

ADDRESS BY MEC: M MODISELLE AT THE SALGA BUDGET WEEK

23 AUGUST 2006

LICHTENBURG; NORTH WEST PROVINCE

THEME: FOSTERING IMPROVED CHANGE IN FINANCIAL MANAGEMENT

“Water is for Life, Whiskey is for Fun”

Programme Director

It is a great pleasure for us to be part of this platform to reflect on our views regarding what we consider to be the key towards improving financial management in our municipalities. It is our hope that this summit will contribute towards inculcating a new prism through which we should consider that which constitute improvement in financial management.

We must further salute organized local government, under the aegis of SALGA, for electing to concern itself with this important question pertaining to financial management. Without any serious diagnostic analysis of the financial affairs of each municipality, our contribution to this summit will do two things:

One, we will paint a cursory picture of the state of municipalities in the province with a view to provide a human development perspective to the need to *foster improved change in financial management*,

and two, we will highlight some of the essential factors we think are necessary to help achieve the goals of our developmental state.

Programme Director

It is important to note that 17 of the 25 municipalities in the province are on *Project Consolidate*. As all the delegates should know by now, Project Consolidate is a hands-on support initiative to assist struggling municipalities.

These municipalities are faced with a plethora of challenges ranging from poor revenue collection and financial management, sanitation backlogs, to lack of project management and technical skills. Primarily, the following municipalities will generally fall within this category:

Tswaing local municipality

Ventersdorp Local Municipality

Mamusa Local municipality

Maquasi Hills Local municipality

Kgetlengrivier Local municipality and

Naledi local municipality

The common feature among Central, Bophirima, and Southern District municipalities is that they all have sanitation backlogs in that there is evidence in these areas of the use of the bucket system. This is especially the case in the Matlosane area.

As regards to challenges of a transformational nature, one can safely say that most municipalities lack knowledge of the utility of Performance Management Systems. In many municipalities, section 57 managers were entered into contracts that could keep them in municipalities for the duration of their natural lives, due to lack of contract development and management skills.

The absence of internal control systems such as Internal Audits and Supply Chain Management imply that there are no internal checks and balances within our municipalities. What exacerbates the situation even further, is the absence of comprehensive asset registers and lack of proper property valuations in the majority of our municipalities.

Programme Director

It is important that we consistently refer to this important matter of financial management capacity. One of the most noticeable financial

underperformance in the preceding financial year relates to Capital Expenditure. We must highlight here that by the close of the fourth and final quarter (4th Quarter) of the 2005/6 municipal financial year, none of our municipalities had spent more than 80% of their Capex.

This is despite the fact that in our country and province ‘there remain significant needs to scale up infrastructure investment—especially in the yet un-served areas—and improve efficiency in all major infrastructure sectors if South Africa’s infrastructure performance is to catch up with its group of upper middle-income countries’.

In a recent World Bank Policy Research Working Paper based on a comparative study of South Africa’s infrastructure performance, Bogetic and Fedderke (February, 2006) make the following conclusion:

“Despite recent gains, access remains a major issue in electricity and, especially, in water and sanitation (particularly in rural areas), and so does performance in local telecom services. Even transport performance appears comparatively less strong than would be expected in an upper middle-income, though more in-depth analysis of comparative performance of transport may be warranted to develop a more nuanced picture”.

As governors and administrators in the local government sector, we should be aware that, directly and indirectly, infrastructure affects the welfare of our communities via access to and quality of basic services such as water and sanitation, and is also associated with child health, human capital accumulation and the achievement of the Millenium Development Goals.

But equally important, as development economics has taught us, infrastructure strongly affects economic growth (Luiz, 2005). For a better understanding of this causal relationship between infrastructure and the human capital development imperative we need to give a service and human development perspective to the effects of poor financial management:

- Under-performance in capital expenditure denies our communities access to basic services such as water, sanitation and electricity;
- Lack of these basic services oftentimes lead to chronic ailments caused by waterborne bacteria such as cholera bilharzia and other gastro-intestinal diseases;
- Prevalence of such conditions at the homes often impact negatively on young peoples' abilities to concentrate and absorb

teaching and thus tend to lose interest in education; Leading to a domino effect as follows:

- Lack of education inadvertently creates serious skills shortage which has come to characterize the South African job market;
- As we all know, lack of appropriate skills contribute to the declining probability for investment and, with it, the creation of new job opportunities;
- Also we must remember that inadequate-expenditure (or lack thereof) on capital budgets implies a lack of investment in infrastructure required to create conditions that are conducive for economic investment

Programme Director

As we can all see, this is a cyclical dead-end. Whilst improved financial management is not the only determinant to leapfrog the performance of our municipalities, it is obviously among the critical factors. It is at this stage that we should decode what improved and sustainable financial management must entail in the context of our environment:

First, the financial management regime we have established requires that municipalities must prepare financial statements and subject them to an independent audit. Our high capacity municipalities are expected

to prepare these financial statements according to GRAP standards starting from the 2005/6 financial year.

The medium and low capacity municipalities will follow respectively over the next two financial years. Together, both the political and administrative leadership of our municipalities must ensure that this requirement is met.

Second, in-year reporting to the office of the Auditor-General, Provincial Treasury and the Department of Developmental Local Government and Housing provides early warning systems that assist both the municipality and other relevant organs of state to prepare remedial plans. It is thus incumbent on the accounting officers of our municipalities to ensure that these are accordingly produced and submitted to the relevant authorities.

Third, the establishment of all the necessary internal control measures are essential to ensure the prudent use of council resources and assets and their proper valuation. Of particular importance in this respect, is the establishment of Internal Audit sections, Audit Committees, Supply Chain Management systems, and the use of appropriate financial management systems.

Further to these, cognisance should be taken that the MFMA expressly details activities from which both the local politicians and administrative functionaries of a municipality, or municipal entity are forbidden from partaking in.

Fourth, whilst many factors may be considered important to ensure improvement in financial management, nothing will substitute the need for the employment of competent Chief Financial Officers and the establishment of the Budget and Treasury Office under their supervision.

This consideration is intended to support the accounting officers by ensuring efficiency and focused sharing of responsibilities within the administration. We must emphasize here that even well-intended and conceptualized government initiatives such as *Project Consolidate* will not succeed in the absence of basic competencies that will allow for the transfer of expertise.

Fifth, for the proper implementation of the financial reforms, the accounting officers must also consider developing and implementing delegation systems that will assist in maximizing administrative and

operational efficiency whilst providing adequate checks and balances in the municipal financial administration.

It must however, be noted that delegation of authority does not divest the accounting officer of the authority and accounting responsibility for any delegated function.

The sixth and final consideration, Programme Director, relates to Council Oversight. Continuously, the results of financial audits of municipalities attract increasing attention from different political committees provincially and nationally.

And as we have seen in the past, this attention is never directed to the administration but to the political leadership of our municipalities. Hence, the oversight role of Council over the administration is not entirely about micro managing delivery, but more about ensuring that the administration does implement council policies and decisions within the expected timeframes.

Put differently, discharging *oversight* simply means governing. Thus any Council which does not require and/or receive these monthly, quarterly and annual reports from the administration cannot claim to be in charge.

Programme Director

We have raised these issues not because we derive pleasure in the depressed looks on the faces of the participants. All we ask is for each and every municipality to take a closer look at itself against all these requirements, and answer for itself the most critical question: “Where are we in relation to all this?”

If our response to this question is not materially expressed through our peoples’ access to basic services such as water and sanitation, that is, if it does not appreciate that for their survival our people need clean drinking water, we must accept that ours is not the course of a developmental state.

I thank you.