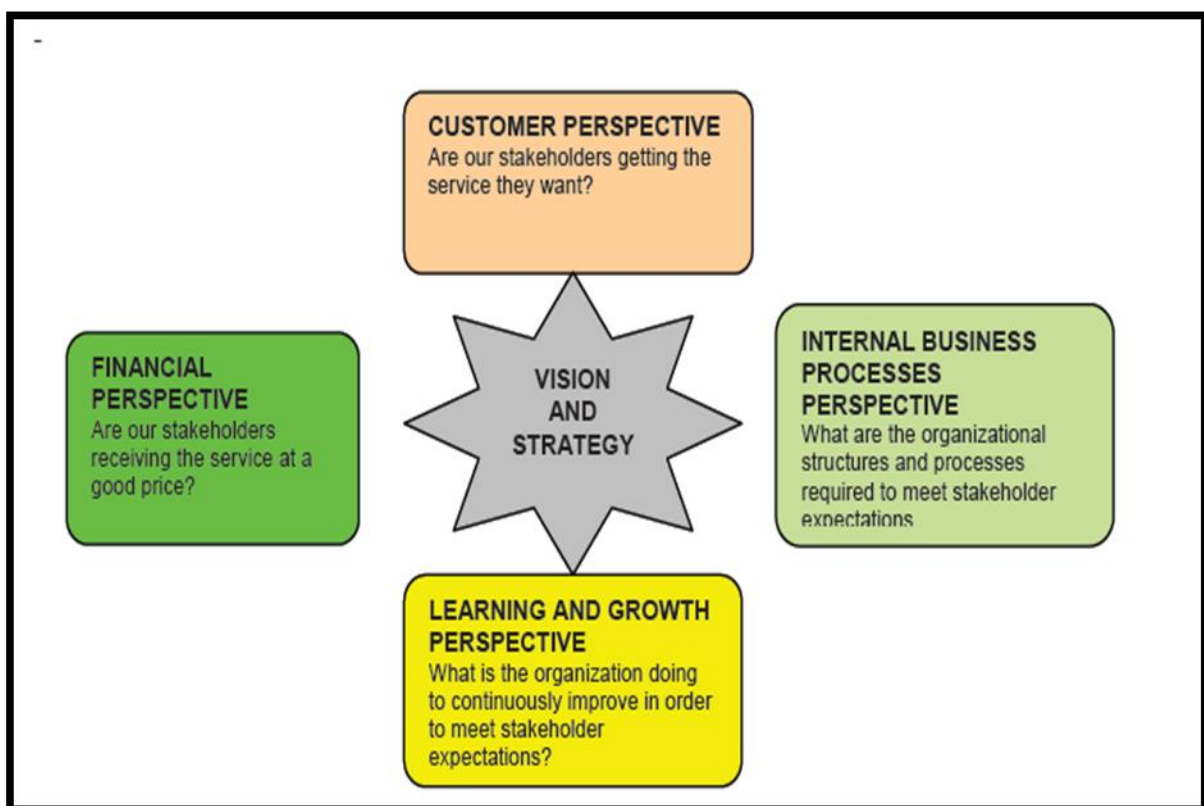
A performance management model can be defined as the grouping together of performance indicators, sometimes based on the type of indicator, into logical categories or groups (often called perspectives), as a means to enhance the ability of an organisation to manage and analyse its performance. As such a model provides a common framework for what aspects of performance is going to be measured and managed. It further ensures that a balanced set of measures are employed that are not relying on only one facet of performance and therefore not presenting a holistic assessment of the performance of an organisation.

A number of performance models are available and any of them could be applied by the Municipality. The available models include the Municipal Scorecard, Balanced Scorecard, Performance Excellence Model and the Key Performance Area Model.

The Balanced Scorecard framework was developed by Norton and Kaplan. It is the performance measurement model used within the XDM's performance management system.

In the Balanced Scorecard approach, the dimensions of effective performance suggested are translated into critical perspectives on performance: Customer, internal processes, learning and growth and finance. Each perspective is regarded as essential for translating the Vision and Strategy into performance. Each dimension is given a weighting at the planning stage that indicates what level of priority it represents for the organization. This enables the organization to assess how well it is doing on that dimension. These perspectives finally enable a review of the strategy.

The balanced Scorecard stresses the importance of being able to assess the organization from all four perspectives at the same time.



