



Member of the Executive Council
for Treasury
FREE STATE PROVINCE

**Speech by Ms. E Rockman, MEC for Finance at SALGA Finance Week
13 February 2015**

The Chairperson of SALGA
Honourable MEC of CoGTA
Honourable Mayors;
Honourable Speakers
Officials, comrades and Friends

The cornerstone of democracy in South Africa is our Bill of Rights which articulates the rights and responsibilities of our citizens. The realisation of the socio-economic rights in our Constitution is central to our aspirations in a democratic South Africa. We all acknowledge that local government has a central and pivotal role to play in the implementation of programmes, together with provincial and national governments, to give practical effect to these rights and the way in which citizens experience and engage with them.

Local government is the crucible in which the complex processes of development, governance, transformation and living conditions takes place on a daily basis. This is the space in which our children grow to adulthood, where our talents and ambitions are shaped, our institutions operate and our wellbeing is determined.

Since 1994 Local government has been the primary site for service delivery. 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. It is clear that much needs to be done to support, educate and where needed, enforce implementation. The Batho Pele culture and serving communities needs to be reinforced.

Back to Basics

COGTA conducted a review of South Africa's municipalities, which revealed that we still have a challenging journey ahead towards reaching the ideal goal we envisage. This require of us to do things differently if we want solutions to our challenges. Therefore the Back to Basics concept introduced five pillars, namely:

- Putting people and their concerns first;
- Creating conditions for decent living;
- Demonstrating good governance;
- Ensuring sound financial management and
- Building and maintaining sound institutional and administrative capabilities,

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

Our actions need to move from intent to generating impact on the ground. We will have to mobilise massive support from those who are willing to change for the better and isolate those who seek to push back progressive change amongst us.

Our transformational agenda recognises that there are widely divergent levels of performance between different categories of municipalities in terms of services, public engagement, good governance, financial management and technical capacity.

Our aim is to encourage all municipalities to become positively functional centres of good governance.

For the Back to Basics concept to sustain momentum, it requires champions at every level of government, as well as in and amongst our communities and the private sector. The reform process must release the necessary enthusiasm and commitment amongst the organizations that are involved. The political leadership and management of municipalities will play a significant role in dynamic change and reform, and it is ultimately around visionary and responsible leaders that a coalition for change through the back to basics program takes place.

CoGTA and Provincial Treasury have already visited a number of municipalities in the province to assist with the completion of the Back to Basics questionnaire and the assessment of municipality's responses is currently underway.

Given the fact that the upcoming 2016 local government elections, we need to practice unrestrained commitment to pursue this journey until we achieve the targets that we set ourselves. We will achieve these targets and ensure that our people continue to maintain their trust and belief in the ANC as the political movement that can be trusted to govern in the best interests of our people and our communities at all levels of society.

Service Delivery in a constrained fiscal environment

Speaking during the tabling of the National Treasury budget vote in the National Assembly, Finance Minister Nhlanhla Nene noted that the global economic climate, rising interest rates, declining commodity prices and depreciating currency had combined to shrink government's fiscal space. We have experienced this painful reality at the level of provincial government as evidenced by the fact that we have lost approximately R2.5 billion from the provincial fiscal envelope since 2009.

In the current context, the imperative to fund local priorities poses a challenge to all of us that work in this space. Like all good house-keepers facing tough financial times, we have to start by addressing a matter of grave public concern and that is how we ensure that the resources we have are well used and not wasted. During the 2014 election campaign, the ANC promised 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.

Support by Provincial Treasury of local government

During the last 12 months, Provincial Treasury reconsidered the approach we have had towards our local government sector. It was a very conscious decision to take a more hands-on approach and to become more pro-active in our advice and support to municipalities. We have visited all delegated municipalities at least once during the past year whilst paying more specific attention to identified municipalities where COGTA has also provided support through the Municipal Support Programme and providing financial support to identified municipalities through subsidizing the remuneration of certain critical posts.

I have no doubt that our engagements with our local government elected representatives and officials, we have developed a better understanding of the challenges faced by municipalities. But equally, we have come to understand that though some challenges may be similar in nature across all municipalities, there is no doubt that each municipality also has its own specific dynamics that inform its service delivery context and consequently also the political, financial and administrative management of any specific municipality.

We have also aimed to improve our coordination and collaboration with our sister department COGTA whilst acknowledging that the Departments of Public Works and Sport, Arts, Culture and Recreation adds a particular dynamic to the financial

management environment. This remains the primary area of focus of the Provincial Treasury. We believe that our practical experiences of the challenges faced by the local government sector have assisted us to be able to develop and implement more suitable and appropriate services in support of our Free State municipalities.

