



MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

INTERVENTIONS TO CHANGE THE CURRENT STATE OF LOCAL GOVERNMENT TO BUILD CAPABLE AND FINANCIALLY SOUND MUNICIPALITIES

Honourable Speaker/House Chairperson

Honourable Members

Introduction

Honourable members, every year brings its defining moments. But, there is no doubt that 2020 will be penned as a turning point in world history.

From a health and social crisis, the world now faces the most severe global economic recession since the 1930s.

COVID-19 has created worldwide social and economic turmoil.

For the South African economy, the pandemic added more fuel to an already raging fire. Even before COVID-19, our economy was already in trouble. Our sovereign credit rating was downgraded to junk status by Moody's at the same time that our national lockdown was imposed. This represented a double blow for our economy.

Honourable members, responding simultaneously to health, social and economic crisis is not an easy balancing act. Many of the interventions required represented an unprecedented challenge for the government. Local government, in particular, was at the forefront of responding to needs at the household and community level. In hindsight, what the pandemic revealed is the pivotal role that local government plays in responding to crises, but more importantly, is that most of our municipalities lack the financial capacity and the capability to do so.

Honourable Members, for a government to work effectively in the worst of times, it needs to have well-oiled systems, practices and resource flows in the best of times. A well-resourced and capable local government can make important contributions to the overall well-being of our economy.

So how do we create a well-resourced, financially sustainable and capable local government sector? One that is consistent with the economic recovery path laid down by the President on the 21st of April, a path that we must follow.

According to the President, our economic recovery should:

“not merely return the economy to where it was before the coronavirus, but forge a new economy in a new global reality”

Honourable Members, forging a new economy that speaks to the new global reality is a mammoth task. It is not an insurmountable, but it is a task that would require a 100 per cent collective, renewed, dedicated and deliberate effort amongst the three spheres of government and the private sector. As I previously indicated, local government is a key role-player in our socio-economic and development trajectory and is thus expected to contribute significantly to our new economic reality. Building a capable and financially sound local government sector is, therefore, a national priority.

Local government failure

However, over the last decade, the performance of many municipalities has unfortunately become synonymous with failure. These have been evident in the convergence of findings between the Auditor-General, the National Treasury and the Department of Cooperative Governance.

In addition to these official reports, there has been extensive press coverage on municipal failure and reports of several community protests turning violent. COVID-19 further exposed some of the harsh inequalities in accessing basic services by some communities and a few instances where self-serving local government officials have threatened the sustainability of municipalities through their fraudulent, corrupt and opportunistic behaviour despite a national crisis.

A multi-faceted problem

Officials in my department have informed me that many problems challenge efforts to create a capable and financially sustainable local government sector. I am informed of legislation, regulations and other interventions that they have institutionalised over the last 16 years that attract international recognition, but for some reason do not seem to work in our local government system.

The problems have been grouped into three broad areas for simplicity and we have interventions underway to address most of the specific problems within each of these areas. The three areas are:

1. Administrative challenges;
2. Structural challenges; and
3. Political/People challenges.

Administrative Challenges

Efforts to address administrative challenges have been ongoing. The specific administrative challenges that emerge are largely linked to poor leadership and management in local government. As a result, a number of municipalities overspend their budgets, under-collect their revenue, default on their payments to suppliers, poorly manage their capital assets, prioritise non-essential spending and make decisions that are inconsistent with the Constitution, the MFMA and even common sense at times! This leads to a haemorrhaging of financial resources and sometimes a loss of skilled professional staff where leaders are unethical.

Some of the interventions to deal with administrative issues include a continuation of capacity building and support through an extension of the Municipal Finance Improvement Programme. We are also working on assisting municipalities in ensuring that their budgets are funded and that they stop spending money that they do not have. This has been the reason why a number of municipalities have ended up in precarious financial positions. A further priority is to ensure that municipalities implement credit control practices. A financially sustainable municipality must be able to balance its revenue inflow and outflows. Municipalities have become complacent and greater emphasis is now placed on monitoring these indicators in municipalities.

Last year the Budget Council endorsed a strategy by Team Finance which consists of the National and Provincial Treasuries, to address Municipal Performance Failures. The strategy has been reaffirmed at a recent Budget Forum and execution of the strategy will begin in earnest from 2020/21. The strategy is centred around the

clarification of institutional arrangements and the identification of strategic focus areas in the form of 6 game changers that will inevitably lead to a capable and financially sustainable local government sector. (6 game changers namely; funded budgets, revenue management, Municipal Standard Chart of Accounts (*mSCOA*), asset management, audit outcomes, supply chain management).

Lastly, we are beefing up our capacity in the National Treasury to create a stronger Municipal Finance Recovery Service Unit.

The unit will be responsible for the development of financial recovery plans where municipalities are in a financial crisis. The unit is currently in existence, however, the number of requests received for the development of financial recovery plans exceeds the capacity of the unit.

Structural challenges

Our country suffers from a chronically high unemployment rate. Many of our people cannot afford basic municipal services. There are, however, many who also choose not to pay for services.

The ability to pay and the willingness to pay for municipal services represent challenges to the revenues of the municipality.

In addition to poverty, our economy has also undergone several changes which have had an impact on municipalities and their ability to generate revenues, typically in those towns that were heavily reliant on mines or a few large businesses for their survival.

We have committed to undertake a review of the local government fiscal system. This will be a medium-term issue. A premature assessment may skew the outcomes. Our focus for these municipalities in the short term would be to assist in better aligning the available revenues and expenditure.

Political and People Challenges

Honourable members, the political issues in local government have been described as the “Achilles Heel” of the system. The lack of consequence management and our perceived inertia to deal with corruption in the past has created a precedent in the system.

Failure to fix the problem now will have catastrophic implications for the local government sector shortly.

In many municipalities, the boundaries between political oversight and municipal administration have completely broken down. Politicians are becoming increasingly involved in the administrative affairs of the municipality – particularly around the awarding of tenders and contracts.

Political challenges require political intervention

The first difficulty in addressing political interference is that it does not fall within the realm of administrative action.

Hence, officials in my Department cannot deal with corrupt politicians. The second difficulty in dealing with political interference is that it cannot be measured like overspending on a budget and usually depends on a whistle-blower to bring corruption to the fore.

Conclusion

In concluding, honourable members, I would like to emphasise that unless the political leadership deals with the political challenges confronting local government, no amount of administrative support or restructuring of the intergovernmental fiscal system, will create a capable and financially sustainable local government sector. As we move towards a local government election in 2021, we need to restore the institutional integrity and credibility of the local government sphere. The decisions we make going forward must positively impact the local government sector for generations to come.

Thank you