

SELECT COMMITTEE ON FINANCE

OVERALL REPORT ON

THE HEARINGS CONDUCTED BETWEEN
DECEMBER 2007 AND OCTOBER 2008

*"REFLECTIONS;
ANALYSIS; AND
LESSONS LEARNED"*



the dplg

Department:
Provincial and Local Government
REPUBLIC OF SOUTH AFRICA



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

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1. PURPOSE

This report seeks to provide an overall reflections, analysis and lessons learned throughout all the hearings conducted by the Select Committee on Finance. The focus is mainly on financial management and service delivery aspects pursued by the committee.

The report further provides a brief summary on the progress achieved by provincial teams in each province visited.

2. INTRODUCTION

Select Committee on Finance (SCOF) has adopted an approach of institutionalizing oversight to municipalities in order to deepen interaction and unlock any existing backlogs that may have been caused by the inadequate coordination amongst the role player. The focus is therefore on municipal performance especially as it relates to its use of public resources to benefit communities.

The modus operandi adopted is underpinned by progressive engagements with the municipal status quo in relation to budget and service delivery within municipal jurisdictions. The aim of the hearings are therefore appreciating that the challenges facing local government are the challenges of national and provincial spheres including parliament.

3. FORMAT OF THE HEARINGS

Municipalities are scheduled to make presentations when appearing before the Committee. Such presentations covers comprehensive aspects central to municipal viability. Those aspects include:

Budget Performance

- Assessing the planned revenue versus actual collected by municipality
- Planned expenditure versus actual expenditure item
- Growth in budget and factors contributing to growth
- Capital and operating budget companies by source
- Capital grants dependency (total capital grants/ total budget x100)
- Operation grant dependency (total operational grants / total operating budget x100)
- Revenue collection – rates and debtors
- Salaries percentage in the operating budget
- Repairs and maintenance expenditure

Performance of Conditional Grants

- Utilisation of allocated as per DoRA
- Amounts transferred
- Expenditure to date
- Reasons for variance
- Achievements

Intergovernmental Relations and Relations with other Institutions / entities such as ESKOM, DBSA etc

- Participation of sector departments in sector department in IDP processes
- Commitments implemented by sector departments and other entities

Alignment of IDP to the Provincial Growth and Development Strategy (PGDS)

Compliance with the MFMA

- Supply chain Policy and Bid Committees
- Establishment and functionality of Budget and treasury office
- AFS submission to AG and reasons for late submission if any
- Submission of Section 71 Reports
- Establishment and functionality of internal audits and audit committees
- Status of annual reports

Service Delivery

- Focus on electricity, water, sanitation, refuses removal and roads
- Number of registered indigent
- Targeted backlog versus actual achieved per area

Capacity Contrarians of the municipality focusing in relations to:

- Finance Management
- Electricity
- Water and Sanitation
- Refuse removal
- Roads

4. SCOPE COVERED

In overall the committee visited and interacted with a total of 82 municipalities since December 2007 covering nine (9) provinces with the exception of Western Cape. The total municipalities visited translate into 29% of municipalities. The criteria for choosing these municipalities was informed by various reports specifically the Grant Expenditure Performance Reports and other budget and expenditure reviews by sector department such as the **dplg** and National Treasury.

Of the **83** municipalities, **10** falls within the low capacity classification, **24** in medium capacity classification and **48** in the high capacity classification in terms of the Municipal Finance Management Act classification.