**Figure 3: Balanced Scorecard perspectives**

### Linking strategy to action through the Balanced Scorecard

The balanced scorecard is used to achieve the following:

- ❖ Clarify and translate vision and strategy
- ❖ Communicate and link strategic objectives and measures throughout the organization
- ❖ Plan, set targets, and align strategic initiatives
- ❖ Enhance strategic feedback and learning
- ❖ Align departmental and personal goals to the strategy

- ❖ Link strategic objectives to long-term targets and annual budgets and ensuring that the strategy is continuous
- ❖ Identify and align strategic initiatives
- ❖ Perform periodic and systematic strategic reviews and
- ❖ Provide feedback to learn about and improve strategy

**Ensure that every employee:**

- ❖ understands the relevant parts of the organization's strategy,
- ❖ aligns own activities with organization's goals and
- ❖ is continuously aware of reaching organization's goals and own goals
- ❖ spends more time on important activities
- ❖ is rewarded based on contribution to organization's goals

**Ensure that the whole organisation:**

- ❖ cascades the scorecards from corporate to team level
- ❖ has a systematic performance review policy supporting generation and follow-up of action plans
- ❖ is able to communicate and implement the changes in strategy fast
- ❖ is able to develop new winning strategies fast.

The commonly adopted process flow on the development of a District Scorecard is to cascade the Districts priorities, within the four balance scorecard perspectives, (**Annexure A**) into district wide key performance areas, with key performance indicators and targets (**Annexure B**). This is then cascaded downwards into Departmental scorecards. The Departmental scorecards are found in the SDBIP.

## **7. The process of managing performance**

The annual process of managing performance at organisational level in the Municipality involves the steps as set out in the diagram below:

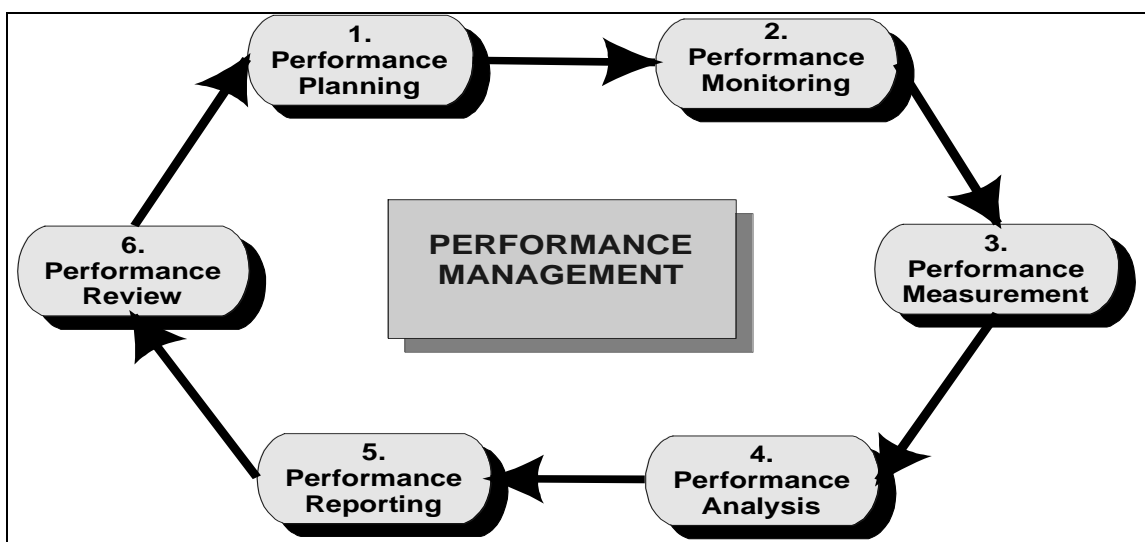


Figure 4: Performance management process

The following table spells out in more detail the role of all relevant role-players in each of the above steps:

