



**Address by Deputy Minister of Finance Nhlanhla Nene, MP at the
2011 Institute of Municipal Finance Officers (IMFO) Annual
Conference**

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Program Director

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Executive Committee and Management of IMFO

Chairperson of SALGA (recently elected) and the Executive

Members of the South African Local Government Association

Executive Mayors and Councillors

Municipal Officials

Government Officials

Ladies and Gentlemen

Good morning and on behalf of the Ministry of Finance, it is my pleasure to deliver this keynote address at this important gathering of decision makers in local government. This conference, I believe, represents a superb opportunity to network

among colleagues, exchange ideas, and learn from the experience of others with the aim of improving municipal performance.

President, as part of government's outcomes approach, local government contributes to Outcome 9 which deals with "*A responsive, accountable, effective and efficient local government system*". In line with Outcome 9, the theme of the conference "**Financial Sustainability Beyond Compliance**" is both topical and relevant against the backdrop of the global economic environment. The global recession in 2009 resulted in job losses and consequently affected municipalities' ability to collect revenue from households and business. The shortfall in revenue collection negatively impacts on the municipalities' cash flow and increases their reliance on transfers from national government. It is therefore important that municipalities should seek to deliver services in a more sustainable and cost effective manner and prioritise essential services.

Ladies and gentlemen, allow me to begin by acknowledging the significant progress that local government has made since the advent of our democracy 17 years ago.

Delivery of basic services

Access to municipal services is improving across the country, particularly in the metropolitan municipalities and other big cities. All this contributes significantly to supporting economic growth, delivering basic municipal services and creating jobs:

- Access to water supply infrastructure has increased to 97 per cent according to the Department of Water Affairs 2009/10 Annual Report and with a current backlog of 3.63 million people, South Africa will come very close to achieving the Millennium Development Goals in relation to water;
- Access to flush-toilets increased by 6 per cent between 2001 and 2007 and the overall access to sanitation has increased to 79 per cent; and
- The number of electricity connections increased by 1.3 million between 2006 and 2009.

In addition, significant progress is being made to ensure that poor and vulnerable households have access to essential services:

- 300 000 more households received free basic water in 2009 as compared to 2008;
- 283 000 more households received free basic sanitation in 2009 than in 2008; and
- 172 000 more households received free basic electricity in 2009 than in 2008.

These are significant achievements. However, while we celebrate, we need to be mindful of the backlogs that remain, and the fact that many South Africans are still waiting for these services.

In order to improve on these achievements, it is important that we confront the challenges we face as local government. I am aware that national and provincial government's limitations are often reflected in the local government sphere to some extent. But, ladies and gentlemen, allow me to point out some of the major issues that require us to double our efforts to improve the living standards of all South Africans.

What are the challenges facing local government?

The broad challenges facing local government relate to the following issues:

- The increased demand for economic infrastructure due to population growth and migration patterns;
- Ageing infrastructure assets that require upgrading, rehabilitation or replacement;
- Rising costs of service delivery; and
- Persistent service delivery backlogs in many areas.

While there are many examples of councils, mayors and municipal managers striving to provide effective leadership and making progress with strengthening governance,

there are a number of instances where serious governance shortcomings remain. The systems that are under greatest pressure are:

- Supply chain management/procurement;
- Billing and revenue collection;
- Unqualified, under-qualified and inexperienced staff appointments (the passing of the Municipal Systems Amendment Act will assist in resolving some the challenges); and
- The spatial planning/zoning functions.

Honourable President and ladies and gentlemen, allow me to briefly expand on some of the challenges identified above to give a better perspective. I will try to address the key issues that I believe require immediate remedial measures.

1. Governance and institutional inefficiencies

The greatest challenge in local government continues to be in the areas of governance and institutional inefficiencies. The legislation provides for clear separation of roles and responsibilities between administrators and councillors but these roles tend to be reversed to the detriment of service delivery. The *Code of Good Practice for Councillors* clearly stipulates that councillors should not interfere in the tender processes. The law is very clear; any such interference is an act of corruption and must be treated as such. The flip side of this is that for councillors to be corrupt they require equally corrupt officials to influence tenders.

Honourable delegates, I wonder whether you have asked yourself this question: why is it that officials who refuse to influence the awarding of tenders find themselves on suspension for alleged misconduct? These are the issues at the core of slow service delivery. Corruption is now a “cancer” affecting service delivery coupled with overpricing and tender rigging.

IMFO as a professional body should develop an Ethics Charter where members found to be corrupt are deregistered and perhaps black-listed! This will be a significant contribution in the fight against corruption.

2. Under-expenditure of Conditional Grants

National transfers to local government have increased from R38 billion in 2007/08 to R70 billion in 2011/12, and are set to increase further to R82 billion by 2013/14. Despite this increase local government continues to under-spend on capital expenditure. For instance, in the 2010/11 financial year, preliminary figures indicate capital under-expenditure of R12.3 billion, of which R4.2 billion alone is under-spending on conditional grants. There are always reasons advanced for this under-expenditure but I want to emphasise that it means we are failing our people.

