

Deputy Minister Parks Tau

National Council of Provinces (NCOP) Local Government Week

Opening Address

THEME: ENSURING CAPABLE AND FINANCIALLY SOUND MUNICIPALITIES

11 September 2020

Protocol

Chairperson of the NCOP,
Honorable Deputy Chairperson of the NCOP
President of SALGA and members
Ministers and Deputy Ministers
MEC's and Permanent Delegates
Chairpersons of Committees
Chairperson of the Portfolio Committee in the National Assembly
Mayors and Municipal Managers
Honorable Members and representatives
All protocol observed

INTRODUCTION

During this local government week, we committed to frank and just dialogue, not only getting to grips with the immense financial and management challenges facing local government but committing to resolve these issues. The primary objective of this National Council of Provinces (NCOP) Local Government Week, was that we find durable resolutions, ensuring that municipalities, with the assistance of national and provincial government, implement the Municipal Audit Results. It was further resolved that municipalities respond by developing the necessary plans to address these results. In turn national and provincial departments must demonstrate how they will assist the municipalities in doing so. But indeed, the Chairperson of the NCOP, honourable Amos

Masondo brought us back this week to a higher order ambition, that the aim of Local Government Week 'is to find ways to improve the lives of all South Africans'.

On 1 July 2020 the Auditor-General released the Municipal Audits Results for the 2018/19 financial year under the theme "Not much to go around, Yet not the right hands at the till". The findings revealed that funds in local government are managed "in ways that are contrary to the prescripts and recognized accounting disciplines." Local Government Week notes from the AG report that "failure to manage funds properly 'make for very weak accountability and the consequent exposure to abuse of the public purse'. According to the Auditor-General the course of action should be 'how, firm steps are going to be taken to restore the integrity of these institutions and place them in a position to manage their finances towards the achievement of citizens' needs'. The Audit Findings also identified, that municipalities are "crippled by debt and being unable to pay for water and electricity; inaccurate and lack luster revenue collection; expenditure that is unauthorized, irregular, fruitless and wasteful; and a high dependence on grants and assistance from national government".

We have heard deliberations across all spheres of government. From Premiers, Mayors and Ministers alike. Delegates took the time and effort to prepare detailed submissions painting a canvas with both challenges and potential solutions to crises of local government. I would like to thank every delegate for their dedicated commitment and passion during this week.

The breadth of deliberations, engagements and discussions has been stimulating, sobering and inspiring. Leaving me with a renewed sense of hope and faith in our collective ability and urgency to resolve these matters.

PROBLEM STATEMENT

Over this past week there have been recurrent themes. These include; poor financial management, lack of governance and inadequate oversight, failed leadership and dismal financial performance in municipalities. We were at pains to acknowledge the less than adequate financial planning, with a large number of municipal budgets although approved, not credible and certainly not based on any viable revenue and expenditure calculations. The lack of statistical rigor that underpins financial planning in municipalities was highlighted on numerous occasions.

We uncovered the difficult reality of organizational failure. Over bloated municipal organizational structures, inflated salaries, a lack of skilled personnel, low levels of capacity and capability, over-reliance on consultants

to perform basic functions, resulting in the ultimate draining of the municipal fiscus and a rapid slowdown in service delivery.

The cumulative impact of poor financial planning on infrastructure assets, and the rapid deterioration of critical infrastructure assets such as; water, sanitation, electricity, roads and stormwater are evident. While, asset maintenance and upgrades lag, paradoxically there is underspending on conditional grants, compounded by inadequate and burdensome procurement systems.

As, if we thought things could get worse, the corona virus pandemic, adds to our woes, in ways that have been articulated more eruditely by delegates here and not worth belaboring.

However, Sir Winston Churchill is credited with first saying, "Never let a good crisis go to waste." He said it in the mid-1940s as we were approaching the end of World War II. And these words could never be more apt than now. How do we recover from this crisis? And rebound in a manner that is both surprising to us and the world?

If anything, this week has revealed not just our challenges, but in turn the vast range of interventions and tools that are currently being implemented. Too say that government is sitting back and doing nothing, is never further from the truth.

It would be important, therefore, to dwell on the most important insights from this week. To demonstrate not only that work is being done, but also to elucidate the most critical areas that deserve our attention. It is hoped that when we convene next year this time, that we are instead reporting on tangible results and witnessing the fruits of our efforts.

A WAY FORWARD: REVEALING INSIGHTS

This past week has revealed valuable insights of which I would like to mention but a few;

A multi-faceted problem, requiring a multi-faceted and all of government approach

There has been general consensus across many submissions about the multi-faceted problem facing local government. Which requires action from all of us. While the manifestation or symptoms of the problems reveal themselves starkly in the AG's report. In fact, the crisis in local government is not just administrative, but structural and political.

The Finance Ministry and many other Ministries drew attention to these important root causes. But also, brought our attention to the endorsement of their strategy by the Budget Council that 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 clarification of institutional arrangements and the identification of strategic focus areas in the form of six game changers that will inevitably lead to a capable and financially sustainable local government sector. The six game changers are; funded budgets, revenue management, Municipal Standard Chart of Accounts (mSCOA), asset management, audit outcomes, supply chain management).

