



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

**Improving the State of Local Government Revenue and Expenditure:
*A closer look into interventions to improve municipal spending on conditional grants and build sound revenue systems for municipalities***

Honourable Speaker/House Chairperson

Honourable Members

Introduction

Performance in the public sector is generally measured by the public - the people that we serve - in terms of the audit outcomes issued by the Office of the Auditor General on an annual basis. The audited outcomes reported for local government have been regressing year on year with a resultant impact on service delivery and a community which is close to a rates revolt. The National Treasury has implemented numerous measures like the implementation of the Municipal Finance Improvement Programme to intervene and to assist in improving the state of local government. However, to truly understand the interventions that were required, we first need to understand the issues that are plaguing the sector in terms of revenue and expenditure management.

Overall Performance of Local Government

Unfunded Budgets

Poor financial management, lack of governance and poor oversight and poor leadership in municipalities are some of the root causes cited by the AGSA for the poor financial performance of municipalities. There is political interface in administration matters, straining the relations between key political and administrative

officials which hamstringing many municipalities. In addition to this, municipalities begin their financial years, planning to fail. That is, they religiously prepare budgets which are approved by councils, however, the majority of the budgets approved are not credible and are not based on realistically anticipated revenues and expenditures. In other words, they are unfunded. Due to the current economic climate, the impact of the Covid-19 pandemic, the increase in the unemployment rate and the fiscal constraints impacts on all spheres of government, to the extent that the national and provincial governments are cutting their expenditure in line with available revenue.

Subsequently, it is understandable that realistically achieved revenue streams for municipalities would be reduced. However, this understanding of the economic climate and its impact on the individuals and businesses in the communities from which revenue is to be generated, is not taken into account or reflected in the municipal budgets. Despite the reduced revenue collectable, expenditure budgets of municipalities are not adjusted accordingly and therefore municipalities inadvertently plan to spend more than they can actually receive in revenue. This is the main contributing factor to the financial distress faced by municipalities. The solution to this problem is simple, municipalities should only spend revenue that they have received or which they are realistically likely to receive and to use the revenue appropriated by National and Provincial departments in the form of conditional grants for their intended purpose. These are sentiments and solutions that have been constantly echoed but are not implemented by municipalities.

Municipal Personnel

Another problem affecting the revenue and expenditure of local government, is the bloated municipal structures. Despite having the personnel, staff lack capacity to execute functions key to their areas of responsibility resorting to employing consultants to perform these duties. Municipalities are therefore appointing or attracting personnel at salaries which are on average above the public sector yet with inappropriate skills to perform tasks or to hold positions to which they do not fully qualify. This results in a drain in the limited financial resources of municipalities, taking funds away from the municipality fulfilling its sole mandate of service delivery, and channeling it to supplement a workforce that does not have the requisite skills to perform the job. In other words, funds that could be utilized to repair potholes in roads is used to pay

consultants to draft financial statements which should be the duty of the municipal CFO and their Finance Team.

Revenue Losses due to Ageing Infrastructure

Revenue losses are incurred daily in local government through losses in the distribution of electricity and water as well as theft through illegal connections of these services in the municipal area. Apart from the theft from some communities with regard to these services, ageing infrastructure that has not been properly or timeously repaired and maintained also contribute to these losses. Due to a lack of skills in the Finance and Technical Departments to budget adequately for such repairs and maintenance as well as a lack of proper planning, budgeting and implementation capacity for capital expansion of networks, revenue generation envisaged from these internally generated sources of the municipalities is not likely to be realized. Poor management of these assets impacts on the revenue generating capacity of the municipality.

Town Planning Issues

Revenue enhancement and turnaround strategies are prepared by municipalities, however, they fail to address the inefficiencies in town planning and property valuation functions – the focus of these strategies is traditionally on billing and debt collection. Municipalities fail to see the link between proper town planning to the general rates valuation roll and its subsequent link to billable rates and resultant rates revenue. Slow town planning processes and changes in the demarcation boards have contributed to poor data integrity with the municipalities not certain which properties or land fall within its area of jurisdiction. This affects their ability to bill property rates on these properties impacting on revenue. Town planning units need to be adequately capacitated with the appropriate skills of town planners, valuers and building inspectors and they need to work with the Rates Departments in municipalities to ensure that data and property information is seamlessly integrated in the financial systems.

Unspent Conditional Grants

A large portion of conditional grants are, year on year, unspent. This robs the communities of much needed infrastructure and services. The municipalities usually attribute the delay in spending the grants to slow or cumbersome procurement processes in local government as well as problems faced with appointed contractors

on projects. However, in reality, some of the problems are attributable to poor planning by municipalities and poor contract management of service providers. More importantly personal interests in the setting of specifications as well as interests in the awarding of tenders is also a major problem in municipalities which contributes to either delays or in the appointment of service providers who are not skilled to render the required service resulting in goods and services of poor quality being supplied at non-market related prices. In addition to this, poor budgeting by municipalities, as mentioned above, results in municipalities utilizing conditional grant funding to fund operational expenditure because they had failed to adjust or align their expenditure budgets with the realistically anticipated revenues. This hinders the progress of projects as there is insufficient funds cash backed to fund projects approved for conditional expenditure projects. Staff within the municipalities therefore need to be capacitated with project management, contract management and financial planning skills and should put the needs of the community first before serving self-interests.

Interventions by National Treasury

The Municipal Finance Improvement Programme is in its third phase of implementation as an intervention to assist local government in improving its spending on conditional grants and to assist municipalities build sound revenue management systems. The teams deployed to Provincial Treasuries and selected municipalities have identified that in most cases municipal staff lack basic skills to understand the revenue value chain which is the building blocks for efficient and effective revenue management. They had found that staff with institutional knowledge of the municipalities had left leaving voids within the local sector and with local government and are replaced by inappropriate skills to perform these specialized functions. The instability of administrations which often purge appropriate skills is increasingly making it difficult for local government to attract required skills. Without right skills and high turnover of staff the support through deployment of experts has not yielded sustainable improvements in the financial management capacity of municipalities

One of the core functions of the teams deployed to assist municipalities is to conduct an assessment on the credibility of the municipal budget and to determine if the budgets are fully funded or not. It must be borne in mind that ultimate responsibility of appropriate budgeting lie with the municipalities, therefore the Technical Advisors appointed by the National Treasury, are meant to provide guidance to municipalities

on how to improve their budgets and to begin the financial year with a clear plan of achieving sound financial management knowing that expenditure will only be incurred for items that could actually be funded, thus avoiding cash flow problems in the municipality.

Conclusion

National Treasury, Provincial Treasuries, CoGTA and other key stakeholders in the local government sphere, can only provide assistance and guidance to a limit. They can play the “big brother” role and resort to punitive measures to ensure compliance by municipalities, but the ultimate responsibility of ensuring good financial management in municipalities lies with its administration and council. Without the will or desire from the Councils and municipal staff to improve municipal performance, the intervention measures implemented by the stakeholders mentioned above would not be sustained as the evidence suggests. Sound, good, ethical governance, from a political and administrative perspective is one of the critical success factors contributing to improved financial management and service delivery in municipalities, without which all efforts to support municipalities by the various stakeholders becomes fruitless and wasteful expenditure. There needs to be a complete mindset shift on councils and management of municipalities, to focus on their core mandate of service delivery and to ensure that municipalities are run as an efficient business by managing its resources, planning effectively with single goal of serving the communities.

It is time that the leadership in Municipal Councils is held accountable for the poor financial management and decision making. Sound financial management decisions must be taken, including appointing officials with the requisite skills to ensure improved infrastructure delivery and conditional grants spending.

Thank you