I am sure you are all aware that the recession affected government revenues, and this meant that our government had to borrow money in the international capital markets for the primary reason of sustaining transfers to provincial and local government, so that service delivery would not suffer. It is in this light that for government (more so as a representative of the Ministry of Finance), under-expenditure on conditional grants is not acceptable. In the same vein, I am also not encouraging you to spend unwisely so that the numbers look good while there is no delivery on the ground. We must always strive for good value for money.

The question therefore is “what needs to happen now to reverse this bad trend?” I am sure your deliberations over the next three days will provide answers.

3. Management of municipal personnel

The ongoing instability in senior management appointments within municipalities remains a serious concern. Mayors and municipalities have a duty to ensure the posts of municipal manager, chief financial officer and the section 57 managers are filled by competent and committed administrators. I am sure as the IMFO, you

understand the importance of having qualified municipal financial officials – I am aware of the contributions made by the IMFO among other bodies such as Auditor General, National Treasury and DBSA in addressing some of the skills required in the profession.

In order to improve the governance issues, Parliament is to be applauded for passing the Municipal Systems Amendment Act. This Act ensures that appointments for section 57 managers (other than the Municipal Manager) are permanent, to ensure stability. The Act also regulates the employment of officials who were dismissed from other municipalities.

Government is aware of the skills gap in most of the Budget and Treasury Offices in many municipalities and it is critical that the support initiatives are streamlined and consolidated for better outcomes.

4. Getting back to the basics of budgeting

In line with your conference theme, to ensure that municipalities are able to sustain existing services, municipal budgets must be adequately funded in accordance with the legal requirements set out in the Municipal Finance Management Act (2003). A major part of the challenge is to get the basics of cash management and revenue management right. Municipalities need to understand the link between financial planning and managing cash resources. Part of this involves ensuring that regular bank reconciliations are done. These measures will translate into proper cash flow management and limit the number of instances where municipalities fail to pay suppliers.

I am happy that the IMFO has included issues of revenue and cash management on the programme for detailed discussion. I would not want to pre-empt those discussions at this stage.

5. Management of assets

In order to sustain the revenue generating capacity of municipalities, there is an urgent need for all municipalities to pay greater attention to maintaining their existing assets. Asset management systems and levels of spending on repairs and maintenance need to be significantly improved. To assist in financing this expenditure, service tariffs must be cost reflective. I am aware of the affordability concerns raised by most municipalities but it is also very clear that the tariff setting process in most municipalities is not explicitly based on sound costing principles.

Maintenance spending is growing, but substantially more is needed, and urgently. In the past few years we have seen an increasing number of service delivery interruptions and failures due to poorly maintained infrastructure. This takes us back to the need for municipalities to improve their asset management capabilities.

Way Forward – Significant Policy Reforms

The period ahead will see continuing efforts to improve the effectiveness and efficiency of local government.

Government is exploring ways to ensure that the legislative and fiscal framework for local government is appropriately structured to facilitate the functioning of municipalities in different contexts. This includes extending the differentiated approach to the local government fiscal framework to ensure the more capable municipalities are able to exercise greater discretion in the way they pursue their developmental mandates, while ensuring that municipalities with low fiscal capacity are equitably supported by national transfers. I am sure most of you have heard this before, but we are getting closer to the outcome and hopefully most of you will appreciate the final product.

On the financial reforms, government through the National Treasury is spearheading the following reforms:

- Standard Chart of Accounts for Local Government;
- Implementation of the Municipal Budget and Reporting Regulations focusing on cash flow management and funded, credible and sustainable budgeting;
- Revenue management;
- Municipal Business Process and Systems Solutions;
- Municipal Tariff setting and modelling;
- Strengthening of the Section 71 quarterly financial reporting processes;
- Improved monitoring and enforcement of the Division of Revenue Act; and
- Publication of a wider range of municipal financial information on National Treasury's website.

Collectively, these initiatives aim to help municipalities realise better value for money in the use of public resources. In addition to these reforms, improving financial management and streamlining intergovernmental co-ordination remains crucial. Providing support through different initiatives by national government has been strengthened. All these reforms would only be effective with the support of a body like the IMFO and I call upon the IMFO to assist in disseminating important information to its constituency regarding some of these initiatives.

I am sure you don't want to miss the detailed presentation on some of these issues in National Treasury's presentation tomorrow.

Conclusion

Honourable President and delegates, as we reflect on the successes that local government has achieved we should not be complacent as there are still a lot of challenges that require radical re-think.

I also urge you to retain and strengthen your integrity. Become a trusted partner to the good people in our country who are genuinely interested in urgent change that will help us overcome our legacies and fulfill our potential. Let us work together in the interest of good business and good governance.

Ladies and gentlemen, I hope your deliberations over the next two days will help you to embrace a developmental paradigm which enables you to acknowledge both the challenges and the exciting possibilities we have as a country. All of us have a valuable contribution to make to ensuring that our country affords a better life for all who live in it.

Thank you.