



SALGA COMMENTS ON:

THE STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT REPORT

12 JANUARY 2012

The State of Local Government Finances and Financial Management Report as at 30 June 2011 gives an overview of municipal finances within a determined period. It is imperative to note that the financial performance of municipalities should not be looked at in an isolated year but should focus on trends over time. Not every detail of the said report is commented on but the statement summarises the tone and highlights reflected in the report.

Audit Outcomes

The report notes that there has been an improvement in municipal performance since the beginning of the second term off office and its penultimate year. In four years Local Government went from 19 adverse opinions to seven, disclaimers were halved from 104 to 53, a combined 48% reduction of poor audit outcomes, which is something that should be noted. In the same breath municipalities moved from 55 unqualified audits to 127 in those four years.

It has been said time and again that Local Government is the most complex sphere of government as this is where other government departments and all private and civil society organisations collectively find expression to their areas work. Notably, even governments around the world, with 100 years of experience, still find this sphere of government a conundrum. Agreeably there is much work that needs to be done but one should not undermine the significant progress thus far, which both reports (the National treasury report and the cited AG report) have acknowledged.

Governance

The matter of professionalisation of municipalities has long been raised by municipalities, they themselves wanting to have better skilled, qualified and experienced people in key positions. The SALGA Human Resource Policy Conference held in 2010, attended by more than 600 delegates from municipalities, resolved amongst others, that professionalisation must be extended across the municipality and not just senior managers and/or officials. A Competence dictionary was compiled and circulated at the conference to assist with what were competence requirements in certain functional areas.

The report further alludes the linking of Municipal Managers' contracts with those of political terms, with MMs having term contracts that parallel with the political terms of office. When the term ends, simultaneously a contract expires and some Municipal Managers may be required to act during that transition state.

Municipal Expenditure

Bearing in mind that the report is drafted based on a period that ended less than two months after the elections one must note that a transition period cannot be a true reflection of ability to perform.

Although the report notes under expenditure on capital budget and cites poor planning it also indicates a link to the then upcoming municipal elections. It cites reluctance by municipalities to approve large spending projects, which is often characteristic of election years where municipalities would focus on finishing of projects that are at the end of their life cycles and handover to the new leadership to direct and prioritise delivery projects.

With the new Councils in place, we are looking forward to more long term planning for municipalities and a reduction in incidents of under expenditure. It may also be relevant to note that rural municipalities that struggle to attract qualified and skilled resources continue to struggle without the proper support. Municipalities that seek to attract adequately qualified professionals have to compete with the public and private sector remuneration benchmarks. This of course negatively affects poorer municipalities that are not economic centres.

Municipalities in financial distress

A few municipalities may be in distress for a number of reasons. Some are in rural and /or declining economies thus having a low revenue base whilst still expected to deliver services to communities that are at times too poor to pay for services. Hindered revenue collection is not limited to poor households, as it is found that some institutions, including government departments fail to pay for rates and services. These coupled with mandates that were not planned for financially put pressure on already stretched municipal finances.

Local Government has resolved to establish Municipal Public Accounts Committees – MPACs, which will be Municipal SCOPAs. These oversight committees, where already established, have provided the necessary capacity to monitor financial and delivery performance and ensure corrective measures where required. This has resulted in continuously improving finances as earlier stated.

LOCAL GOVERNMENT RESOLUTIONS ON MUNICIPAL FINANCE

At the SALGA National Conference held in August 2011, the Municipal finance plenary session resolved on a number matters that needed attention from municipalities, redress with national and provincial government and management by SALGA. Some of the resolutions are :

1. SALGA should lobby National Government to review the local government fiscal framework (including the LGES), to:
 - ensure adequate LGES envelope that is aligned with LG service delivery mandate*
 - ensure equity of funding for households, capacity and geographical contexts (Constitution);*
 - ensure sustainable local revenue bases for local accountability;*
 - incentivise performance by all municipalities; and*
 - Review approaches to funding of infrastructure in smaller municipalities.*
2. SALGA calls for a review of the vertical division of revenue of the National Fiscus for local government in accordance with its role and mandate for service delivery (grow the pie).
3. SALGA calls on National and Provincial government to properly cost and budget for agency functions (abolish AARTO), improve management of service delivery contracts and review powers and functions arrangements with a view to addressing unfunded mandates.
4. Develop an integrated framework of revenue management to reduce fragmentation of national influence (MPRA, NERSA, etc)
5. SALGA explores alternative taxation systems in rural areas and for a local business tax to fund economic services & infrastructure in cities and towns
6. SALGA to promote peer learning and support between municipalities and private institutions (e.g. banks) to continuously improve systems of financial management

7. Integrity of property data must be improved (Deeds Office and Surveyor General) as it impacts on property rates revenue collection
9. Submit an application to NT for a local business tax to fund economic services & infrastructure maintenance in cities and towns (NT requires a formal submission to initiate debate). SALGA to include options of a distribution formula of the LBT for small municipalities and rural areas
10. Explore the possibility of developing norms and standards for billing and other systems to enhance the ability of municipalities to collect outstanding revenue
11. All electricity revenue should accrue to municipalities from Eskom supply areas
12. Municipalities must exercise their responsibility to close the Fiscal Gap
13. Accurate billing and timely systems
14. Efficient Debt Collections (that accommodates the prescriptions of indigent policies)
15. Expenditure efficiencies (still significant under spending)
16. Maximise current revenue (e.g. minimise water and electricity distribution losses).
17. A differentiated approach is required for different categories of municipalities
20. A focussed support programme for rural/smaller municipalities (similar to that of the City Support Programme)

CONCLUSION

These resolutions are based on the expectations placed on local government to deliver on mandates that are at times not planned for, out of their scope or demand finances to be redirected from prioritized projects. These mandates are just some of the issues municipalities must deal with. Further to that National and Provincial Government decisions that have not been conferred with local government but we are expected to deliver on cripple the financial situation and derail financial management and planning.

The National Treasury report opens with citing that the support deployed to municipalities and the interventions were not aligned to where the need was greatest. With this said, we are now expectant that there will be proper consultation with local government, with processes going through the proper channels, so that we are all aligned and the needs of local government acknowledged accordingly.

ISSUED BY:

The South African Local Government Association (SALGA)

Please contact Milisa Kentane on 083 643 1436 or mkentane@salga.org.za