Stakeholders	Performance Planning	Measurement and Analysis	Performance Reporting & Reviews
Citizens and Communities	Influence the choice of indicators and setting of targets		Be given the opportunity to review municipal performance and suggest new indicators and targets
Council	Adopt indicators and set targets		Review municipal performance bi-annually
Performance Management Committee	<ul style="list-style-type: none"> <li>➔ Recommend indicators and targets</li> <li>➔ Communicate the plan to other stakeholders</li> </ul>		Conduct the major reviews of municipal performance, determining where goals had or had not been met, what the causal reasons were and to adopt response strategies
Municipal Manager + HODs	<ul style="list-style-type: none"> <li>➔ Assist the PMS Committee in</li> <li>➔ Identify and propose indicators and targets</li> <li>➔ Communicate the plan to other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>➔ Regularly monitor the implementation of the IDP, identifying risks early</li> <li>➔ Ensure that regular monitoring (measurement, analysis and reporting) is happening in the organisation</li> <li>➔ Intervene in performance problems on a daily operational basis</li> </ul>	<ul style="list-style-type: none"> <li>➔ Conduct regular reviews of performance</li> <li>➔ Ensure the availability of information</li> <li>➔ Propose response strategies to the PMS Committee</li> </ul>
Managers	Develop service plans for integration with other sectors within the strategy of the organisation	<ul style="list-style-type: none"> <li>➔ Measure performance according to agreed indicators, analyse and report regularly</li> </ul>	Conduct reviews of service performance against plan before other reviews

Stakeholders	Performance Planning	Measurement and Analysis	Performance Reporting & Reviews
		<ul style="list-style-type: none"> <li>➔ Manage implementation and intervene where necessary</li> <li>➔ Inform decision-makers of risks to service delivery timeously</li> </ul>	
Internal Audit Section		Audit the reliability of performance reporting	<ul style="list-style-type: none"> <li>➔ Audit the functionality of the performance management system</li> <li>➔ Initiate the annual review of the performance management system</li> </ul>

**Table 1: Role-players in the performance management process**

The balance of this framework looks at each of the steps in more detail and how they will unfold in the process of managing performance in the Municipality. Although the steps and what follows relates mainly to performance management at strategic level, the principles and approaches as espoused could also be applied to performance management at operational level.

### 7.1 Performance Planning

The performance of the Municipality is to be managed in terms of its IDP and the process of compiling an IDP and the annual review thereof therefore forms an important component of the process of planning for performance. It should be noted that the last component of the cycle is that of performance review and the outcome of such a review process must inform the next cycle of IDP compilation/review by focusing the planning processes on those areas in which the Municipality have under-performed.

### 7.2 Performance monitoring

Performance monitoring is an on-going process by which a manager accountable for a specific indicator as set out in the organisational scorecard (or a service delivery target contained in an annual SDBIP) continuously monitors current performance against targets set. The aim of the monitoring process is to take appropriate and timely corrective action if it is anticipated that a specific target will not be met by the time that the formal process of performance measurement, analysis, reporting and review is due.

The monitoring system clarifies-

(a) **What will be monitored, in terms of key performance areas, indicators and targets:**

The municipality will continuously monitor its performance in all the key performance

areas and in respect of all the performance dimensions in respect of which KPIs and performance targets had been set.

**(b) The institutional framework in terms of roles of different role-players in the monitoring process:**

- (i) The council will receive performance reports from the PMS committee at least twice during a financial year.
- (ii) The PMS Committee is responsible for ensuring that the municipal manager and other managers of the municipality gather relevant information throughout every reporting period in order to submit a draft progress and variance report at the end of each quarter and must determine the format of the report.
- (iii) The municipal manager and other managers must ensure that the KPIs and performance targets set are met. This requires proper work planning and scheduling, appropriate resourcing of activities and continuous supervision. The management must also identify likely underperformance and take corrective action where necessary in time to ensure that performance targets will be met. Monthly assessment will be done by management.
- (iv) The internal auditing function must audit and assess-
  - the accuracy of performance reports,
  - the functionality of the PMS,
  - whether the PMS complies with the Act,
  - the extent to which the municipality's performance measurements are reliable in measuring performance,
  - continuously audit the performance measurements of the municipality and
  - submit quarterly reports on their audits to the municipal manager and the performance audit committee.
- (v) The performance audit committee must-
  - review the quarterly reports submitted to it,



- review the PMS focusing on economy, efficiency, effectiveness and impact in so far as the KPIs and performance targets set by XDM are concerned and make recommendations in this regard to the council via the PMS Committee,
  - at least twice during a financial year submit an audit report to the municipal council via the PMS committee.
- (c) **The duties involved in continuous data gathering and reporting and who would be responsible for it:** The municipal manager must designate one manager directly accountable to him as project manager for PM monitoring and data gathering. The municipal manager and other managers must install a supervisory and reporting system that would ensure that relevant data is continuously gathered. This system may include focus group research, surveys and like techniques.
- (d) **The mechanisms that must be used to gather, store, analyse, report and verify data:** The mechanisms that may be used, include appropriate information technology, project site reports, research, focus group research, surveys and internal progress and variance reporting;
- (e) **Interventions that may take place to rectify any shortcoming, likely under-performance, or unintended or undesirable outcome detected:** The municipal manager and other managers must implement appropriate actions to rectify and prevent likely under-performance.

