PRESENTATION ON:

MUNICIPALITIES IN DISTRESS: ROLE OF ILGM BEFORE AND AFTER

Developing and Sustaining excellence in local government management
What is covered?

Objectives of the paper

Background and context

Defining construct of distress

Characterisation of distress

Vital signs of distress

Causes and consequences of distress

framework for dealing with distress
Objectives

• First, it is argued that despite all strides that have been made since the advent of the democratic order municipalities in SA are still vulnerable to distress

• Secondly, is to present a picture of the vital signs and common causes of decline that need to be responded to in order to cure the disease of decline in municipalities; and

• Thirdly, to propose the role of ILGMSA before and post after the onset of distress within municipalities
Background

- South Africa under conditions of democracy is better than during Apartheid
- However, notwithstanding our achievements, enormous challenges still remain
- To deal with such challenges that which we achieved in 20 years must be accelerated such that we can achieve same and more in 5 years
- Within this background we need to address distress in municipalities
Defining the construct of distress

- Used interchangeably with the concepts like organisational decline, organisational failure or organisational crisis.
- As a construct, distress or decline within organisations consists of three dimensions, namely:
  - the severity of the decline;
  - the speed of the decline; and
  - the period of state of decline.
Characterisation of distress

• Municipalities in distress:
  o Are in a throes of a crisis -- lurch from one crisis to another almost as a permanent feature of their own existence and operations;
  o Performance is persistently below some minimally acceptable performing standard;
  o Experience repetitive cycles of failure evidenced by lack of trust and deep internal conflicts;
  o Are no longer able to extricate themselves from or solve problems on their own;
  o Are unable to pull out conditions of vulnerability, notwithstanding support from Cogta or any other institutions designed to render such support to municipalities;
  o Require extraordinary measures to rescue them from plunging into deeper disaster;
  o Require the utilisation of an administrator or turnaround specialist to manage their affairs to avoid self-annihilation; and
  o Need to employ four R’s to return to a state of normalcy, namely: retrenchment, restructuring, recovery and repositioning strategies.
Typology of fragile municipalities

- Borrowing from literature on Fragile States, four typologies of fragile municipalities can be isolated based on the development trajectory of each municipality:
  - Deterioration
  - Post decline or in political transition
  - Prolonged crisis
  - Gradual improvement
# Myths about distress

<table>
<thead>
<tr>
<th>Myth</th>
<th>Evidence</th>
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<td>The first myth we come across is that municipalities placed under administration have been run by poorly educated Mayor and Municipal Managers.</td>
<td>• Even municipalities run by learned leaders do experience decline</td>
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<td>Myth two is that rural municipalities are the only ones to suffer ignominy of being placed under administration.</td>
<td>• Distress affect all municipalities urban and rural, big or small</td>
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<td>Myth three is that municipalities with low tax base are prone to administration.</td>
<td>• The size of the tax base does not matter</td>
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<td>Myth four is that municipalities are placed under administration purely for political considerations.</td>
<td>• Invoking administration is a highly circumscribed constitutional process that can be challenged if legalities are at issue</td>
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<td>Myth five is that only municipalities controlled by blacks are candidate for administration.</td>
<td>• Distress is not a racial issue</td>
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All municipalities in distress have conflicts that arise over the allocation of scarce resources. The more meagre the resources, the more the conflict.

IDPs lack credibility and are misaligned with the Budgets. Capital Programmes are just a wish list with no cash backing.

In the majority of cases the most critical sign and what normally precipitates an intervention is the negative outcome from the Auditor-General’s Report which have either been a qualification or adverse opinion or disclaimer.

Secrecy and distortion of information and reporting become the hallmark of municipalities in distress.

The most glaring weakness that is always found in distressed municipalities is the extent of non-compliance with the laws and regulatory prescripts governing municipalities, for example, Municipal Systems Act, Municipal Structures Act, Municipal Property Rates Act, Municipal Finance Management Act and Supply Chain Management Regulations.

There is always inevitably lack of effective oversight and Committees of Council such as Audit Committees meant to play oversight role are either ineffectual or non-existent. Meetings are often postponed owing to lack of quorum. Where alarms are raised, they are simply ignored and there is nobody who enforces discipline and follow ups on issues raised.
Governance...

- In distressed municipalities there are no Enterprise Risk Management registers or where they exist these are not maintained and acted upon to mitigate against identified and emerging risks. Risk registers do not form the basis of internal audit plans and consequently internal control environments have been found to be extremely porous, ineffective and weak. In most instances, the internal audit function is non-existent, weak or even ignored or a shared model is unworkable.

