

**SPEECH OF THE MEC FINANCE IN SUPPORT OF THE DEBATE ON
THE BUDGET VOTE SPEECH OF THE DEPARTMENT OF
COOPERATIVE GOVERNANCE, TRADITIONAL AFFAIRS &
HUMAN SETTLEMENTS**

19 March 2015

Honourable Speaker;

Premier;

Members of the Executive Council

Members of the Free State Legislature

Executive Mayors, Mayors and Speakers

Distinguished guests

The Department of Cooperative Governance and Traditional Affairs lead the provincial government's programme to support the attainment of Priority Outcome 9: A Responsive, accountable, effective and efficient developmental local government system as well as the implementation of the Back to Basics approach of government.

Back to Basics

This year marks 15 years of democratic and people centered local government. The Free State Province has made remarkable progress in delivering basic services such as water, electricity, sanitation and refuse removal at municipal level. However, there are areas in which service delivery is faltering, our governance system is not functioning optimally, and in certain instances we are not putting people and their concerns first. These matters became evident from a review of South Africa's

municipalities conducted by COGTA. This require of us to do things differently if we want solutions to our challenges.

We cannot over-emphasize the importance of implementing the five pillars of the Back to Basics approach. The Provincial Treasury has been assigned the responsibility to lead the work-stream focusing on “Ensuring Sound Financial Management”. COGTA, SALGA and district and local municipalities also form part of this work-stream. Our work also supports COGTA’s responsibilities as set out in Sub-Outcome 3: Sound financial and administrative management.

Changing strategic orientation is not easy and it requires bold and collective leadership. We need to strengthen the political and administrative management of municipalities and be responsive to the needs and aspirations of local communities.

Supporting Local Government

During the presentation of the budget vote of Provincial Treasury, I detailed the support, oversight and monitoring functions that are performed in support of the local government sector. Our Municipal Finance Management team is currently engaging and working closely with Municipalities that received disclaimer audit opinions, in order to ensure that they have credible and effective audit action plans that are implemented and continuously monitored. Our support programme further monitors the cash flow positions of municipalities to identify distressed municipalities and support their financial viability initiatives.

There is also a standing commitment that the Auditor General will be meeting with disclaimer municipalities on a monthly basis to assess their readiness to compile credible financial statements of satisfactory quality. Provincial Treasury and COGTA will be supporting this initiative of the Auditor-General.

Our support programmes must also be focussed on attaining full compliance with laws and regulations, such as the Municipal Structures Act, Municipal Systems Act, the Municipal Finance Management Act (MFMA), Municipal Property Rates Act (MPRA), the Municipal Fiscal and Powers Act and the Preferential Procurement Policy Framework Act (PPPFA). These are core issues that constitute the repetitive non-compliance findings in respect of audit outcomes of the local government sector.

Revenue Base

We must accept that unless we address the revenue base of municipalities, we will not be able to make sufficient progress to increase our communities' access to services. In his reply to the State of the Nation Address, SALGA Chairperson Councillor Thabo Manyoni; also addressed this matter and stated that;

“SALGA is committed to shortly launching a national campaign to mobilise citizens to pay for municipal services and help them understand the value chain of service delivery – non-payment of services leads to less revenue and in turn constrains our ability to maintain and upgrade our infrastructure and provide the desired level of services. Non-payment for any service has a knock-on effect on the service delivery

value chain and must be addressed in building a culture of user payment.”

We are pleased with this undertaking of SALGA and will be fully supportive of this initiative. In fact, hon. Speaker, we have already taken some practical steps together with municipalities to address the non-payment of services by public officials. We have requested all Free State municipalities to provide us with the debtors book of their property rates and taxes to enable us to run it against the provincial PERSAL system. We will therefore be able to identify provincial government officials that are in arrears with their accounts and assist municipalities to ensure that the necessary payment arrangements are made.

A critical aspect of this initiative will, however, have to be the integrity of the data and the billing systems of municipalities and this will constitute an additional phase of the support work we will be undertaking together with COGTA.

Standard Chart of Accounts

Hon. Speaker, section 216 (1) of the Constitution of the Republic of South Africa, 1996, provides that national legislation must prescribe measures to ensure transparency and expenditure control in each sphere of government by introducing generally recognised accounting practice, uniform expenditure classifications and uniform treasury norms and standards.

The Minister of Finance specifies national norms and standards for the recording and collection of government budgets, financial and non-

financial information which will include in some instances the specification of information required for national policy coordination and reporting.

Provincial Treasury has been tasked with the responsibility of overseeing the implementation of Standard Chart of Accounts by all municipalities in the Province with the aim of full compliance by 1 July 2017. This is a uniform classification framework for Local Government that seeks to address challenges brought about by the use of different municipal charts of accounts in Local Government. The Setsoto Local Municipality has been chosen as a pilot municipality in the Free State. Together with National Treasury, we will be supporting the piloting process and share our experiences with other municipalities in the Free State. Non-piloting municipalities will be assisted with the development of the action plans, and it is important that each Council must adopt these plans.

A roll out of the Financial Management Capability Maturity Model and Uniform Financial Ratios to municipalities has been completed. The outcome of this exercise will result in a holistic picture providing empirical information on the capability, maturity and financial sustainability of each municipality. These initiatives are designed to support municipalities in monitoring their finances and help in identifying areas of financial weakness with a view to improve their financial position.

Funding Methodology

The funding methodology of local government continues to pose a challenge, specifically in remote rural areas with no viable revenue base. This is will have to be addressed. The solution may not necessarily lie in simplified re-demarcation proposals as we prepare for the 2016 local government elections. It may require a fundamental reconsideration of some aspects of the local government system or alternatively, a complete review of the funding methodology to financially non-viable municipalities such as the Xhariep District Municipality.

Fraud and Corruption

Hon. Speaker, like all good house-keepers facing tough financial times, we have to address a matter of grave public concern and that is how we ensure that the resources we have are well used. During the 2014 election campaign, the ANC undertook to deal decisively with corruption. This commitment was re-iterated by our Honourable Premier Mr. Ace Magashule to introduce measures to strengthen the integrity of public institutions and public processes so that fraud and corruption are prevented and detected early in the value chain to prevent losses.

During the Fraud Awareness Week last year, we shared the insight offered by *Transparency International*, namely that; “Corruption destroys lives and communities, and undermines countries and institutions. It generates popular anger that threatens to further destabilise societies and exacerbate violent conflicts. It translates into human suffering. It leads to the failure in the delivery of basic services. It derails the building of essential infrastructure. Corruption amounts to a dirty tax, and the poor and the most vulnerable are its primary victims”.

Our work in supporting the strengthening and enhancement of the internal control environments of municipalities, including the effectiveness and functionality of internal audit and risk management units and committees, as well as promoting a culture of ethical conduct will enable us to make significant progress in this regard.

CONCLUSION

Hon. Speaker, we have to acknowledge the leadership provided by Executive Mayors, Mayors, Speakers, MMC and councillors throughout the Free State to ensure that we achieve a local government truly representative and responsive to the needs of all communities in the Free State.

I must also extend my appreciation for the leadership role played by the MEC COGTA in ensuring the efficient functioning of our critical inter-governmental structures, specifically MECLOGA. It provides an essential forum where we are able to engage constructively and coordinate the implementation of our respective programmes in support of the local government sector.

We therefore support the budget vote.