

**ADDRESS TO THE SALGA NATIONAL CONFERENCE
TREVOR A MANUEL MP, MINISTER OF FINANCE**

Johannesburg, 25 April 2007

Chairperson

The Executive Committee of SALGA

Mayors and Councillors

MEC's responsible for Local Government

Members of Parliament

Dear friends

Let me thank the leadership of Salga and the organisers of this event for inviting me to speak at this gala event tonight.

We chose to start the Budget Speech this year with a few words from Will Hutton that say

The foundation of human association is the idea that human life has equal worth and human beings are equally entitled to political, economic and social rights which allow them to choose a life they have reason to live.

We explained that, "The 2007 Budget strives to accelerate economic growth and work opportunities, modernize our public services and infrastructure and fight poverty and inequality, because we have a shared pledge to work together in action. We do this, consciously, as a choice of this government because without a powerful countervailing force, the shadow of history will dictate opportunities, entitlements and outcomes."

We did this to ensure that the foundations of choice for government are rooted in a set of values that are borne of our Constitution.

In different circumstances, and in a very different political context, President J F Kennedy, spoke to a similar theme when he said

"If a free society cannot help the many who are poor, it cannot save the few who are rich"

Gathered here tonight are men and women whose actions (or inaction) touch the lives all South Africans. You do this through the policies you make. You touch people's lives through the decisions you take on how to spend the R128 billion budgets you pass every year. You affect lives through the by-laws and regulations that you pass from time to time. So, you have power. Your actions can change things for better or for worse. Through your actions you can protect the poor, and by failing to act you can cause irreparable harm to the most vulnerable.

As a society, our Constitution provides a very good basis for us to respond to the challenge, which from JFK's comment we can now tell faces every nation. The Constitution commits government to facilitating the progressive realisation of a range of basic rights. It obligates government to provide ... access to adequate housing ..., sufficient food, water and social security, and basic education among others.

The role of developmental Local Government

In the *Local Government White Paper* of 1998, we committed ourselves to "Developmental Local Government". Almost ten years on, as we prepare to celebrate a decade of Salga's existence, we should evaluate the progress we are making (or failing to make) towards creating developmental local government. Importantly, we should ourselves whether we are succeeding in creating local governments capable of intervening in favour of the poor and vulnerable?

Of course, the Constitution recognizes that the realization of basic rights has to be within the limits of available resources. This is a perspective that has been repeatedly confirmed by the Constitutional Court. But, I am sure that we all share the view that through smart interventions that promote economic growth and jobs we can also expand the capacity of the state to deliver services faster. We can also enhance the capacity to deliver more and better services if we improve your collection of revenues. In fact, this is the true story of the remarkable fiscal turnaround in South Africa since the dawn of democracy – a competent Revenue Service has allowed us to exceed the requirements of the Constitution in respect of the resources we allocate for the delivery of public services. Moreover, we could budget for a surplus this year in good conscience, knowing that well motivated plans for services are fully

funded. We should also, in this context appreciate the fact that the quality of our democracy is thereby deepened because it strengthens our sovereign responsibility for decision-making.

Municipal Finance Management

There is little reason why the approach of local government in respect of its commitment to be that countervailing force in the interests of the poor, cannot be enhanced by significant improvements in revenue collection. Furthermore, by thus strengthening the balance sheet with stronger revenue flows, municipalities are able to borrow at rates far more favourable, thus strengthening the capacity to be truly developmental.

The other side of the equation is spending, and that always raises the question of resource adequacy. Whilst everybody, in government everywhere, would probably take the view that their particular line function has inadequate resources – of course, there are many who see the budgeting process as nothing but an impediment to the grand plans – we need a different assessment of resource adequacy. The sphere of local government has an available resource of R 128 Billion – granted that this is unevenly distributed across the 283 instances of local government. Of this amount, R36.2 Billion or 28% now comprises transfers from nationally raised revenues. Transfers to local government will grow at 19% per annum, a rate which is substantially faster than the growth of the total budget. Again, we return to the question – is this amount adequate to deliver on the constitutional imperative of development? Or, more particularly, how would we want the adequacy to be measured?

An issue you might consider this evening, as you wind up the conference, is whether as elected local political leaders you have used the mandate you received from the electorate and the resources at your disposal to intervene sufficiently in ways that improve the quality of life of the poor.

Many of us gathered here tonight, in our daily lives, we prepare plans; we make policy decision and we allocate public resources. As we go about these critical tasks what is our guiding mantra. Is it the number of millionaires we create or the opportunities we create for the poor we lift out of poverty?

Some key government interventions since 1994

Let us remind ourselves of the commitments we made when we came into Government in 1994. We adopted the *Reconstruction and Development Programme*. We made a clear commitment to making decisive interventions through the following programmes:

- Meeting basic needs
- Developing our human resources
- Building the economy
- Democratising the state and society
- Implementing the RDP

Statistics contained in the RDP document show that we inherited a country fraught with many inequities.

- About 17 million people lived below the poverty line. 11 million of these were in rural areas;
- In 1990 there was a shortage of about 1.3 million homes;
- About 21 million did not have access to adequate sanitation;
- Only 36 per cent of households were electrified. About 3 million homes did not have electricity. Similarly, 19 000 schools and 4 000 clinics did not have electricity;
- For black people there was only one phone for every one hundred people; and
- Millions of people did not have access to adequate healthcare.