- There is also an interesting reflection about the relationship between the Mayor and the Municipal Manager. In municipalities in distress the relationship between the Mayor and Municipal Manager is either informed by acrimonious struggles, bitter rivalry and intense conflicts between the two critical leaders of the municipality or by an usually cosy relationship, which often manifest the suppression of and collaboration in wrongdoing and siphoning of municipal resources for personal gain. They both make plans for each other and cover each other’s back – what is referred as the “we eat together” syndrome.

- The issue of relationships also extends to the relationship between the Office of the Mayor and Speaker. In distress municipalities these relations are usually on a coalition course leading to embittered relations across the whole Council.

- There is no schedule of meetings or Year Planner that is communicated to all stakeholders for diarising. However, where there is schedule of meetings this is often not adhered to. Consequently, meetings of Executive Committee or Council are often convened on a ad hoc and “special” basis to discuss urgent matters. This leaves room for irregular and dysfunctional decision making. A cursory look at municipal files will indicate that a number of agenda items are not concluded and deferred in perpetuity, hence there is an unusually long list of outstanding issues.
Governance...

- There is a **blurring of roles between councillors and officials**. Leading to political interference in administration or the **phenomenon of ‘politician-officials’**
- **Alternative views** within Council are suppressed.
- In many instances **conflict of interests are not declared**.
- There is a tendency that of **high levels of truancy** within management and leadership of the municipality designated as full-time. Perennial absence from work is euphemistically dressed in the famous apology of being “away on municipal business”.
- **Fake invitations are used to attend all manner of conferences unconnected to municipal business and this becomes a ploy for unsubstantiated subsistence and travel allowance claims. The worst example of this form of deceit are bogus overseas trips arranged to attract so-called investors.**
- **Corruption and irregularities** are rampant.
- There is a prevalence of **poor internal and external communication** that develops in a culture of avoiding interfacing with stakeholders.
- **Correspondence and concerns** from the public and departments are ignored and treated with disdain.
Human resource theme

- **Salary bill exceeds the acceptable norm** of 30% to 35% of the Operating Budget.
- **High turnover of Senior Management**, especially the Municipal Manager and Chief Financial Officer.
- The Municipal Manager and Chief Financial Officer are usually **without backbone and cannot say “No”**. They are appointed mainly for their political credentials and not necessarily their ability to do the work. Most often they are not the best amongst a pool of candidates who have applied for such vacancies.
- Typically, Senior Managers are **suspended for indeterminate periods of time without either valid reasons or following procedures**. Municipalities ultimately find themselves in Court and end up on a losing side. Eventually, Senior Managers are given golden handshakes, that are so unreasonable that they are done to eliminate the “problem official” at all cost or officials want to spite those who are hounding them even at a cost of bankrupting a struggling municipality that cannot meet its own minimum needs nor perform its basic functions.
- Concomitantly, **nepotism in the employment of staff becomes the order of the day**. Staff at different levels of the municipality become appointed without the necessary technical expertise and qualifications or experience. Secondly, appointments are done without reference to vacancies on approved organisational structure and budgets. All these activities are carried out in the name of deployment.
• It is therefore not uncommon to find the **prevalence of ghost workers** in instances where head-counts are done.

• **Sexual relationships between Council leadership and staff or junior staff in case of Senior Management become the order of the day.** These become so entrenched that it becomes the norm for staff to be promoted because of certain sexual favours they carry for senior management or council leadership.

• Consequently, **employees’ productivity is low and this is followed by high rate of absenteeism and lack of discipline.**

• Typically, **unions run the municipality** and there is an atmosphere poisoned by a pervasive fear of unions by management, which ultimately corrodes the foundation of decent work ethics. Staff does not sign attendance registers or come to work just to sign the attendance register and often leave as it pleases them.

• There is an **excessive use of overtime and accumulation of unresolved labour disputes.**

• Human Resource **policies and procedures are outdated** and there is no compliance with them or any applicable labour laws and prescripts.
Service delivery theme

• Inability to meet Constitutional obligations in terms of service delivery.
• A visitor is greeted by filth and dirt – grime and stench of uncollected waste, sewerage spills running in the streets, water leakages, broken ablution facilities in public places even within municipal offices, unplanned electricity outages, paint wearing out from buildings as sign of poor maintenance. Roads are characterised by huge potholes. Municipal garages are full of scrap equipment and broken vehicles and graders, a sign that everything is not well.
• Inevitably, service delivery protests become common as a way the community vent its anger against non-delivery.
• Poor quality of workmanship related to appointment of incompetent service providers through irregular supply chain management processes characterise projects that have been implemented.
• Slum areas with visible signs of poverty and hopelessness mark the
• Urban decay especially in Central Business Districts
Financial management theme

