



MINISTRY
COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS
REPUBLIC OF SOUTH AFRICA

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**Keynote address by Mr Andries Nel, MP, Deputy Minister for Co-operative
Governance and Traditional Affairs at Annual Conference of the Chartered Institute
of Government Finance, Audit and Risk Officers (CIGFARO),
Cape Town International Convention Centre,
9 October 2017**

Programme Director,
Cllr Johann van der Merwe, representing the Mayor
CIGFARO President, Dr Krish Kumar,
Deputy President, Sidwell Mofokeng,
Distinguished Guests,
Ladies and Gentlemen,

Sanibonani, Dumelang, Goeie môre, Ndi macheloni, Good morning, Avuxeni, As-Salamu-Alaykum.

Thank you very much for honouring us with an invitation to deliver an address, and a keynote address, nogal, to the 88th Annual Conference of CIGFARO.

I am addressing risk officers, so let me start of by mitigating an obvious risk - the risk of confusion brought about by not explaining acronyms.

For those not in the know, CIGFARO is not a cigar brand, nor is it a lobby group for the tobacco industry, it is the very important Chartered Institute of Government Finance, Audit and Officers chaired by Dr Krish Kumar.

We congratulate Dr Krish Kumar on completing his doctorate in administration.

Dr Kumar's study found that the effectiveness and efficiency of revenue management are not being optimised, that municipal debt has grown, the cost of free basic services has increased, distribution losses for water and electricity have been steadily increasing, and there is an average surplus of 9% on net operating margins.

Based on these findings Dr Kumar developed a model for revenue enhancement that recommends amongst others a strategy to address water and electricity losses in distribution; reviewing the affordability of the free basic services package and improving the net operating margins as well as interventions to improve the effectiveness of revenue collections, such as installation of pre-paid and smart meters, and the enhancement of credit control bylaws and revenue management systems.

One cannot help but wonder whether the theme of this year's CIGFARO conference: "Sustaining Service Delivery Amidst the Challenging Economic Climate" has been plagiarized from Dr Kumar's dissertation.

In any event it is a very relevant theme and we are indebted to Dr Kumar for his exemplary efforts.

South Africa has indeed made remarkable progress in the transition from apartheid to democracy. Our National Development Plan seeks both to sustain and deepen this progress.

In nearly every facet of life, advances are being made in building an inclusive society, rolling back the shadow of history and broadening opportunities for all.

South Africa has been able to build the institutions necessary for a democratic and transformative state.

The Constitution enshrines a rights-based approach and envisions a prosperous, non-racial, non-sexist democracy that belongs to all its people.

Healing the wounds of the past and redressing the inequities caused by centuries of racial exclusion are constitutional imperatives.

Access to services has been broadened, the economy has been stabilised and a non-racial society has begun to emerge.

Millions who were previously excluded have access to education, water, electricity, health care, housing and social security.

However, twenty-three years into democracy, South Africa remains a highly unequal society where too many people live in poverty and too few work.

The apartheid spatial divide continues to dominate the landscape.

The quality of school education for many black learners is poor. A large proportion of young people feel that the odds are stacked against them.

The legacy of apartheid continues to determine the life opportunities for the vast majority.

To accelerate progress, deepen democracy and build a more inclusive society, South Africa must translate political emancipation into economic wellbeing for all.

NATIONAL DEVELOPMENT PLAN

The National Development Plan envisions a South Africa where everyone feels free, yet bounded to others; where everyone embraces their full potential, a country where opportunity is determined not by birth, but by ability, education and hard work.

Realising such a society will require transformation of the economy and focused efforts to build the country's capabilities.

To eliminate poverty and reduce inequality, the economy must grow faster and in ways that benefit all South Africans.

In particular, young people deserve better educational and economic opportunities, and focused efforts are required to eliminate gender inequality.

Rising levels of frustration and impatience suggest that time is of the essence: failure to act will threaten our democratic gains.

Progress over the next two decades means doing things differently.

The NDP sets out six interlinked priorities:

First, uniting all South Africans around a common programme to achieve prosperity and equity.

Second, promoting active citizenry to strengthen development, democracy and accountability.

Third, bringing about faster economic growth, higher investment and greater labour absorption.

Fourth, focusing on key capabilities of people and the state.

Fifth, building a capable and developmental state.

Sixth, encouraging strong leadership throughout society to work together to solve problems.

Social cohesion is central to the NDP. If South Africa registers progress in deracialising ownership and control of the economy without reducing poverty and inequality, transformation will be superficial. Similarly, if poverty and inequality are reduced without demonstrably changed ownership patterns, the country's progress will be turbulent and tenuous.

BACK TO BASICS

Essential for the successful implementation of the NDP is strong, well-functioning local government, IGR and financial sustainability.

Local government is the sphere of government that is closest to the people. In fact everything that happens in our country ultimately happens in a municipality.

Local government has been at the forefront of tremendous achievements in ensuring access to basic services. Despite this, the governance, functionality and viability of many of our municipalities is cause for serious concern.