Government intervened because we made a conscious choice to do so. We adopted a range of pro-poor policies and programmes. Through these we have been able to reach out to millions of fellow South Africans.

This evening we can and should all look back and count many successes. We have delivered over 2 million houses; we expanded the social security net to over 12 million beneficiaries to date. We now provide meals to over 6 million school children. We have connected millions of houses to telephone lines, electricity, water and sanitation. This laid the basis for launching the Free Basic Services programme in

2000. Now, approximately 70 per cent of poor households receive free basic services.

These are tangible interventions which make a big difference in the lives of our people. We have reason to celebrate these victories. But we must remain as restless now about performance as we have ever been. And we must repeatedly remind ourselves that there is absolutely no room for complacency.

Instruments for intervening

Let me suggest a few approaches that could be strengthened in the local government sphere.

Firstly, I want to plead for different approaches to planning. Our IDP's are not generating the outcomes that deal with the apartheid spatial settlement patterns. Many of our people still live in places that are too far from their places of work. Few of our IDP's are sufficiently integrated. They are not creating sufficiently inclusive communities. The people gathered here tonight have the power to alter that. Every settlement has to be approved by a council. Surely councils should refuse plans from developers that do not seek to create sustainable and integrated communities. Surely you can say no to contractors who want to maximize profits by buying land in far flung areas so that they can save on the cost of land.

Secondly it is also within both your capacity and mandate to protect the poor from unscrupulous contractors who deliver poor quality houses and services to the people. To do this we need strong local government institutions. Build these, and ensure that the driving force for local government remains the measure which intervenes on the side of the poor and to provide the best available services.

Thirdly, local government should intervene by developing good *local economic development* plans that create economic opportunities. This has several benefits. It will present people with opportunities to engage in economic activities, thus enabling people to pay for services. It will expand the revenue base of the municipality, thus generating revenue and creating more space for local redistribution through the provision of municipal services. Many economic opportunities remain untapped in this country. Comparative advantages of various localities are not fully exploited. Unless municipalities take the lead in signaling your vision for your areas it will take

us longer to achieve our goals of a *better life for all*. Developmental local government is also about municipalities striving to be self-sufficient. You must work hard to create vibrant local economies. Not everyone can find a job in the big cities. So, you must intervene in ways that crowd in private sector investment in your areas so that job opportunities can be created.

Governance, financial management and effective local democracy

Those of us who are elected political office-bearers need to remind ourselves that by the nature of our constitution, and the political organisations we serve, we are itinerant. We may be dispatched to a particular work area in a particular sphere of government, but none of that is permanent. Moreover, we have no right of entitlement to the position we occupy at any given time. Our political organisations could require at any time that our skills could be needed elsewhere. This is indeed a humbling thought – some of us have occupied the same position for many years, but we must remain aware of the reality of governance in an environment dominated by proportional representation.

I raise this because it needs to inform the way we build institutions. Whilst political office-bearers are itinerant, the officials who serve us are not. We must therefore ensure that we will appoint competent and committed administrators. With vacancy rates of between 30 and 70 per cent in senior management (section 57 employees) – including CFOs and municipal managers - many municipalities will find it exceedingly hard to meet the standards of financial management prescribed by the Municipal Finance Management Act.

Add to that the fact that a sizeable number of CFOs do not have appropriate qualifications in the field of finance. For instance, we are aware of instances where people get rotated from other areas of management e.g. traffic control or human resource management into finance to become CFOs. In such instances, the financial management and accountability becomes an obvious casualty and, to all intents and purposes, municipalities fail. So if people are appointed for any other reason other than their ability to perform the job at hand the employer undermines the constitutional mandate as set out in Section 152. Furthermore, we probably need to acknowledge that the argument that we face such profound capacity constraints holds substantially less water 13 years into democracy.

This year marks the third year since the MFMA was promulgated. The record with regard to financial management is mixed. While compliance has improved insofar as meeting deadlines for submitting financial statements in time is concerned, the quality of audit outcomes is still cause for concern. Between 2003/04 and 2005/06 qualified audits for municipalities doubled.

Because people are finding it hard to meet the standards set by the MFMA, some are now calling for the bar to be lowered. We must not do that. We must use the opportunity presented by the recently gazetted "*Competency Framework*" and training initiatives available to build the capacity needed to comply with the standards set by the MFMA. As government we must lead by example. The fact that some among us get very defensive when we receive adverse audits sends a wrong message to those who elected us into office. It says we do not want to be held accountable. Account, we must. We must also stop the habit of not paying the Auditor General's audit fees. This is bad practice.

Conclusion

We have accepted, of our own free choice, to serve our people through elected institutions of government. This task will always be difficult in a developing country, especially one where the needs are as great as those that obtain here, and where the commitment of government to build a developmental state is as strong as ours. Moreover, our Constitution as strong and modern as it is, allocates powers and functions without the necessary test of capability. This is our joint responsibility – in fact, the extent to which our responsibilities are collective is in fact set out in Chapter 3 of the Constitution which details co-operative governance.

I repeat: we take this responsibility because we believe ourselves to be more than equal to the task. I said earlier, that 13 years into the life of democracy we should stop hiding behind the big shield of capacity constraints – but this does not mean that we have all the answers. Our learning must be as intense now as it was before the arrival of democracy and since then. Our restlessness to improve on our own performance must match that. We have no margin for error. Democracy will succeed, and we must dedicate to the continuous deepening of its quality.

Thank you.