Table 1: Municipalities visited

Province/No of munics	Date/s of Hearings	Names of Municipalities		
		High	Medium	Low
E.Cape (3)	5 December 07	King Sabata Dalinyebo	Cacadu, Mnquma	Great Kei
Gauteng (7)	24/25 October 2007	Mogale City, Emfuleni	Nokeng tsa Taemane, Sedibeng DM, Lesedi, Midvaal, Kungwini	
Mpumalanga (7)	18/19 March 2008	Steve Tshwete, Emalahleni	Gert Sibande, Albert Lethuli	Msukaligwa, Emakhazeni, Bushbuckridge
North West (15)	21/23 May 2008	Rustenburg		Lekwa Teemane, Tswaing, Kgetleng, Southern DM (Dr Kaunda), Bophirima (Dr Ruth Mompoti), Mamusa, Ditsobotla, Ramotshere Moiloa, Moretele, Naledi, Kagisano, Ventersdorp, Maquassi Hills
Northern Cape (12)	15/17 July 2008	Sol Plaatjie,	Siyancuma, Namakhoi, Frances Baard	Khara Hais, Phokwane, Karoo Hoogland, Dikgatlong, Magareng, Mier, Kgatelopele, Kamiesberg,
Limpopo (14)	22/24 July 2008	Polokwane, Sekhukhune DM	Capricorn DM, Ba-Phalaborwa	Molemole, Lepelle Nkumpi, Blouberg, Aganang, Modimolle, Thabazimbi, Greater Tubatse, Makhuduthamaga, Elias Motsoaledi, Greater Giyani
KZN (12)	10/12 September 2008		Ukhahlamba, Umzinyathi District, Umvoti, Nongoma, Maphumulo, Nkandla	Ingwe, Impendle, Msunduzi, Msinga, Mtubatuba, Ubuhlebezwe
Free State (12)	14/16 October 2008	Matjhabeng	Kopanong, Letsemeng, Mantsopa, Ngwathe	Xhariep District, Masilonyana, Lejweloputswa District, Phumelela, Thabo Mofutsanyana District, Naledi, Tokologo

5. ANALYSIS OF FINDINGS

It appeared evident that municipalities irrespective of their capacity classification have challenges of more or less similar character in as far as financial management and service delivery capacity is concerned. The performance of municipalities visited demonstrated in some cases that the intensity of support from national and provincial government as well as other institutions must not be based on the capacity classification as it emerged that low capacity municipalities may perform and respond to challenges better than the high capacity municipality.

5.1 Budget Performance

Clearly, all the municipalities have demonstrated an almost over 95% expenditure on operational budgets with the highest contribution on salaries. The average salaries percentage to the total operating budget is 38% sometimes reaching as high as 58% while vacancies are still reported to be high, raising questions on the alignment or relevancy of municipal organograms/structures to the powers and functions. The level of operating grant dependency in all the municipalities is significantly high (minimum of 45%) as most of the municipalities depend on the equitable share for sustaining operations.

Underspensing in the capital expenditure budget remains dominant mostly perpetuated by the long term nature of infrastructure projects and misaligned or late planning impacting on the time frames. The level of capital grants dependency in all the municipalities visited remains very high at a minimum of over 50% as most of them depend on Municipal Infrastructure Grant (MIG) to fund capital budgets.

District municipalities with no water and sanitation functions appears to be the least owed as such district only depends on Regional Services Council levy replacement grant. The debtors books of almost all the visited local municipalities remains significantly high with municipalities owed more than R10 million. The biggest challenge is that most municipalities' presentations don't segregate the debtors into government, commercial and residential categories.

Repairs and maintenance remains the biggest challenge as majority of municipalities underbudget for this item below the norm of 7-12 percent of the operating budget. Even where a municipality is a water services authority (WSA) receiving the Water Services Operating Subsidy, there is underbudgeting for operations and maintenance way below the amounts allocated. If this trend is not addressed municipal infrastructure's life span will be greatly reduced and creating backlogs in the future. This indicates

a serious challenge to budget integrity and credibility and further pointing out that at times grants are not used for the purpose intended.

Many municipalities made disclosure with regards to interest earned from investments but failed to disclose the amounts invested. It was found in some cases in other provinces especially Limpopo province, where some municipalities appeals for more funding to address service delivery while having investment portfolio of over R100 million. Section 13 (1) of the Municipal Finance Management Act promotes that municipalities must invest money not immediately required.

5.2 Performance on Conditional Grants

Majority of the visited municipalities are receiving officers in as far as MIG, Municipal Systems Improvement Grant (MSIG), Financial Management Grant (FMG), Integrated National Electrification Programme grant (INEP), Water Services Operating Subsidy etc.

Performance of municipalities on these grants seemed improved from municipalities' presentations but the information at the disposal of managing departments appeared different. The main cause of the incongruence is found to be the lack of or timeous expenditure reporting by municipalities to transferring departments.

It also appears that municipalities register slow spending in the first nine months and thereafter expenditure peaks up to 100% in three months especially between March and June every year. Municipalities visited in March and May 2008 registered very low expenditure against the allocated conditional grants but by June 2008 the entire allocation was spent. This raises questions on the quality of expenditure.