- The financial affairs of the municipality are in shambles and this is invariably reflected in the following:
  - **Cash flow** problems
  - **Internal control environment** is extremely weak
  - **Inability to pay** salaries and suppliers
  - **Misspending of conditional grants** for purposes not originally intended – grants not cash-backed
  - **Assets are not registered** and where they are registered, they cannot be physically verified
  - **Under-spending of capital budget is rife**
  - **Over-expenditure on the budget** is a common occurrence and no variance analyses are performed on a monthly basis.
  - **Increased debtors and inability to collect revenue due** to lack of systems and commitment and preparedness to take unpopular decisions.
  - Financial **records are missing** and there is no paper trail to track transactions – destroy evidence
  - **Irregularities in supply chain management** are a common occurrence.
  - **Staffing budget** is exceeded
  - **Overtime runs above what can generally be done in a day’s work** and outside the norm of the Basic Conditions of Employment Act.
  - **Multi-Year Budgeting** is not practiced.
  - There is an **unrealistic revenue projections** which leads to budgets overruns
### Causes of distress

- From experience on turnaround within municipalities, there is no single, independent origin of decline.
- Causes of decline are both external and internal.
- The **external causes** are those that are outside the direct influence of municipalities. These relates to the following:
  - Political context that local government as a sphere has not reached advanced levels of maturity, it is still in the process of forming and developing;
  - Powers and Functions
  - **Fiscal stress**
    - Unfunded mandates
    - High levels of joblessness and poverty
    - Dependency on government transfers
- These issues are largely resolved through policy reviews.
Causes of Distress

• The first is about tendencies that society need to confront within its ranks and to critique unsparingly, namely:
  o Tenderprenuership
  o Crass materialism
  o Unhealthy political contestations and power struggles within political structures
  o Departure from values and principles of the Ubuntu
  o Habits of habitually unsuccessful leaders
Causes of distress

• Secondly, one of the fundamental causes of municipal distress can be traced to the preponderance of the tendency of toxic leadership.

• Whicker describes toxic leaders as “maladjusted, malcontent, and often malevolent, even malicious. They succeed by tearing others down. They glory in turf protection, fighting and controlling rather than uplifting followers.”
“Toxic leaders are not garden-variety authoritarian bosses, nor undependable political leaders, nor overly strict parents, nor even difficult spouses about whom we all love to complain. Rather, toxic leaders are those individuals, who by dint of their destructive behaviors and dysfunctional personal qualities generate a serious and enduring poisonous effect on the individuals, families, organizations, communities, and even entire societies they lead.

Toxic leaders come in various shapes and sizes. Intentionally toxic leaders deliberately harm others or enhance themselves at others’ expense, while unintentionally toxic leaders nonetheless cause serious harm by careless or reckless behavior, as well as by their incompetence. To complicate matters, leaders look different, depending upon one’s relationship to them. Thus, my toxic leader may be your hero and vice versa. Let’s also remember that even the most toxic leaders are not toxic all the time. An individual leader may be toxic in some situations and not in others. That same leader may exhibit different kinds and degrees of toxicity at different times in quite similar situations. Moreover, different toxic leaders display varying kinds and degrees of toxicity, and the consequences of their actions may generate different types and levels of harm.”

Jean Lipman-Blumen Toxic Leadership: When Grand Illusions Masquerade As Noble Visions, Leader to Leader of Spring 2005:2
Causes of distress

Engage in a wide range of destructive behaviors, including one or more of the following behaviors:

• Leaving their followers (and sometimes non-followers) worse off than they found them, sometimes eliminating -- by deliberately undermining, demeaning, seducing, marginalizing, intimidating, demoralizing, disenfranchising, incapacitating, imprisoning, torturing, terrorizing, or killing -- many of their own people, including members of their entourage, as well as their official opponents;

• Violating the basic human rights of their own supporters as well as those individuals and groups they do not count among their followers;

• Engaging in corrupt, criminal, and/or other unethical activities;

• Deliberately feeding their followers illusions that enhance the leader’s power and impair the followers’ capacity to act independently, including depicting themselves as the only one who can “save” the followers;

• Playing to the basest fears and needs of their followers;

• Stifling constructive criticism and teaching supporters (sometimes by threats and authoritarianism) to comply with, rather than to question, the leader’s judgment and actions;
Causes of Distress

