FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing *of National Revenue*

POLICY BRIEF 10

HOW THE COST OF INFORMATION AND COMMUNICATION TECHNOLOGY HAMPERS IMPLEMENTATION OF FINANCIAL MANAGEMENT REFORMS IN LESSER-RESOURCED MUNICIPALITIES

EXECUTIVE SUMMARY

Currently South Africa has 278 municipalities with varying capabilities and capacity. The Municipal Finance Management Act requires municipalities to maintain efficient, effective and transparent systems and implement proper financial record keeping. One of the key reforms spearheaded in this regard is the Municipal Standard Chart of Accounts (mSCOA). Implementation of mSCOA is information and communication technology intensive and thus expensive. A consequence of this is that many municipalities will not be able to achieve compliance by the compulsory implementation date of July 2017. Given the potential benefits associated with ensuring a national standard around financial reporting at the local government level, it is recommended that ring-fenced funding in respect of mSCOA implementation be made available for lesser-resourced municipalities and that technical assistance be provided to the most under-resourced municipalities to assist with change management.

BACKGROUND

Municipalities are responsible for the provision of constitutionally mandated basic services, such as water, electricity, sanitation and refuse removal. One avenue of ensuring that a municipality and its human and financial resources are effectively and efficiently managed is to harness the capabilities of information and communication technology (ICT). According to the literature, the effective deployment of ICT in city governance has numerous benefits including: (1) efficiency gains that allow for capacity to be freed up from the back-office to front-office operations, (2) achieving value for money, (3) citizens that feel more connected and engaged with their government, and (4) employees with better tools to undertake their jobs and so improve the services they render. However, whereas benefits can be derived from the more effective use of ICT in government, the initial cost of investing in new technology is high and can be an inhibiting factor, especially for cash-strapped municipalities.

The research by the Financial and Fiscal Commission was underpinned by two objectives, namely: (1) to investigate the extent to which urban municipalities prioritise spending on ICTs to improve internal operations and city governance, and (2) to understand the benefits and challenges of an ICT-led approach to city governance.

Multiple methodologies were employed to achieve the research objectives. Budget analysis was used to get a sense of the extent to which municipalities prioritise spending on ICTs, whilst data envelopment analysis (DEA) was used to understand the economic value associated with municipal ICT spending. Then a combination of face-to-face and telephonic interviews, and written inputs were conducted to understand what municipalities perceive the value of an ICT-led administration to be. These interviews were used to develop an understanding of the challenges experienced in respect of an ICT-led approach to city governance.

Ten municipalities were consulted, namely: eThekwini (category A, KwaZulu-Natal), City of Cape Town (category A, Western Cape), Nelson Mandela Bay (category A, Eastern Cape), Msunduzi (category B1, KwaZulu-Natal), George (category B1, Western Cape), Mbombela (category B1, Mpumalanga), Overstrand (category B2, Western Cape), Merafong (category B2,Gauteng), Midvaal (category B2, Gauteng), and Breede Valley (category B2, Western Cape).

RESEARCH FINDINGS

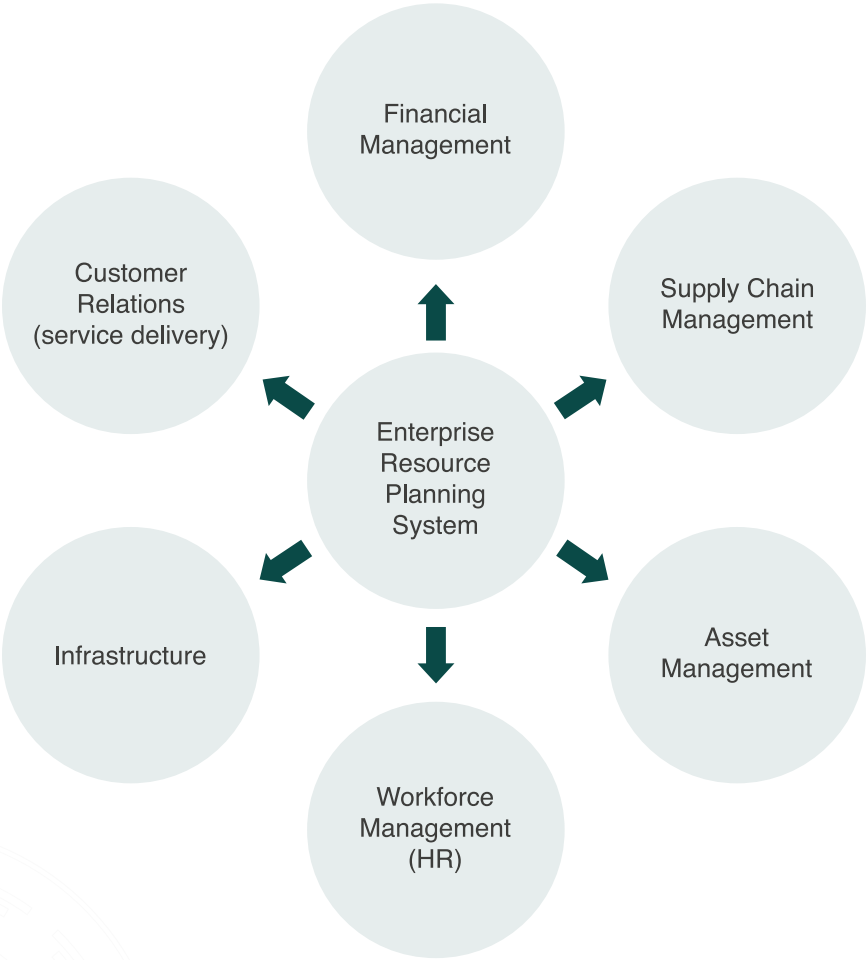
In terms of the economic value of ICT spending, the analysis developed through the research confirms, in accordance with literature on the subject, a positive and statistically significant relationship between ICT spending and municipal efficiency. However, the municipalities interacted with see the value of an ICT-led approach as being broader than just providing efficiency benefits. There is a more holistic view with ICT spending seen not as an end in itself but rather as a means to ensure more effective governance, community empowerment, and overall transformation.