The biggest challenge facing the transferring departments is to verify the quality of spending in relation to reported grant expenditure performance whether there was value for money or that the money was spent for intended purpose.

5.3 Intergovernmental relations and alignment of IDP with PGDS

The interactions have demonstrated that in practice the alignment of

issue remaining to be tested is the currency of the PGDS as to whether provinces update them timeously for consumption by municipalities.

Another factor adding to the suspect nature of the IDP vs PGDS alignment is the statement across all the municipalities that sector departments do not participate in the IDP processes and structures set by municipalities and where there is participation, the departments send junior officials.

Commitments by national and provincial departments are often not reflected in municipal budgets. In some provinces, allocations or commitments to municipalities are not gazetted as required by the Division of Revenue Act, such failure to gazette allocations impedes on planning and budget preparation and proper implementation of projects. The challenging question is where are these commitments made if sector departments do not participate in the IDP processes of the municipalities.

5.4 Compliance with Municipal Finance Management Act

Almost all the municipalities claimed to have established the relevant supply chain management committees. The issue of functionality still remains questionable and untested.

There is an innate commitment by all municipalities to submit Annual Financial Statements (AFS) by 31 August as required by the Act. There have been few cases of non compliance. Of the 82 municipalities appearing before the committee, 58 (71%) submitted their 2007/08 Annual Financial Statements on or before the 31st August 2008.

Though there is an improved submission of Section 71 reports as per MFMA, the concerns raised by the Provincial Treasuries regarding the quality of section 71 reports require attention. This was confirmed by the incongruence of information presented by municipalities and the one available with National and Provincial Treasuries in the Section 71 publications.

It appeared throughout the provinces that municipalities internal audit function is not capacitated. Most of municipalities have just one person employed to perform all the internal audit functions. The establishment and utilization of audit committees needs attention in all municipalities if the progressive practice towards improving audit reports is to be exercised.

5.5 Service Delivery

Various challenges raised on service delivery touches on electrification, roads, water and sanitation backlogs. In contrast of slow spending, municipalities raised the need for more allocation of funds through the Municipal Infrastructure Grant and other sources. Most municipalities are unable to borrow for infrastructure either on account that they are currently servicing inherited loans or lacks borrowing capacity.

The emerging element in the area of free basic services provision, majority of municipalities provides 6 kl of water and 50kwh of electricity to everyone – indigent and non indigent consumers. The impact of this is negative on the budgeted resources of municipalities.

There is a growing challenge to municipalities in updating indigent registers. Almost 95% of the municipalities visited expressed challenge in accurately or closely reflecting the number of registered indigent households. A trend of low indigent numbers has been observed through the municipal presentations. When comparing the indigent figures with increasing level of debtors or debt owed reported by municipalities, it raises questions as to who contributes significantly to the increasing debt and also as to where the bulk of grant funding is directed.

5.6 Capacity constraints

Almost 100% of the municipalities cited insufficient financial resources as the biggest capacity constraint to address the infrastructure backlog and expand services access to communities. The second most popular constraint relates to the inability to recruit or retain technically skilled employees making them dependant on DBSA deployees to complement the shortage of skills.

5.7 Capacity Building role of National, Provincial governments and other

Capacity of provincial departments of Local Government and Treasuries varies province by province. What is fundamentally happening is that provinces themselves lack the requisite capacity in terms of numbers to support municipalities. It will always proof difficult for any province with five staff members in municipal finance to support about 32 municipalities. The consequence proved through the hearings was that a province spent about two months without physical contact with the municipality.

The Development Bank of South Africa (DBSA) is supporting almost all the municipalities through the deployment of Financial, Technical Experts,

and Young Professionals. Majority of municipalities have two to three deployees assisting in either the technical and financial departments. The challenge exposed by this arrangement relates to the support dependency and weakened skills transfer environment caused by vacancies. However, the DBSA support is highly contributing to stabilizing the financial management of selected municipalities. It is imperative that since the intervention/deployments are contracted for at least two years, approaches towards the development of capacity by municipalities is given focus to sustain the progress that would be registered by the deployees.

