



MINISTRY OF FINANCE
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Keynote address

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Program Director,
The President of IMFO, Mr. Chris Nagooroo,
Executive Committee and Management of IMFO,
Members of the South African Local Government Association,
Executive Mayors and Councillors,
Municipal and other government officials,
Ladies and Gentlemen

Local government is at the coalface of the delivery of public services and the success or failure of municipalities in delivering services. It shapes public opinions about government, both at administrative and political level. More importantly, the success or failure of local government determines whether millions of poor and marginalised people live in decent conditions, have a dignified life, and are able to enjoy a happy and secure family life.

Section 153 of the Constitution requires that “a municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community”.

The transformation of local government is an important pillar of the overall democratic transformation in our country. As you know this sphere was not the subject of discussion at the negotiating process which shaped the future of our democracy.

I pay tribute to the many thousands of municipal political and administrative leaders and staff who guided the transformation of local government for the last eighteen years. I also want to thank all those who make an honest and energetic endeavour every day to ensure sound financial management, ensure actual service provision, build professionalism in the municipal sector and reinforce the need for integrity in everything we do.

How we lead and manage local government will decide whether we have economic development in our country generally and in the areas in which you operate. It will determine whether we create jobs for our people, whether we actually deliver infrastructure and maintain that infrastructure and provide the basic services that are needed by both residents and businesses. So, when we speak of a capable state and a developmental state, what we mean is, first and foremost, a capable local government. In that context, the theme of this conference is most appropriate.

Ethical leadership from senior financial managers is absolutely crucial to achieve both proper development and sound financial management.

Municipal financial management is about the management of a range of interrelated components. It's not just about the numbers that you put into the Excel spread sheet. Among others, these are:

- Enhancing the developmental mandate of local government
- Planning and budgeting; and ensure that this happen in a transparent and participatory way
- Ensuring a continuous capital investment in each of our municipalities and even set aside money for that capital investment
- Most importantly in our context maintenance and repair of existing infrastructure
- Generating revenue, debt collection

- Managing cash and expenditure within the limits that we have. Too often today we hear municipalities saying they don't have money and they are under financed. But sometimes, the other reason we find ourselves in this situations is because we over promise, under deliver, under spend and over spend at the same time.
- Financial management is also about procurement. It is not just filling in procurement forms or meeting in secret corners to cut deals with the right people to get the right tender. It is about ensuring value for money because the money we spend in the municipalities and any sphere of government is not our money. It is the money of rate payers, the money of tax payers; it is the money that you charge for services that you offer. But that is not our money we are just the guardians of public funds and we must ensure that we do the right things and get the right value for money for those public funds.
- Asset management is another challenge
- Reporting and oversight.

Each of these components contributes to ensuring that municipal expenditure is developmental, effective and efficient.

A study by the McKinsey Global Institute points to the fact that rapidly growing cities and we have many of them in South Africa face a complex and challenging managerial task in keeping pace with their expanding populations and their rising expectations.

I quote from the McKinsey report: “To avoid constraints on their growth, cities need to be able to plan the urban environment for sufficient housing and effective transportation, ensure that sufficient finance is available to support both operational capital spending of electricity, telecommunications, water, and other services, and, through small regulation, provide an environment that encourages entrepreneurialism and business investment.”

As an important part of the top political and management team in municipalities financial officers have a crucial role to play in ensuring that municipalities fulfill this complex mission. Your role becomes even more important given the economic, social and developmental challenges we face today.

The recent strikes, the regrettable loss of life and the disruption to some parts of the economy pose a significant challenge to all of us. Government is doing everything possible, and will continue to do more, in order to ensure that the situation returns to stability and that necessary conditions are created for appropriate initiatives and

changes to current ways of doing things do in fact happen. Equally, both labour unions and business are committed to stabilising the situation and cooperating to respond to the challenges posed by these events.

My colleague, the Minister of Mineral Resources, Susan Shabangu has been energetically engaging with business and labour to map out solutions that can address some of the underlying causes of the challenges we have today. Equally my colleague, the Minister of Labour, Mildred Oliphant has also been actively engaged with relevant parties to ensure that there is progress in the disputes within the context of the labour relations system in SA. The Minister of Police is ensuring that there are adequate resources deployed to ensure the safety of all concerned.

It is absolutely vital that all of us, as South Africans with a singular mission to enhance our democracy and ensure a better life for all of our people, must act in a united and disciplined way to strengthen our ability to provide services and decent living conditions for our people. In this case looking at our people working in the mines, our municipalities in the mining area have also fallen short in ensuring that workers in the mines live in decent conditions. At the same time we must be energetic and creative to build the economic potential of municipalities which must be key sites of investment and job creation.

In order to fulfil this mission, this ambition for our country we must both celebrate our progress and successes as a young democracy and at the same time frankly face our shortcomings and deficiencies. We cannot delude ourselves that all is well! Let us understand what our challenges are and what we need to do to overcome them. WE have to act appropriately to overcome OUR challenges – nobody else!

What are some of these challenges?

It is therefore disconcerting that some municipalities continue to disregard the legal framework for the preparation and submission of annual financial statements, and the quality of the information presented. It is evident from my conversations with the Auditor General that local government is consistently underperforming. The increase in unauthorised, irregular, fruitless and wasteful expenditure during the 2012/13 or 2011/12 financial year increased by about R4 billion to about R15 billion, surely this is unacceptable.

Municipal Councils rely on information provided by the officials when taking decisions. So, the quality and timeliness of information provided is of utmost importance. It is unacceptable when officials make light of this responsibility.