### 7.3 Performance measurement

Performance measurement refers to the formal process of collecting and capturing performance data to enable reporting to take place for each key performance indicator and against the target set for such indicator. Given the fact that initially at least the Municipality will have to rely on a manual process to manage its performance, provision has been made in the organisational scorecard for the name of an official responsible for reporting on each indicator (please note that this might not necessarily be the same official accountable for performance on an indicator).

The said official will, when performance measurement is due, have to collect and collate the necessary performance data and capture the result against the target for the period concerned on the organisational scorecard and report the result to his/her manager making use of the required reporting format after completing the next step (see performance analysis below). It should be noted at this stage that for each of the scorecards two formats exist, namely a planning format and a reporting format. The planning format is used to plan and capture the

data relating to each performance target for each indicator every month whilst the reporting format is used to report actual performance quarterly against targets to the PMS Committee.

#### **7.4 Performance analysis**

Performance analysis involves the process of making sense of measurements. It requires interpretation of the measurements as conducted in terms of the previous step to determine whether targets have been met and exceeded and to predict whether future targets is likely to be met or not. Where targets have not been met performance analysis requires that the reasons therefore should be examined and corrective action recommended. Where targets have been met or exceeded, the key factors that resulted in such success should be documented and shared so as to ensure organisational learning.

In practice the aforementioned entails that the manager responsible for each indicator will have to, after capturing the performance data against targets on the organisational scorecard, analyse the underlying reasons why a target has/has not been met and capture a summary of his/her findings on the performance report. The manager will thereafter have to compile a draft recommendation of the corrective action proposed in instances where a target has not been achieved and also capture this in the performance report. Provision has been made on the reporting format to capture both the reason for the performance status (in other words the results of the analysis undertaken) and the 'corrective action' proposed.

The completed organisational scorecard must be submitted to a formal meeting of the senior management team for further analysis and consideration of the draft recommendations as captured by the relevant managers. This level of analysis should examine performance across the organisation in terms of all its priorities with the aim to reveal and capture whether any broader organisational factors are limiting the ability to meet any performance targets in addition to those aspects already captured by the relevant manager.

The analysis of the organisational scorecards by senior management should also ensure that quality performance reports are submitted to Councillors and that adequate response strategies are proposed in cases of poor performance. Only once senior management has considered the organisational scorecard, agreed to the analyses undertaken and captured therein and have reached consensus on any corrective action, can the organisational scorecards be submitted to the PMS Committee for consideration and review.

#### **7.5 Performance reporting and review**

The next two steps in the process of performance management, namely that of performance reporting and performance review will be dealt with at the same time. This section is further divided into three sections dealing with the requirements for in-year versus annual reporting

and reviews respectively and, lastly, a summary is provided of the various reporting requirements.

The manual "Guidelines for Performance Reporting" contains a detailed analysis of the reporting requirements as well as proposed formats for reporting to the various stakeholders.

#### **7.5.1 In-year performance reporting and review**

The submission of the organisational scorecards to the PMS Committee for consideration and review of the performance of the Municipality as a whole is the next step in the process. The first such report is a major milestone in the implementation of any PMS and it marks the beginning of what should become a regular event, namely using the performance report as a tool to review the Municipality's performance and to make important political and management decisions on how to improve.

As indicated earlier it is recommended that the organisational scorecards be submitted to the PMS Committee for consideration and review on a quarterly basis. The reporting should therefore take place in:

- October, (for the period July, August and September)
- January (for the period October to the end of December)
- April (for the period January, February and March)
- July (for the period April to the end of June).

The review in January will coincide with the mid-year performance assessment required by section 72 of the MFMA.