In terms of Skills Development, many municipalities throughout are not utilize the opportunities brought by section 68 of the Municipal Systems Act promoting the municipalities application to the Sector Education and Training Authorities for training and capacity building funds. Many municipalities have not adhered to the implementation of their Skills Development Plans or contributing to the SETA in terms of skills development levy, thus constraining such municipalities to apply for funds.

6. LESSONS LEARNED

6.1 Credibility of the budgets is very crucial as many of the municipal budgets were not realistic and sustainable. The situation with municipal budgets will require the provincial departments of Treasury and Local Government to double capacity to analyse and provide "just in time" input and support to municipalities.

6.2 The collaboration of the two key provincial departments – LG and Provincial Treasury - could work effectively where joint municipal support plans are developed. The approach promotes collaborative support and visits to municipalities and has potential to harness resources better.

6.3 Integrated Development Plans could loose the "integrated meaning" if efforts to ensure participation of sector departments in the IDP structures are not differently executed to avert the delegation of junior officials in the process.

6.4 Funding is not always the problem as touted by every municipality, but the capacity to manage the funds. Evidently, especially with MIG or MSIG or any other conditional grants, there is significant under spending and under reporting on the grant expenditure performance. In some cases municipalities have huge investments and the interest accrued is not permeating through to fund capital budgets.

6.5 For as long as the provincial departments of local government do not take leadership in coordinating municipal support and creating platform for role players such as Eskom, DME, DBSA, the impact of the oversight by Select Committee on Finance or any other oversight committee will not sustain.

6.6 Intra-District collaboration and resources integration contributes successful development of municipal capacity. During the hearings in Mpumalanga, it emerged as a best practice and example of intra-district collaboration where all the municipalities under Nkangala District perform consistently better including the District itself.

6.7 Councillors need to be capacitated to perform their oversight functions in municipalities. If councilor had the capacity to interrogate S71 reports of the MFMA and DoRA reports most of the under spending and non-compliance may have been capped to the minimum

7. TEAM PROGRESS PER PROVINCE

The **dplg** in support to the provincial teams, facilitated for the deployment of Financial Experts and five Young Finance Professionals at LG departments' level to assist the province with the implementation of the joint support plans to address *inter alia* the issues raised by the Select Committee on Finance.

7.1 Eastern Cape

The Local Government Department in the E.Cape has prioritized the three municipalities (Great Kei, Mquma and King Sabata Dalinyebo) as part of the 16 priority municipalities for support. An inter-departmental task team has been established since the last hearings by SCOF in December 2007.

All the three municipalities have since employed section 57 managers and have developed Comprehensive Recovery Plans. The Comprehensive Recovery Plans addresses areas including Human Resources in terms of key appointments, financial management and Development Planning.

7.2 Gauteng

The province has since the last hearing continued collaborative programme to support and build capacity of the municipalities selected. The province has developed a comprehensive progress report per municipality but still to release the report for consolidation.

7.3 Limpopo

Though the hearings in this province took place around July 2008, the provincial departments of local government and Treasury have convened in August 2008 to craft a support plan focusing on the issues recommended for resolution by the Select Committee on Finance.

To date all the 14 municipalities' budgets have been collectively analysed and their organograms reviewed. The collective focus by the two provincial departments is on implementing the joint support plan to deal with the outcomes of the budget and organogram reviews. Support teams have been procured by the department of local government in collaboration with Provincial Treasury to assist these municipalities with indigent registers, asset management and financial management.

7.4 North West

Following the hearings in May 2008, joint support plan workshop was convened under the leadership of both Provincial Departments of Local Government and Treasury. The workshop included the participation of Ngaka Modiri Molema, Bojanala and Dr Kaunda District municipalities.

A joint plan was adopted and already municipalities such as Ventersdorp Local Municipality and others have been assisted with review of organizational structures in view of developing strategies for managing down the high salary percentage to operating budget. The province has supporting municipalities with the development of municipal property rates policies.

7.5 KwaZulu Natal

The hearings in KZN took place in September 2008, and the team as recommended by SCOF is yet to convene to harness follow-up program to support the selected municipalities.

7.6 Northern Cape

The team convened by the provincial department of Local Government met to develop a support programme in August 2008. However, very little movement in terms of progress has been collectively made. The provincial department of LG and Treasury continue to visit municipalities without the involvement of each other resulting into counter productive impact on the recommended support issues.