For this reason government adopted the Back to Basics approach at the Second Presidential Local Government Summit held in September 2014.

The Back to Basics approach is based on a comprehensive assessment of South Africa's 257 municipalities based on criteria ranging from political stability through governance to service delivery.

The summit agreed with the assessment one third of our municipalities were doing well, one third were getting many things right but faced challenges and one third were dysfunctional.

The top group comprises of municipalities, which, in most cases, have the basics right and performing their functions well to extremely well.

The middle group comprises municipalities that are doing fairly well. While many of the basics are in place, and the municipalities deliver on the functions of local government, they face challenges, which if left unattended to can lead to degeneration and decline.

The bottom third group is made up of municipalities that are dysfunctional, and face serious challenges in meeting their constitutional obligations. These municipalities require urgent intervention and support to enable them to get the basics right.

In these dysfunctional municipalities the review found, amongst others:

- Endemic corruption,
- Dysfunctional councils,
- No structured community engagement and participation systems,
- Inability to generate revenue,
- Poor financial management leading to continuous negative audit outcomes.

These municipalities also have a poor record of service delivery and service management functions such as fixing potholes, collecting refuse, cutting grass, maintaining public places, fixing streetlights, etc.

Many of the problems are as a result of:

- A lack of capacity in administration,
- Poor leadership and oversight by councils and
- Political infighting and conflicts, often fueled by contestation over resources.

It is in these municipalities that urgent collective action is required.

The Back to Basics approach is based on five pillars:

- Putting people first
- Delivery of a basket of quality basic services
- Ensuring good governance
- Ensuring sound financial management
- Building capable and resilient institutions.

Cutting across these pillars is a targeted and vigorous response to corruption and fraud, and a zero tolerance approach to ensure that these practices are rooted out.

Supply chain management practices in municipalities are being scrutinized.

Where corruption and mismanagement have been identified, we are not hesitating to make sure these are decisively dealt with through provisions such as asset forfeiture and civil claims.

We must also work to change practices in the private sector and civil society to change the national morality.

Slowly but surely these objectives are being achieved.

Municipalities such as Nelson Mandela Bay, Oudtshoorn, Mokgalakwena, were stabilised.

Clear Back to Basics benchmarks have been set for municipalities to perform their basic responsibilities.

Joint national-provincial Back to Basics Task Teams have been established in all provinces.

Municipalities are submitting monthly reports to a CoGTA National Monitoring Centre on the implementation of Back to Basics performance indicators.

The Third Presidential Local Government Summit was held in April 2017 under the theme: “Transforming Municipal Spaces for Radical Social and Economic Development.” The summit adopted a ten-point programme of action to implement the second phase of the Back to Basics approach.

Key elements in this ten-point programme include:

- Intervening where municipalities consistently receive Disclaimer Audit Opinions
- Intensifying the Revenue Enhancement Programme
- Mobilising technical interventions in the field of services and infrastructure
- Monitoring the implementation of the findings of Forensic Reports.

The most recent report on local government audit outcomes by the Auditor General shows a long term trend towards good governance and sound financial management.

Of the 278 municipalities that were audited in 2015/16, 161 now have unqualified audits, 63 received qualified, 4 adverse and 25 disclaimers.

What is particularly significant is that almost 80% of the total local government expenditure of R378 billion is being spent by municipalities and municipal entities with unqualified audit opinions.

These results were achieved through hard work, dedication, leadership and consistent hands-on engagement by, with and in municipalities - by members of CIGFARO.

Notwithstanding this tremendous progress we are concerned that approximately 25 municipalities have had disclaimed opinions for more than five consecutive years.

Over the next two weeks Minister van Rooyen and I will be visiting the Free State and North West Provinces to engage some of these municipalities.

As at June 2017 the aggregate debt owed to municipalities grew to R128.4 billion. This amount is not necessarily collectable given that much of it is older than 90 days. Only R24.9 billion is below 90 days. This poses a serious threat to municipal financial stability and sustainability.

CoGTA together with National Treasury have been working actively with municipalities to assist them in developing and implementing revenue collection and enhancement programmes.

SPATIAL TRANSFORMATION

Back to Basics also means ensuring that our municipalities have the capacity to manage South Africa's rapid urbanisation and to transform apartheid spatial patterns. Well-managed urban and rural development relies upon capable and well-governed municipalities supported by a whole of government and society approach.

Apartheid forced the majority of our South Africans to live far away from economic and social opportunities and services. This legacy of separation, division and exclusion must be defeated.

While about 3.2 million households have benefited from new housing, and services and infrastructure have been provided to many communities, limited progress has been made in reversing entrenched spatial inequities.

In some instances, post-1994 policies have reinforced the spatial divides by placing low-income housing on the periphery of cities.

We need a new deal for our cities and towns. The legacy of apartheid spatial patterns and the challenges of rapid urbanisation must be confronted through integrated urban development that is linked to the development of our rural areas. There is an inextricable link between rural and urban development.