- Misleading followers through deliberate untruths and misdiagnoses of issues and problems;
- Subverting those structures and processes of the system intended to generate truth, justice, and excellence and engaging in criminal acts;
- Building totalitarian or narrowly dynastic regimes, including undermining the legal processes for selecting and supporting new leaders;
- Failing to nurture other leaders, including their own successors (with the occasional exception of blood kin) or otherwise improperly clinging to power;
- Maliciously setting constituents against one another;
- Treating their own followers well, but persuading them to hate and/or destroy others;
- Identifying scapegoats and inciting others to castigate them;
- Structuring the costs of overthrowing them as a trigger for the downfall of the system they lead, thus further endangering followers and non-followers, alike;
- Failing to recognize or ignoring and/or promoting incompetence, cronyism, and corruption; and
- Behaving incompetently by misdiagnosing problems and failing to implement solutions to recognized problems.
Causes of distress

Some of certain enduring dysfunctional qualities of character that mark the toxic leader:

• Lack of integrity that reveals leaders as cynical, corrupt, or untrustworthy;
• Insatiable ambition that prompts leaders to put their own sustained power, glory, and fortunes above their followers’ well-being;
• Enormous egos that blind leaders to the shortcomings of their own character and thus limit their capacity for self-renewal;
• Arrogance that prevents toxic leaders from acknowledging their mistakes and, instead, leads to blaming others;
• Amorality that makes it nigh impossible for toxic leaders to discern right from wrong;
• Avarice that drives leaders to put money and what money can buy at the top of their list;
• Reckless disregard for the costs of their actions to others, as well as to themselves;
• Cowardice that leads them to shrink from the difficult choices; and
• Failure both to understand the nature of relevant problems and to act competently and effectively in situations requiring leadership.
Causes of distress

• The third interlinked cause is the tendency by some Councillors and Organisational Office Bearers to engage themselves in the municipal tender processes and to dictate how tenders must be awarded.

• Allegations of “tender-brief-case exchanges” where money is exchanged in brief cases to manipulate and unduly influence the supply chain processes, have been doing the surrounds in different municipalities.

• Some of these exchanges have been done in the name of the ANC and a great cost to municipalities as tenders awarded in that way have been found to be not offering value for money for affected municipalities.
Consequences of distress

• Media backlash on the municipal leadership
• Loss of trust and confidence on the municipalities as a whole
• Delegitimisation of rule and reduction in the credibility of local government as an a sphere of government, hence low levels of voter turn over or participation in local government elections compared to provincial and national elections
• Opportunity costs in terms of missed opportunities for development; deferred dreams of our people who long for promised delivery and much deserved improvement in their own lives
• Blame culture – no one wants to take responsibility and to account for what went wrong
• Opposition has a field day
• Low Morale – staff become bruised and divided
• The organisation is put in a disarray
• Service delivery failure leading to mass protests
• Leadership contestations
• Investor confidence takes a pounding
• Criminal actions and piercing of corporate veil and financial recovery
• Suicide and personal toll on families
• Dismissal
Diagnosis of the Problem

1. How did it fall into the hole? (causes of distress)
2. How deep is the hole? (severity of the crisis)
3. How to get out of the hole? (short-term TAS)
4. What does it take to get out of the hole? (short-term objectives)
5. How will it climb the mountain? (Long-term TAS)
6. How high is the mountain? (Vision)

Aim should be the Sustainability of Recovery
Turnaround strategies

• A case study of Okhahlamba
• What can we learn?
• How can we sustain the change based on real experiences?
Dealing with distress: what ILGM should do

• Leadership of municipalities in distress must first admit that they have a problem and they need support – season of cynicism and denialism is over

• ILGM must develop a criteria to rank municipalities to determine which ordinary cause of business which municipalities need support

• ILGM must establish a Peer Review Mechanism, which is supported by Coaching and Mentorship Programme

• Through ILGM high and medium capacity municipalities must adopt a spot municipality for ongoing support

• Targeted support must be mobilised to municipalities with adverse audit findings to determine the nature and cause of problems and to propose solutions with Cogta and Treasury

• Conduct Master Classes for refresher education and training with an objective that all section 56 staff should have at least a post-graduate qualification
Conclusion

- Decline within municipalities is to be expected. But the shrewdest strategy to address decline is the anticipation of decline. This is done through the observation of the vital signs of decline. These are basically the early warning signals about the onset of decline.
- We must continue the effort to professionalise the local government sector.
End

Thank You

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Any Questions