A people centred approach to stabilisation

SALGA highlighted the range of interventions that have taken place over the last ten years to stabilise local government, this includes; the Municipal Support Program, Project Viability; Project Consolidate, the Local Government Turn Around Strategy, Siyenza Manje and the current Back to Basics. SALGA highlighted the need to adopt a people approach to stabilisation. This was demonstrated through a renewed emphasis on leadership and oversight. Pertinently this would take the form of an accelerated capacity building programme for Municipal Public Accounts Committees (MPAC's). It would also include a Consequence and Accountability Framework, to further strengthen accountability.

Project planning and discipline can resolve financial problems

The AG, highlighted the important role of enhancing discipline in project planning as a preventative measure, showing that the District Hubs could support Accounting Officers in Municipalities through effective oversight. Project funds would only be released based on credible implementation plans and business cases. The monitoring of project plans would be undertaken by oversight committees comprising of; citizens, civil society organisations and the municipality. The AG further highlighted that the ultimate measure for prevention is ensuring that controls are in place. And announced this year's launch of the Preventative Controls Measures guide for municipalities.

Asset management and protecting the assets of municipalities

There is great energy and renewed commitment from Provinces in assisting municipalities with developing credible asset management plans, ensuring that Asset Registers are compliant with the required GRAP Standards. This is an essential aspect of protecting our assets for future generations. Also, we have heard about the renewed commitment from provinces to institutionalise Performance Management Systems (PMS) and cascading the system to levels below Senior Managers.

COGTA'S WORK

Interventions through Section 154 and 139 of the Constitution

At COGTA we have revealed important insights about our current interventions through Section 154 and 139 of the Constitution. Stating that our conception of section 139, also needs revising, that section 139 must be implemented as intended, keeping in mind both the spirit and the letter of the law. That section 139 is an important early intervention mechanism instead of a last resort to prevent collapse.

We would like to commend the Provinces on their renewed commitment to support the Section 139 interventions. But we also know, that we need to provide much greater clarity and support to our implementing partners in the correct application of Section 139 ensuring that the right sections are being used in line with the law.

The District Development Model

We welcome the commitment and support from the NCOP, to provide an enhanced oversight role for the DDM. Specifically, support in areas of talent acquisition, performance management, entrenching Batho Pele Principles and building sound stakeholder relations.

We maintain that the District Development Model remains an important section 154 intervention but also, it is the ultimate mechanism of support to local government. And we welcome the commitment from this important forum to implement the DDM.

The Intergovernmental Monitoring & Support Intervention (IMSI)

To reiterate, in response to the lack of clarity regarding the implementation of Section 139, we have drafted the Intergovernmental Monitoring & Support Intervention (IMSI) Bill which clarifies how to interpret section 139 and 100 of Constitution. This is currently being processed through government and will add much more implementation clarity and certainty in application.

Revenue Enhancement in municipalities

We have started an important process at COGTA, together with National Partners to review the Municipal Revenue System. We have begun to develop programmes that diversify revenue sources in municipalities, these include our flagship Private Sector Participation programme and a redesign of our Community Works Programme (CWP) moving from safety net, to an engine for local economic growth and entrepreneurship.

There are critical action and decision areas highlighted by this forum that we need however to take forward. These include;

- 1) **Dealing with municipal debt;** how do we deal with the thorny issue of municipal debt, especially when many municipalities are debt ridden because of exogenous factors such as increased poverty, inability of households to pay for services and of course inaccurate billing by Eskom and other National Agencies. How do we develop a mechanism for dealing with municipal debt?
- 2) **Support for Revenue Collection:** how do we support revenue collection through a campaign that deals effectively with defaulters.
- 3) **Municipal Reticulation:** resolving the matter of municipal electricity reticulation, which may unlock considerable revenue potential and autonomy for municipalities.
- 4) **Devolution of functions:** most notably Housing and Transport, to unlock revenue potential for municipalities.
- 5) **Equitable Share calculations;** resolution on ES calculations to account for loss revenue from RSC levies.
- 6) **Unfunded mandates:** there requires critical support to assist municipalities prepare credible budgets, this must take place through detailed actuarial modelling so that revenue and expenditures are modelled accurately.
- 7) **Zero-based budgeting:** taking into account the requirements of the social wage, the real cost of delivering quality services and the cost of funding critical expenditure – is the starting point. It will determine real limits of local government's financial resources
- 8) **Financial Viability:** during the establishment phase of municipalities together as Parliament we need to take an active approach to ensure that municipalities are viable in the first instance. An upfront determination of the financial viability of municipality is vital if we are to prevent collapse. Municipalities solely dependent on grant funding are not sustainable for the future.
- 9) **Technology that circumvents corruption and mismanagement:** there are a number of technologies that can be used to circumvent corruption. During last month's Parliamentary Q&A, our President

indicated the need to explore technologies such as blockchain and artificial intelligence in public sector. The goal is to ensure superior oversight and accountability.

CONCLUSION

This week's Local Government has brought us together to coordinate our efforts as the three spheres of government to solve the problems of local government. Co-operative governance is a powerful tool that can be used effectively to create the change we desire. This would require more than ever that we coordinate our efforts into unified action. We have already begun to coordinate our efforts through the District Development Model (DDM).

Once again thank you all.