The big issue that arose in the interactions with municipalities regarding ICT was the implementation of the mSCOA regulations by 1 July 2017. In terms of the regulations, the objective of mSCOA is to “provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level, by prescribing a standard chart of accounts for municipalities and municipal entities” (RSA, 2014). The financial and other systems used across many municipalities were not compliant with the requirements of mSCOA and as such municipalities have had to channel significant resources to ensure they will comply by July 2017.

One of the key shifts requires municipalities to move away from numerous standalone, legacy systems (top panel of Figure 1) to systems that allow for greater integration, as illustrated by the bottom panel in Figure 1. From a systems point of view, the implementation of mSCOA is ICT intensive and no specific funding instruments are available to municipalities to fund its implementation. The Financial Management Grant, which focuses on “placement of financial management interns and the modernisation of financial management systems” (National Treasury, 2016), does allow support for mSCOA implementation. However, most municipalities interacted with indicated that this grant was largely focussed on the placement of finance-related interns.

Figure 1. Array of legacy systems compared to the relative integration of an Enterprise Resource Planning -type system

Finance	Corporate Service	Infrastructure Services	Economic Development	Community Services	Office of the Municipal Manager
• Income (Application 1, Application 2) • Expenditure (Application 3, Application 4, Application 5) • Budget (Application 6, Application 7, Application 8, Application 9) • SCM (Application 10)	• Governance (Application 11) • HR (Application 12, Application 13, Application 14) • Legal Services (Application 15) • ICT (Application 16)	• Electricity (Application 17, Application 18) • Water and Sanitation (Application 19, Application 20) • Roads and Transport (Application 21, Application 22) • Landfill Services (Application 23, Application 24, Application 25) • Fleet Management (Application 26)	• Economic Development and Growth (Application 27, Application 28) • Infrastructure Planning and Survey (Application 29) • Planning and Environment (Application 30, Application 31)	• Health and Social Services (Application 32, Application 33) • Risk Management (Application 34, Application 35, Application 36) • Community Develo ment (Application 37, Application 38)	• Communication (Application 39, Application 40) • Internal Audit (Application 41, Application 42, Application 43) • Special Programmes (Application 44) • Performance Manage ment (Application 45, Application 46) • IDP Office (Application 47)



As discussed, implementation of mSOA demands a certain level of ICT sophistication and use of an integrated enterprise resource planning-type (ERP) system is recommended. This is costly, especially for secondary cities and large towns. Funding alone will not ensure that benefits are derived from the roll out of mSCOA and the standardisation of municipal account classifications. Other factors such as a lack of capacity and capability, as well as the complexity of moving from legacy systems to an integrated ERP-type system, all play a role. Apart from the funding burden presented by mSCOA compliance, from an audit point of view, municipalities that do not adhere to mSCOA, may face audit queries when the local government audit findings for 2016/17 are tabled in June 2018.

Additionally, as new systems are implemented, change management is required to transition municipalities to new operating methodologies. The issue of change management emerged especially from secondary cities and large towns. Better capacitated and resourced municipalities, such as the metropolitan municipalities, are better at managing this. However, in other types of urban municipalities, shifts to new systems and approaches to work are not always well managed, and may result in non-optimal or failed implementation.

CONCLUSION

The study finds, in accordance with literature on the subject, a positive and statistically significant relationship between ICT spending and municipal efficiency. However, for municipalities, the value of an ICT-led approach is broader that just providing efficiency benefits. It is viewed more holistically by municipalities and is seen not as an end in itself, but rather as a means to ensure more effective governance, community empowerment and overall transformation. One of the key issues that emerged when exploring the issue of ICT spending in municipalities is the implementation of mSCOA, a local government financial management reform that is ICT-intensive. Implementation of mSCOA is being uniformly implemented across all municipalities and, within the urban space, places a significant financial burden on secondary cities and large towns. In relation to the above, change management is critical in shifting from traditional, legacy systems to more integrated ERP-type systems. In addition, most municipalities do not have the capacity and capability to effectively transition staff and other organisation-wide resources towards a new approach to business. The result of inadequate management of change is the potential for non-optimal or failed implementation of new models.

Based on the above, and to enhance intergovernmental instruments, institutional and governance arrangements pertaining to the provision and maintenance of ICT in urban municipalities, the Commission recommends that:

1. National Treasury should ensure that allocations for assisting municipalities with mSCOA implementation through the Financial Management Grant (FMG) be ring-fenced and deliberately biased towards lesser-resourced urban municipalities, who struggle under the financial burden of attaining compliance with the mSCOA financial reform.

2. In the absence of a differentiated approach to the roll-out of the nationally driven mSCOA regulations, National Treasury should ensure that technical assistance is provided to lesser-resourced municipalities, to assist with change management. To this end, National Treasury should deploy technical advisors to the most under-capacitated and under-resourced municipalities for a short period of time to assist with mSCOA compliance. This will strengthen the successful implementation of this local government financial management reform.

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Enquiries: Sasha Peters (sasha@ffc.co.za)

Financial and Fiscal Commission
Montrose Place (2nd Floor), Bekker Street,
Waterfall Park, Vorna Valley, Midrand,
Private Bag X69, Halfway House 1685

Tel: +27 11 207 2300
Fax: +27 86 589 1038

www.ffc.co.za