Given the theme of this conference and my 2014/15 budget commitments, allow me to outline some of the work that Provincial Treasury undertakes to support municipalities to achieve an improved financial management environment resulting in improved audit outcomes in terms of section 34(2) of the Municipal Finance Management Act.

Provincial Treasury Support

During this term we want to give attention to municipal budgets and financial management. I am sure colleagues you would agree with me that this is an important support area if we want municipalities to achieve a stable financial situation. In this regard, allow me to highlight some of the ways in which we have assisted municipalities during the past year;

- The MFM Budget component has supported municipalities in the submission of the D forms to **NERSA**. The Free State was the first province to achieve 100 percent submission in the country, indicating that all municipalities in FS are licensed to implement tariffs.
- It is imperative that Municipal Councils - as oversight bodies - must ensure that credible and funded **budgets** are approved. In this regard, our Budget Component is actively assessing the draft budgets as submitted and make appropriate recommendations for incorporation. In addition, Provincial Treasury is conducting Mid-Year visits during February 2015 as part of strengthening the budget process. It is essential that funded and credible budgets in compliance with Municipal Budget and Treasury Regulations are tabled in Municipal Councils

before the 31 March 2015 and all municipal budgets are approved with SDBIPs in compliance with the MFMA.

- Treasury partnered with **SARS** to support municipalities to address their input and out VAT claims. We have received the report and recommendations in respect of the first two municipalities (Mohokare and Nketoana) that were assisted during this process. This programme will now be rolled-out to all other municipalities in the Free State during the year.
- On **indigent registers**, the first is to support municipalities to develop an improved data base of those who need exemptions from municipal tariffs. A total number of 81,512 thousand indigents on the registers were assessed.

Significant improvement in the registers was noted in the 2014/15 budget cycle. Provincial Treasury has assisted municipalities with indigent register verification to ensure that no government officials are on indigent registers. When we first conducted this assessment in the 2013/14 financial year, a total number of 517 government officials were identified and removed from indigent registers. In the assessment conducted during the 2014/15 financial year, 190 government employees were identified. The process of communicating with relevant municipalities about these identified government employees has commenced.

- Our **Internal Audit Unit** supported municipalities with audit committees and internal audit functionality and our SCM unit supported municipalities with three-tier SCM committees and technical aspects on SCM. We need to acknowledge that we face significant constraints in securing sufficient and adequate competencies within the municipal internal audit and risk management environments.

We have to take note of the fundamental changes that will be unfolding in the supply chain environment at all levels of government as indicated in the Supply

Chain Management Review published by National Treasury last week. The Review outlines a number of reforms that will include;

- A consolidation of legal instruments applicable to SCM under one piece of legislation similar to the PFMA or the MFMA.
- Office of the Chief Procurement Officer at National Treasury to oversee the use of procurement of socio-economic transformation,
- Changes to SCM documentation to standardize but allow for differentiation depending on product categories
- Greater use of strategic sourcing and
- Expansion of the list of nationally negotiated SCM contracts

The Office of the Chief Procurement Officer has also initiated a review of the Preference Procurement Policy Framework Act and its Regulations.

It is important that we engage constructively with the published Supply Chain Management Review as this is likely to significantly impact on the public sector supply chain environment as we currently know it.

- The **Accounting Unit** continues to support municipalities on GRAP standards and during audit technical steering committee meetings.

For the 2013/14 financial year, the audit outcomes of the following municipalities have improved; The Setsoto, Tokologo and Metsimaholo Local Municipalities and the Mangaung Metropolitan municipality moved from qualification to unqualified and Naledi Local Municipality moved from disclaimer to qualification. In addition, the municipal entity of Centlec also improved its audit opinion.

Of particular concern to us are those municipalities who seem unable to move away from disclaimer audit opinions. This must also be seen in the context that the Municipal Support Programme has focused extensive resources on these municipalities. There is undoubtedly a need to assess the impact made by the Municipal Support Programme and to identify possible shortcomings. Together

with the Office of the Auditor-General, Provincial Treasury and COGTA will be commencing visits to the 9 municipalities that achieved disclaimer audit opinions on Monday, 16 February 2014. Our specific area of focus will be to consider the development and implementation of appropriate audit action plans that will directly and comprehensively address prior year audit findings.

