national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

NATIONAL TREASURY TO STOP FURTHER TRANSFERS TO NALA LOCAL MUNICIPALITY IN THE FREE STATE

National Treasury intends invoking Section 216(2) of the Constitution of the Republic of South Africa against Nala Local Municipality in the Free State province and stop all financial transfers to the municipality because of its persistent breach of financial management prescripts and alleged mismanagement of public funds.

In terms of the allocations for local government medium term expenditure framework for 2012/13 – 2014/15, as published in the 2012 Division of Revenue Act (DoRA), Nala Local Municipality was allocated R203.9 million for the 2012/13 financial year. This allocation constitutes 63 per cent of the municipality's 2012/13 total budget of R321.5 million. Of the 2012/13 allocation, R81.6 million has already been transferred to the municipality.

For the 2013/14 and 2014/15 financial years, the municipality's DoRA allocations are R205.5 million and R220.7 million, respectively.

Nala Local Municipality has repeatedly failed to comply with the Municipal Budget and Reporting Regulations, including, among others, failure to submit:

- the 2009/10 and 2010/11 audit reports;
- the 2009/10 and 2010/11 annual financial statements;
- the 2009/10 and 2010/11 MFMA Section 72 reports and annual and performance assessment reports; and
- The 2012/13 MTREF tabled budget and hardcopy of the 2012/13 MTREF adopted budget.

National Treasury is empowered by Section 216(2) of the Constitution to stop the transfer of funds (conditional and non-conditional grants) to any organ state of state that commits a serious or persistent breach of the measures prescribed to promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

This constitutional obligation is further provided for in Section 38 of the Municipal Finance Management Act (MFMA, Act N0. 56 of 2003) and Section 18 of the Division of Revenue Act (DORA, Act No.5 of 2012).

Allegations of maladministration, financial mismanagement, flouting of procurement processes, corruption and fraud at the municipality date back to the 2008/09 Audit Report of the Auditor-General. These allegations were also investigated by auditing firm KPMG during the 2010/11 financial year. Only the municipal manager was found guilty and fired as a result of the KPMG findings. None of the other municipal officials and councillors implicated in the KPMG report have faced disciplinary action or been charged for the alleged crimes.

The municipality has also not implemented most of the recommendations made by KPMG, including the filling of the critical posts of Municipal Manager and Chief Financial Officer.

Furthermore, Treasury has yet to receive evidence from the municipality that all its customers are now being fully billed after the collapse of the municipality's billing system in 2010.

Treasury has given Nala Local Municipality several chances to remedy the situation and tried unsuccessfully to work with the municipality to address its budgeting, financial management and service delivery challenges.

National Treasury's decision to invoke Section 216(2) of the Constitution and Section 18 of the Division of Revenue Act will make it difficult for the municipality to meet its financial obligations, including the payment of salaries and allowances for staff and councillors. However, the cutting off of funding to the municipality is meant to send a strong message that maladministration, financial mismanagement, corruption and fraud will not be condoned at the expense of transparency and accountability.

ENDS

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