We must de-racialise communities so that a new and more cohesive society can be built. All residents, black and white, rich and poor, must equally enjoy the benefits of development.

The Integrated Urban Development Framework seeks to implement our National Development Plan, as well as the New Urban Agenda adopted at the UN Habitat III in October 2016.

The Integrated Urban Development Framework

The IUDF marks a New Deal for South African cities and towns.

It sets out the policy framework for transforming and restructuring South Africa's urban spaces, guided by the vision of creating "liveable, safe, resource efficient cities and towns that are socially integrated, economically inclusive and globally competitive, where residents actively participate in urban life.

Its strategic goals are spatial integration, inclusion and access, growth, and governance.

It has nine policy levers, which are premised on the understanding that (1) integrated urban planning forms the basis for achieving integrated urban development, which follows a specific sequence of urban policy actions: (2) integrated transport that informs (3) targeted investments into integrated human settlements, underpinned by (4) integrated infrastructure network systems and (5) efficient land governance, which all together can trigger (6) economic diversification and inclusion, and (7) empowered communities; all of the above will demand effective (8) governance and (9) financial reform to enable and sustain these policy actions.

It seeks to reap the urban dividend through coordinated investments in people, places and the economy.

It aims to strengthen rural-urban linkages, promote urban resilience, create safe urban spaces and ensure that the needs of the most vulnerable groups are addressed.

By 2030, a larger proportion of the population should live closer to places of work, and the transport they use to commute should be safe, reliable and energy efficient. This requires:

- (1) Strong measures to prevent further development of housing in marginal places,
- (2) Increased urban densities to support public transport and reduce sprawl,
- (3) More reliable and affordable public transport and better coordination between various modes of transport,
- (4) Incentives and programmes to shift jobs and investments towards the dense townships on the urban edge,
- (5) Focused partnerships with the private sector to bridge the housing gap market.

All three spheres of government, public entities, the private sector and civil society have a role to play in building well-managed municipalities that can respond to the demands of rapid urbanisation and remain viable in the current economic climate.

We must support long-term development plans that include sequenced, spatially targeted investment plans to advance public infrastructure and services and enable the inclusive growth of regions;

This must be underpinned by policy, fiscal and regulatory instruments to ensure municipal sustainability.

Our success or failure in this endeavour will influence whether we become a nation united in our diversity or remain a country where we live together separately.

LEADERSHIP

The successful implementation of the National Development Plan requires strong leadership from government, business, labour and civil society.

South Africa needs leaders throughout society to work together.

Given our country's divided past, leaders sometimes advocate positions that serve narrow, short-term interests at the expense of a broader, long-term agenda. It is essential to break out of this cycle.

The country needs partnerships across society working together towards a common purpose. We need to build trust between major social partners.

The government must be responsible for a large share of implementing the NDP. It will need to strengthen its accountability chain, improve its capacity, be prepared to make difficult decisions and work with others in society to solve challenges. This means communicating honestly and sincerely with the public.

The state sets the ethical bar for society as a whole. This makes it even more important that government acts to address the high levels of corruption in its ranks. We are here to serve the people; the people are not here to serve us.

But business must lead by example as well. Recent revelations of unprofessional, unethical and down-right criminal behavior in the auditing profession are extremely concerning.

When, to paraphrase an Afrikaans expression, “skaapwagter wolf word” (i.e. when the shepherd turns into a wolf) we must all be worried and act accordingly. I am sure that many in this room will be pursuing these matters vigorously in their respective professional bodies.

South Africa needs a thriving private sector that is investing in productive capacity. While the profit motive drives business, companies cannot grow unless they operate in an environment where employment and income levels are rising. It is in the long-term interests of all businesses for the country to grow faster and for more people to be employed.

It is also in the interests of business that the level of inequality be reduced. Inequality raises the cost of doing business, skews market structure and ultimately limits growth opportunities. It also breeds mistrust and tension.

Excessive executive remuneration does little to build a more inclusive society where everyone feels that they share in the fruits of development. While legislating salaries is impractical, leadership is required to ensure that businesses act more responsibly.

South Africa has a well-developed and vibrant trade-union movement. Historically, trade unions have played a role in politics, understanding that the issues pertinent to its members do not stop at the factory gate.

Unions advance the interests of their members and give voice to vulnerable workers, such as farm workers, domestic workers or casual workers. Union leadership is critical to ensuring that gains by members are sustainable in the long term. To achieve this, productivity and employment have to rise continuously.

In a developmental state, unions share responsibility for the quality of services delivered, for improving the performance of government, and for fighting corruption and inefficiency.

Civil society leaders represent citizens on issues closest to their hearts and must be taken seriously. These leaders are responsible for ensuring that that criticism and protest are conducted with dignity and maturity.

We are confident that the quality of leadership present in this room is equal the difficult but exciting tasks that lie ahead as we take South Africa forward together.

Ngiyabonga, Ke a leboga, Baie dankie, Ndi a livhuwa, Thank you, Inkomu, Shukran