

**NOTES**  
**NATIONAL COUNCIL OF PROVINCES**  
**INTRODUCTORY REMARKS**  
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*Virtual Ministerial Briefing Session on  
Fiscal Leakages: Measures to mitigate against the cost and impact of  
fiscal  
leakages on the economy and the delivery of services to communities*

**30 August 2022**

Programme Director

Chairperson of the NCOP

Deputy Chairperson of the NCOP

Minister of Finance

Fellow Cabinet Ministers and Deputy Ministers

Chief Whip of the NCOP

Honourable members of the NCOP

MECs present today

Distinguished guests

Ladies and gentlemen

- **Thank you for the invitation** to attend this briefing session, I shall provide an introductory overview and ask the Director-General, Ms Avril Williamson to take us through the granular details of our discussion today.
- This session seeks to have a better understanding on the direct and cumulative effects of fiscal leakages in municipalities with a view of better addressing them **so that we may provide a quality and consistent service to the people of South Africa,**

- This **session will also assist us and the broader government in all its spheres to better facilitate for active citizenry**, because we must take forward the aspirations of the people with them as part of the entire service delivery value chain not as mere beneficiaries but as determinants of their own destiny.
- Of course, over the past two years we all know that the **Covid-19 pandemic and the recent floods** in some parts of the country, as well as **long standing droughts in other parts** have challenged the extent to which we could consistently deliver services.
- As municipalities and all of government we had to:
  1. On one hand, **reprioritise some of the limited resources to address the emergencies and disasters** which are of a magnitude we could have not anticipated and planned for;
  2. On the other hand, the societal impact of these disasters has **limited the extent to which municipalities could raise and reprioritise their own funds**, thus leading to worsening the situation with regards to financial leakages.
- But we must also admit that **the overall financial leakages are a function of governance and political challenges** which lead to a further state of decay in relation to leakages.
- We must also admit that because of **limited involvement of communities and citizens in the planning, implementation, and protection of our assets**, we have seen a furthering of the leakages by vandalism and theft, which has in some instances led to a standstill in the delivery of the most important services such as water, sanitation, and energy.
- In any case **these services are also largely dependent on other spheres of government**, and we all know and have been subject to

much national debate and conversation, which we will not delve into today.

- A big part of these leakages has been the **culture of non-payment which has seen the ratepayers owing municipalities over R120 billion**, of which the billing inaccuracies are also a major contributor
- The **most affected are the more rural provinces on account of them not having the right quantity and kinds of technical capacities** as well as not having the **capability and affording rate payer base to consistently collect** the requisite revenues to ensure consistent service delivery.
- The Director-General will go into the details, but for now we can say broadly speaking the causes of the leakages fall into four areas:
  1. **Ineffective Governance structures and leadership, which includes poor communication with communities**, lack of transparency, weak or ineffective ward committees, which have led to weaknesses in areas such as municipal financial management, including poor audit outcomes, revenue, and expenditure management, as well as political interference and patronage, all of which negatively affect the pursuit of building a functional and developmental local government. As a result of these 205 (79, 8%) of municipalities received repeated audit findings for non-compliance with legislation. The Auditor-General has over the years consistently shown low levels of compliance with legislation and a lack of consequences for poor leadership.
  2. The **inappropriate political-administrative interface**, which at times has business interests intertwined in them. We have often called this the **scrambled egg or omelette**, which has in some instances led to political in-fighting and instability, this has impacted in the procurement turnaround times as well as the

quality-of-service providers, thus contributing to further leakages and below par service delivery.

3. **Poor financial management**, which has led to adverse audit findings, however the Auditor-General has found that “**27 municipalities were able to maintain their clean audit status throughout the administration while 14 achieved a clean audit**”, further we must also consider that despite the challenges of Covid-19 on revenue and the need for them to reprioritise budgets on account of the disasters we have highlighted, **74% of our municipalities received unqualified audits albeit 56% of them were with findings.**
  4. **Technical expertise to maintain the aging infrastructure**, this has led to non-revenue water and services. But even when seeking to address through service providers this, municipalities are given inflated scopes of work and invoices. Among other measures we have implemented through the **Municipal Infrastructure Support Agent (MISA) and the National Treasury is the costing framework for infrastructure**, which will benchmark the appropriate costs for the building and maintenance of infrastructure in a proactive, responsive, and customised manner. Also, our technical experts stand ready to assist municipalities without the necessary capacities.
- Having highlighted these challenges we must **also note and broadly report on the progress recorded by the various municipalities**, which we hope to be able to **bring to this house after our Local Government Summit.**
  - We can however say that from our perspective **the number of stable municipalities has increased from 16 to 30 across the country.**

- In this regard, **Kwa-Zulu Natal (KZN) has registered the most improvements with 10 more municipalities becoming stable out of 54, up from one (1)**, which was Greater Kokstad.
- The additional municipalities are Mandeni, uMshwathi, Impendle, Mkhambathini, Okhahlamba, Nongoma, iLembe, uMzimkhulu, Maphumulo, and Dr Nkosazana Dlamini Zuma Local Municipality.
- The **section 100 interventions in the North West are biggening to bear fruit** as the province recorded the second highest improvements moving **from zero stable municipalities to 3 stable municipalities** namely Moretele, Greater Taung and Dr Kenneth Kaunda.
- In Gauteng, **Midvaal improved from a low risk to stable.**
- In **Eastern Cape, no changes** to the categories of municipalities were registered in 2022 vs 2021.
- In the **Free State, 2 municipalities (Matjhabeng and Metsimaholo) improved from dysfunctional to medium risk** and 2 municipalities (Mohokare and Dihlabeng) regressed from medium risk to dysfunctional.
- **No changes were registered for Limpopo, Mpumalanga and Northern Cape.**
- **The Western Cape remains the province with the highest number of stable municipalities** as it maintained the 12 stable municipalities out of 30. In Western Cape, Beaufort West regressed from medium risk to dysfunctional.
- **With those introductory observations I hand over to the Director General, Ms Williamson to take us through the granular details of the fiscal leakages and our plans going forward.**

I thank you.