In my recent engagement with the Auditor-General, specific concern was raised regarding the outstanding audit fees owed by municipalities. We have received formal communication that the Office of the Auditor-General will be initiating legal action to recover outstanding debt from municipalities and provincial departments. I therefore need to urge all municipalities to ensure that any arrear debt is settled or that appropriate payment arrangements are made with the Office of the Auditor-General.

It is equally important to emphasize the necessity for the political and administrative leadership to engage constructively and pro-actively with the Office of the Auditor General – not only during the execution phase of the annual audit but consistently during any given financial year. During the execution of the last audit, there were instances where Provincial Treasury was requested by the Office of the Auditor-General to intervene to obtain the cooperation of municipal officials with the auditors. This is simply not acceptable and we must formalize a mechanism through which the municipal political leadership can be engaged to avoid such situations.

In order to strengthen accountability and clean administration it may be the appropriate time to consider that performance agreements of Municipal Managers and Chief Financial Officers must at the very least include as key performance indicator an improvement in audit opinions for municipalities that still receive “disclaimer” and “qualified” audit opinions as well as maintaining and even improving audit opinions from “unqualified with findings” to “unqualified with no findings.”

The Provincial Treasury will continue to provide assistance to municipalities to deal with unauthorized, irregular, fruitless and wasteful expenditure through the prescribed processes. There should be no doubt that unless municipalities deal appropriately with these matters, there will not be an improvement in audit opinions. I am sure that municipalities that we have assisted to deal with these matters are able to testify to the immediate beneficial impact it had on its annual financial statements and, in some instances, even the achieved audit outcome.

- We continue to strengthen our work with our partners in the Department of Public Works, SALGA & Cooperative Governance and Traditional Affairs to help fast track the process of payment of government debt. Government debt on the debtors book of municipalities reduced from R428 million to R165, million as at December 2014. This is largely as a result of the successes that we achieve through our joint efforts in the Inter-Governmental Debt Steering Committee.

I must, however, acknowledge that this “government debt” excludes debt owed by schools in respect of services such as water and electricity. MEC Cogta and myself have challenged the officials in Provincial Treasury, Education, COGTA and Public Works to further consider and make recommendations on how best we can reduce this debt burden on municipalities. This will require of us to consult extensively with our relevant national sister departments as well. The reality remains that the funds that are transferred by the Department of Education to schools in many instances do not reach municipalities and directly impact on its revenue stream. We have initiated a process where we will be paying particular attention to debt owed by schools to municipalities and we will be requesting details of this debt, including an age analysis, from all municipalities. This will help to inform the review process that will be undertaken.

Whilst recognizing the challenges municipalities face in this regard, I must equally indicate that disconnecting water and electricity to schools as a strategy to entice provincial government to stand in for the payment of these accounts will not work.

Last year I had to tell the acting CEO of Eskom that arrear debt of municipalities will not be reduced any quicker just because some municipalities may or may not have electricity. Now I must be brutally honest and tell you that the same principle applies to whether or not some schools have water and electricity. There are particular financial challenges in the education environment that has a direct bearing on schools and consequently on municipalities. The provincial fiscus is simply unable to allocate additional financial resources to alleviate this situation at this point in time.

In the spirit of inter-governmental cooperation and recognition of the fact that education remains the main priority outcome of government, we do not expect municipalities to commence with the disconnection of water and electricity to schools, particularly more so without prior engagement with the provincial government. We need to actively seek agreement on this matter.

Financial Sustainability

Whilst Provincial Treasury will continue to support municipalities, the primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself. The political and administrative leadership of municipalities must be vigilant with regard to early identification of financial problems that could threaten service delivery obligations. That, of course, does not distract from the very real fact that some municipalities have an extremely limited revenue base. During our engagement with the Minister of Finance, prior to the January National Budget Council, we raised the issue of the financial sustainability of municipalities. This is a matter that is also receiving priority attention from the Ministers of Finance and COGTA.

The Provincial Treasury is determined to take the improvement in financial reporting much further. With the ongoing support by National and Provincial Treasuries and the dedication of SALGA, my colleague in Cooperative Government and Traditional Affairs, MEC Mlamleni as well as committed municipal and community leaders there

is no reason why we cannot change the municipal landscape to deliver the services our people deserve.

Honourable members - we are here today as free members of a democratic society. Yesterday, numerous occasions were observed to commemorate the release of the late former President, Nelson Mandela, from prison. We owe our political liberation to generations of activists who shaped and determined the future that we are living today. Equally we owe the generations that will follow us the development of institutions of governance that are democratic, accountable and efficient in rendering services to communities that will improve the lives of all of our people where they live and work.

Let us all take action aimed to make local government one of our good stories to tell!

I thank you!