Performance review is the process where the leadership of an organisation, after the performance of the organisation have been measured and reported to it, reviews the results and decides on appropriate action. The PMS Committee in reviewing the organisational scorecards submitted to it on a quarterly basis will have to ensure that targets committed to in the scorecard have been met, where they have not, that satisfactory and sufficient reasons have been provided by senior management and that the corrective action being proposed is sufficient to address the reasons for poor performance. If satisfied with the corrective action as proposed these must be adopted as formal resolutions of Council.

### 7.5.2 Annual performance reporting and review

On an annual basis a comprehensive report on the performance of the Municipality must be compiled. The requirements for the compilation, consideration and review of such an annual report are set out in chapter 12 of the MFMA. In summary it requires that:

- ⇒ All municipalities for each financial year compile an annual report
- ⇒ The annual report must be tabled in the council within seven months after the end of the financial year
- ⇒ The annual report must immediately after it has been tabled be made public and the local community invited to submit representations thereon
- ⇒ The Council must consider the annual report within nine months after the end of the financial year and adopt an oversight report containing the council's comments on the annual report
- ⇒ The oversight report as adopted by the council must be made public
- ⇒ The annual report as tabled and the Council's oversight report must be forwarded to the Auditor-General, the Provincial Treasury and the Department of Local Government and Housing
- ⇒ The annual report as tabled and the Council's oversight report must be submitted to the Provincial Legislature.

The oversight report provides the opportunity for the Council to review the performance of the Municipality. The requirement that the annual report once tabled and the oversight report be made public provides the mechanism for the general public to review the performance of the Municipality. It is however proposed that in an effort to assist the public in the process and subject to the availability of funding, a user-friendly citizens' report be produced for public consumption in addition to the formal annual report. The citizens' report should be a simple, easily readable and attractive document that translates the annual report for public consumption.

It is also proposed that annually a public campaign be embarked upon to involve the citizens of XDM in the review of the Municipality's performance over and above the legal requirements of the Municipal Systems Act and the MFMA. Such a campaign could involve all or any combination of the following methodologies:

- ⇒ Various forms of media including radio, newspapers and billboards should be used to convey the annual report.
- ⇒ The public should be invited to submit comments on the annual report via telephone, fax and email.
- ⇒ Public hearings could be held in a variety of venues across the Municipality to obtain input on the annual report.
- ⇒ Making use of existing structures such as ward committees to disseminate the annual report and invite comments.
- ⇒ Hosting a number of public meetings and road shows at which the annual report could be discussed and input invited.
- ⇒ Producing a special issue of the municipal newsletter in which the annual report is highlighted and the public invited to comment.
- ⇒ Posting the annual report on the Municipality's website and inviting input.
- ⇒ The public review process should be concluded by a formal review of the annual report by the IDP Representative Forum of the Municipality.

Lastly it should be mentioned that the performance report of a municipality is only one element of the annual report and to ensure that the outcome thereof timeously inform the next cycle of performance planning in terms of an IDP compilation/review process, it is recommended that the annual performance report be compiled and completed as soon after the end of a financial year as possible but ideally not later than two months after financial-year end.

### 7.5.3 Summary of various performance reporting requirements

The following table, derived from both the statutory framework for performance management and this PMS framework, summarises for ease of reference and understanding the various reporting deadlines as it applies to the Municipality:

Report	Frequency	Submitted for consideration and/or review to	Remarks
Monthly budget statements	Monthly	Mayor	See sections 54 and 71 of the MFMA
Organisational scorecards	Quarterly	PMS Committee	This PMS framework (see section 7.5.1 above)
Mid-year budget and performance assessment	Annually during January of each	Mayor	See sections 72 and 54 of the MFMA

Report	Frequency	Submitted for consideration and/or review to	Remarks
	year		
Performance report	Annually	Council	See section 46 of the Municipal Systems Act. Said report to form part of the annual report (see 6 below)
Annual report	Annually	Council	See chapter 12 of the MFMA

**Table 2: PMS reporting requirements**

## 8. The auditing of performance measures

No measurement or review process will be successful without proper auditing procedures whereby the accuracy and reliability of the information can be validated.

