



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

NATIONAL TREASURY WITHHOLDS TRANSFERS OF FUNDS TO 60 MUNICIPALITIES

National Treasury has, with effect from 20 March 2015, withheld the transfer of equitable share to 60 municipalities due to failure to honour their financial commitments in general and to pay Eskom and other service delivery creditors in line with section 65 (2) of the Municipal Finance Management Act, 2003 (MFMA, Act No. 56 of 2003).

Section 216 (2) of the Constitution permits the National Treasury to stop the transfer of funds (equitable share ¹and conditional grants²) to any organ of state that commits persistent and material breach of their financial obligations.

The persistent failure by some municipalities to pay creditors within 30 days amounts to financial mismanagement and the National Treasury deems it important to take steps to ensure that municipalities meet their financial commitments.

Municipalities, as at 31 December 2014, owed ESKOM R9 billion, of which R4.5 billion is current and the balance relates to arrears, which is a persistent breach of the payment terms applicable to creditors.

Municipalities, as at 31 December 2014, owed Water Boards R3.6 billion, of which R1.3 billion is current and R2.3 billion relates to arrears which is a persistent breach of the payment terms applicable to creditors.

Early in March, National Treasury, informed municipalities with persistent arrears in respect of ESKOM and Water Boards, of its intention to invoke Section 216 (2) of the Constitution, subject to municipalities entering into repayment arrangements with these creditors and preparing a financial recovery plan where relevant.

In addition, municipalities were advised to obtain a Council resolution to confirm the municipality's commitment to the process and to ensure that the current account due to ESKOM is paid by 13 March 2015.

The persistent arrears and failure of municipalities to settle their ESKOM payments within 30 days, as is legally required, negatively impacts ESKOM's cash flow thereby compromising the utility's operations and financial position.

¹ Revenue allocated as required by the Constitution.

² Allocation of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.





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Although the decision to invoke Section 216 (2) of the Constitution will affect municipalities' ability to meet some of their financial obligations, financial mismanagement cannot be condoned under any circumstances. Transfers will therefore only be released once all the requirements as communicated to municipalities are met. This includes a formal repayment arrangement between both parties.

National Treasury is of the view that there cannot be an improvement in overall service delivery in an environment where principles of efficient public finance management are regularly disregarded. The Treasury therefore, has a number of initiatives to support municipalities with budget preparation and proper revenue forecasting to ensure credible and funded budgets are tabled.

This process is also aimed at getting municipalities to pay attention to revenue management. An intense approach to revenue management will substantially reduce debt owed by all customers and in particular the businesses (R22 billion). This will further increase the opportunity for municipalities to collect amounts owed by government departments (National and Provincial) which stands at R4 billion, thus improving the financial sustainability of municipalities.

The National Treasury would like to support the struggling municipalities by assisting them to prepare a recovery plan that will mitigate the budgeting and revenue management risks and to ensure proper municipal billing and collection is implemented as required by the adopted credit control policy.

On the other hand, National and Provincial departments are encouraged to settle current and arrear amounts owed to municipalities and are cautioned of a similar approach being instituted to defaulting departments either for services and/or property rates. Municipalities will be encouraged to implement their full credit control initiative to defaulting departments.

Issued on behalf of National Treasury

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