But the political leadership of municipalities must take its fair share of the blame for some of the fraud, corruption, and the interference with tender processes. Councillors cannot hide behind ignorance of what is required of them. The Municipal Systems Act clearly articulates the Code of Conduct for Councillors. SALGA and National Treasury undertook councillor training sessions throughout the country during the previous financial year; the intent was to equip Councillors with the necessary information to guide them in executing their responsibilities. If you cannot demonstrate that you are creating a system of financial management that has integrity, transparency, honesty and that looks after people's money then you are failing in your co responsibility ladies and gentlemen.

Equally of concern is that local government is still not fully compliant with the Municipal Finance Management Act which came into effect in 2003. Several municipalities have yet to put the basics in place to meet the MFMA's minimum requirements.

Then there is the ill-discipline among high ranking and highly paid officials in local government. Their irresponsible behaviour and mismanagement of government resources is unacceptable. The violation of supply chain management (SCM) regulations and the significant leakages in this area must end. In this regard, National Treasury is in the process of establishing a dedicated unit to monitor procurement practices across government.

The amendment to the Municipal Systems Act by the Department of Cooperative Governance and Traditional Affairs (COGTA) is an effort to address the prevalence of employment of persons who do not have the relevant skills or experience. This has been identified as the root cause of weak leadership and poor decision-making.

These have been identified as contributing factors to local government financial management and service delivery inadequacies and failures.

The Municipal Regulations on Minimum Competency Levels for accounting officers, chief financial officers, senior managers and financial officers promulgated in 2007 describes the minimum requirements that municipalities must comply with as from 1 January 2013. This deadline is not negotiable.

Generally, municipalities have a tendency to wait until the eve of a deadline to react. This tardiness will not be tolerated and, officials may find themselves without a job should they fail to comply.

We are all familiar with the challenges that face local government. Perhaps we have become too familiar with these challenges that we have become shockproof to them as well as the fact that the solutions lie in our hands. And often in my experience the first thing that people point to when they have weaknesses in their system is the fact that we do not have enough money.

But from our experience we found that the problem does not appear to be funding; just look at the levels of under-spending in municipalities. So where does the problem actually lie? In the last financial year there was about R10 billion that was underspent. The root cause we submit is still poor planning, poor leadership, poor implementation, not hiring the right people and not having the right determination to ensure that the services we are supposed to provide and investments we are supposed to make are actually being made.

These problems are, and will be, magnified by the tough economic environment in which South Africa and the world finds itself. Even before the slowdown in economic activity, municipal revenue collection rates were falling and debtors' books were growing. Part of the problem is that municipalities have not made enough effort to improve the quality of their billing information and the overall integrity of invoices presented to customers. Customers are increasingly losing confidence in the ability of a municipality to issue them an accurate invoice and on time, as required by the Municipal Systems Act.

Municipal finances are strained because municipalities have not been delivering on their mandates. As a result, municipalities were, on aggregate, owed R77.6 billion as of 30 June 2012. The largest share, 65 per cent, of this debt is owed by households. Clearly one of the challenges that we have is the fact that we have not done enough to ensure that we maintain a better culture of payment than we have at the moment. We have done phenomenally as an 18-year old democracy in terms of tax compliance in this country. It is you as finance managers and people who operate at municipal level to start emulating that now at the municipal level. R77 billion worth of debt owed to municipalities is a formidable amount, imagine what you could do with this money if you had it in your hand. So the question and challenge for you is: are we doing enough in this area. We cannot and must not ask for more money from the local government sphere if we have not collected the money that is due to us.

The combination of these factors means that local government now has to deliver public services using a declining pool of revenue. This makes deriving value for money exceedingly important and a key performance indicator.

The increase in service delivery protests and the increasingly violent nature of these protests are indicative of communities that are dissatisfied with the rate at which local government offers and delivers its services. Data compiled by the Municipal IQ show that service delivery protests so far this year already exceed the figure for 2011. One hundred and thirteen had been recorded by the end of July this year, compared with 81 for the same period last year. This poor performance receives widespread media attention and by association, public perception of local government is negative. But I know that this problem doesn't arise just from poor service delivery, it also arises from all sorts of political conflicts which are taking place within municipal areas. And this asks that we undertake a fundamental change in our political culture in SA were we learn to disagree but work together.

Municipalities have not been investing adequately in the building of new infrastructure. Nor have they been investing adequately in the maintenance and renewal of existing infrastructure. Consequently, municipalities have backlogs running into billions of rands.

To address this problem, National Treasury now recommends that each municipality set aside no less than 40 per cent of its capital expenditure budget for the renewal of existing assets. In addition, no less than 8 per cent of the written down value of a municipality's plant, property and equipment should be set aside for repairs and maintenance.

These backlogs in the maintenance, repair and renewal of electricity, water reticulation, sewerage, storm water and road systems, impact negatively on the financial sustainability of municipalities. They also make it difficult for municipalities to provide reliable and quality public services.

Also, the poor social and economic infrastructure will over time constrain the growth of our economy. This is because all economic activity takes place within the geographic boundaries of municipalities. A recent study by the McKinsey Global Institute cautions that cities that under-invest in infrastructure and fail to keep pace with their expanding populations and their demands – or indeed invest inefficiently or in the wrong things – can find themselves hitting barriers to growth which means all of us hit the barriers to growth as well.

Conclusion

Honourable President and delegates, we must redouble our efforts to rebuild the foundations of good business practices that we have eroded over time. We must act responsibly and with integrity in the exercise of our duties. And lastly, if we find ourselves overwhelmed because we are indeed not suitably qualified for the task at hand, we must do the honourable thing and step down.

I thank you