Auditing performance measurements is a key element of the monitoring and evaluation process. This involves verifying that the measurement mechanisms are accurate and that proper procedures are followed to evaluate reported performance. With auditing of performance measures, the auditor is more concerned with the extent to which the municipality was able to achieve the reported performance measures and targets that it set for itself and also to assess the extent of its compliance with the legislation in respect of the development and implementation of the PMS. This is different to performance auditing. The distinguishing difference between the two concepts is that with performance auditing, the auditor must assess through the performance of audit procedures, whether the municipality has used its resources in the most efficient, effective and economic manner. The aim of performance auditing is to evaluate the measures implemented to ensure that resources are procured economically and utilised efficiently and effectively. The following table reflects some of the most obvious differences between performance auditing and auditing performance measures:

Performance Auditing	Auditing performance measures
⇒ Establishes whether resources are being used effectively, efficiently and economically.	⇒ Ensures measurement mechanisms are accurate.
⇒ Evaluates measures implemented to ensure resources are procured in an effective, efficient and economical manner.	⇒ Ensures that proper procedures are followed in evaluating reported performance.
⇒ Includes elements of compliance auditing.	⇒ Measures achievement of reported performance and targets.
⇒ Establishes whether the "right things" are being done.	⇒ Audits the procedure followed in the development and implementation of the PMS.
⇒ Compares targeted and actual performance.	⇒ Assesses whether the performance indicators are sufficient to measure performance
⇒ Checks on value for money services.	

Performance Auditing	Auditing performance measures
⇒ Audits the organisation as a whole in terms of the Vision and Mission.	

**Table 3: Differentiation between auditing measures**

### 8.1 The role of internal audit in performance management

The MFMA requires that the Municipality must establish an internal audit unit. Section 45 of the Municipal Systems Act stipulates that the results of the Municipality's performance measures must be audited by the Municipality's internal auditors as part of the internal auditing process. The Auditor-General must annually audit the Municipality's performance measurement results.

The Municipal Planning and Performance Management Regulations stipulate that the internal auditors must on a continuous basis audit the performance measurements of the Municipality and submit quarterly reports on their audits to the Municipal Manager and the Municipality's performance audit committee. Internal performance auditing must include an assessment of the following:

- (i) The **functionality** of the municipality's performance management system.
- (ii) Whether the municipality's performance management system **complies** with the Act.
- (iii) The extent to which the municipality's performance measurements are **reliable** in measuring the performance of municipalities by making use of indicators.

Each of the aforementioned aspects will now be looked at briefly.

#### ⇒ **Functionality**

A system, process or mechanism functions properly if it operates as expected. Applied to the Municipality's PMS it means that the internal auditors must determine and give an opinion on whether the PMS and its various components operates as intended.

#### ⇒ **Compliance**

To comply means to act in the way as was commanded or wished. Applied to the Municipality's PMS the requirements of the Municipal Systems Act, Municipal Planning and Performance Management Regulations and the MFMA must be met. This compliance check would require that the Municipality's internal auditors, at least on an annual basis, verify that the Municipality's PMS complies with the said legal requirements.

#### ⇒ **Reliability**

To be reliable means to be trustworthy or dependable. Reliability in the context of PMS refers to the extent to which any performance measures reported upon is reliable, i.e. factually correct and believable. Auditing the reliability of the Municipality's performance measurement results will entail the continuous verification of data supplied as performance results. This will require that the Municipality establishes a proper information management system (electronically or otherwise) so that the internal auditors are able to access information regularly and to verify its correctness.

## **8.2 Performance Audit Committee**

Audit committees play an important independent oversight role in any organisation's governance arrangements. While the primary responsibilities of any audit committee are to review the audited financial statements and make recommendations on their approval, oversee the relationship between external and internal auditors and review internal controls, in recent years, this responsibility has expanded to include a range of governance issues that focuses on monitoring how an organisation reports externally and in a responsible and transparent manner. These roles and responsibilities are no different in a municipal environment and in the context of performance management, would include monitoring the reporting of organisational performance information.

While DPLG recommends that a separate performance management audit committee be established, where there is insufficient capacity, the municipality could utilise the established audit committee as the performance management audit committee. In this instance, the audit committee would need to assume as an additional responsibility the terms of reference of the performance management audit committee. In addition, the audit committee would need to reconsider its composition when taking decisions on issues of organisational performance.

The MFMA and the Municipal Planning and Performance Management Regulations require that the Council establish a performance audit committee consisting of a minimum of three members, the majority of who may not be employees of the municipality. No councillor may be a member of the performance audit committee.

The key roles and functions of the Committee are to:

- ⇒ Review quarterly performance reports submitted to it by Internal Audit.
- ⇒ Review the PMS and make recommendations in this regard to Council.
- ⇒ Submit a performance audit report to Council at least twice a year.
- ⇒ Assess whether the performance indicators are sufficient.



- ⇒ Assess the reliability of performance information reported.
- ⇒ Commission in-depth performance investigations where there is continued poor performance.
- ⇒ Review the PMS in the context of economy, efficiency, effectiveness and impact of the municipality's key performance indicators and performance targets.
- ⇒ Council must provide secretarial services to the Committee.

A draft set of rules and orders for the municipal performance audit committee was also developed for the municipality and is attached in a separate report.

### **8.3 Performance Investigations**

The Performance Audit Committee should be able to commission in-depth performance investigations where there is either continued poor performance, if the reported performance measurements are unreliable or on a random ad hoc basis. The performance investigations should assess:

- ⇒ The reliability of reported information
- ⇒ The variance between actual performance and set targets
- ⇒ The reasons for any material variance
- ⇒ Corrective action and improvement strategies

While the internal auditors may be used to conduct these investigations, it is preferable that external service providers, who are experts in the area to be audited, should be used. The Council should set clear terms of reference for each such investigation.

## **9. General issues relating to performance management**

The following is some general issues related to performance management that needs to be taken into consideration in implementing the PMS of the Municipality:

### **9.1 Annual review of the Performance Management System**

One of the functions of the performance audit committee is to review the PMS at least annually. It is envisaged that after an annual review and reporting cycle is complete and the performance audit committee has met the internal auditors will compile a comprehensive assessment/review report on whether the Municipality's PMS meets the system objectives and principles as set out in this framework and whether the system complies with the Systems Act, the Municipal Planning and Performance Management Regulations and the MFMA. This report must be considered by the performance audit committee and any recommendations regarding amendments or improvements to the PMS, submitted to the Council for consideration.

The Municipal Systems Act requires that the Municipality must annually evaluate its PMS. The review undertaken by the performance audit committee and its recommendations must serve as input into the wider review of the PMS. It is proposed that after the full cycle of the annual review is complete the Municipal Manager should initiate an evaluation report, taking into account the input provided by departments and the performance audit committee. The report will then be discussed by the Management Team and finally submitted to the Council for consideration.

### **9.2 Amendments to key performance indicators and targets**

The Municipality should adopt a policy on in-year amendments to indicators and targets. Ideally a KPI or performance target should not be changed until an annual performance cycle is completed. However, it is accepted that extra-ordinary circumstances may demand a change to any KPI or target. It is recommended that such amendments may be proposed but will be subject to the approval of the PMS Committee.

### **9.3 Institutional arrangements**

Implementation of the PMS requires a fair amount of management time. It is recommended that the management of the PMS be assigned to the manager responsible for the IDP. The manager responsible for the IDP must ensure that key performance indicators and performance targets are set; the performance measurements are regularly carried out and reported on.

At the level of employee performance management the responsibility for co-ordination, administration and record keeping should be assigned to the manager responsible for human resource management.

The Municipality also needs to ensure that its internal auditors have the capacity to discharge the additional responsibilities conferred on them effectively and efficiently.

## 10. Employee performance appraisal

The employee performance appraisal system while part of the Human Resources framework for the municipality, must integrate well into the municipality's PM system. These two systems are co-dependent and will need to survive and develop of each other. The employee performance appraisal system should have elements similar to that of the organisational system.

Performance appraisal is the systematic process of:

- ⇒ planning work and setting expectations
- ⇒ continually monitoring performance
- ⇒ developing the capacity to perform
- ⇒ periodically rating performance in a summary fashion / rewarding good performance

Section 38 of the Municipal Systems Act establishes that the performance management system of a municipality must be extended to ensure that a culture of performance is promoted also amongst the staff of the municipality. This will only be possible once performance of employees is also assessed and linked to the organisational performance management system of the municipality.

Section 67 of the Municipal Systems Act, 2000 places an obligation on all municipalities to develop in accordance with the Employment Equity Act, 1998 appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration, including the monitoring, measuring and evaluating of performance of staff.

## 11. Conclusion

There are no definitive solutions to managing municipal performance. The process of implementing a performance management system must be seen as a learning process, where the Municipality must continuously improve the way the system works in order to fulfil the objectives of the system and address the emerging challenges from a constantly changing environment.