

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER: 3

7 MARCH 2006

MR T S RALANE TO ASK THE MINISTER OF FINANCE:

Whether the National Treasury withheld any payments to provinces and municipalities in terms of section 33 of the Division of Revenue Act, Act 1 of 2005, in the 2005-06 financial year; if not, what is the position in this regard; if so, what are the relevant details? **C29E**

REPLY:

When the Honourable member's question is examined against section 33 of the 2005 Division of Revenue Act, one realizes that it requires a two-part answer. One part must deal with the grants that National Treasury administers, while the other part deals with grants administered by other departments.

Provincial grants administered by National Treasury

Provincial Infrastructure Grant

Table 1 shows that in total, R1,1 billion of the Provincial Infrastructure Grant has been withheld from some provinces due to:

- Failure to submit quarterly reports indicating spending and progress with projects according to the prescribed deadlines;
- Failure to submit draft infrastructure plans (with respect to third installment) on the prescribed date; and
- Evidence of slow spending as reflected in the section 32 reports submitted by provinces.

Table 1**Provincial Infrastructure Grant Instalment**

| Province | Quarterly Allocation | Total Allocation for 2005/06 | Total transfers to date | Total delays to date |
|---------------|----------------------|------------------------------|-------------------------|----------------------|
| R thousand | R'000 | R'000 | R'000 | R'000 |
| Eastern Cape | 168,833 | 675,330 | 675,330 | - |
| Free State | 55,230 | 220,921 | 169,556 | 51,365 |
| Gauteng | 92,444 | 369,777 | 92,444 | 277,333 |
| KwaZulu-Natal | 196,951 | 787,803 | 512,072 | 275,732 |
| Limpopo | 165,225 | 660,898 | 342,015 | 318,883 |
| Mpumalanga | 71,383 | 285,533 | 128,490 | 157,043 |
| Northern Cape | 45,132 | 180,529 | 138,555 | 41,974 |
| North West | 80,284 | 321,135 | 321,135 | - |
| Western Cape | 57,212 | 228,847 | 228,847 | - |
| Total | 932,693 | 3,730,773 | 2,608,444 | 1,122,329 |

As the figures in table 1 above show, funds have been delayed to all provinces except Eastern Cape, North West and Western Cape.

Once funds are delayed, progress with complying with the requirements of the Act is monitored on a regular basis and the delayed funds or a portion thereof gets transferred to the province. However if the province fails to comply in spite of the delay then the funds will be withheld. Similarly, if reported spending shows improvement, again a portion or all of the delayed funds will be transferred to the relevant province. In every instance where funds are delayed or withheld, the relevant receiving officers are advised.

Provincial grants administered by other departments*Hospital Revitalisation Grant*

On the Hospital Revitalisation Grant, funds were withheld from the Eastern Cape (R10million), Free State (R7million); Limpopo (10million), North West (R40million) and Western Cape (R24 million) due to slow spending. The R81 million withheld was reallocated to Gauteng (R71 million) and Northern Cape (R20million) in terms of section 35 of the Division of Revenue Act.

Local Government grants administered by National Treasury*Restructuring grant*

The National Treasury delayed payments for February 2006 on Restructuring Grant to Mangaung, City of Johannesburg, Emfuleni and Buffalo City due to poor quality of reports and insufficient financial information to assess financial compliance.

Financial Management Grant

National Treasury delayed transfers for **Financial Management Grant** to 12 municipalities that were supposed to receive their transfers during July 2005 because the required Council resolutions in keeping with the framework conditions were submitted late. The delayed funds were subsequently transferred in October 2005.

Local Government grants administered by other departments (DPLG, DWAF, and DME)

Municipal Infrastructure Grant

The National Treasury approved a request by the Department of Provincial and Local Government (DPLG) to withhold payments to slow spending municipalities during the month of October 2005. DPLG also indicated to the National Treasury that their MIG Unit is currently undergoing a series of meetings with the concerned municipalities to improve their expenditure. The monthly analysis conducted by the National Treasury indicates that there is a slow increase in spending since the administrative department requested approval to withhold payments.

Other municipal grants

Section 33(1) allows national transferring officers to withhold transfers for less than 30 days without informing National Treasury. This makes it difficult for the National Treasury to assess whether any funds were withheld in terms of section 33(1). The 2006 Division of Revenue Bill has been amended to allow for consultation with the national and provincial treasuries before an allocation can be withheld.

However, monthly reports from these departments submitted to the National Treasury in terms of section 20 (5) suggest that some transfers were not made in accordance with the payment schedule. The National Treasury has since corresponded with the concerned departments regarding section 32(1) of the 2005 Division of Revenue Act. Judging from this, one can conclude that these departments withheld payments in terms of section 33(1) of the Act.

Nevertheless, the National Treasury did not withhold any payments or approve any requests for withholding payments from the administering departments of schedules 5 and 6 allocations.

APPENDIX A

Municipalities that have entered or are in negotiations with Water Boards on Service Levels Agreements

| No | Water Board | Municipality | Date agreement signed |
|----|---------------------------|---------------------------------|--|
| 1. | Amatola Water | Amathole district Municipality | 30 May 2002 |
| | | Buffalo City Municipality | 19 March 2004 |
| 2. | Bushbuckridge Water Board | Bohlabela District Municipality | 11 June 2004 |
| 3. | Botshelo Water | Bophirima District Municipality | 31 October 2005 |
| 4. | Bloem Water | Mangaung Local Municipality | Draft agreement not signed yet-still been negotiated |
| | | Ukhahlamba Municipality | June 2003 |
| 5. | Sedibeng Water | Siyanda District Municipality | 10 September 2004 |
| | | Kgatelopele Local Municipality | 27 August 2004 |
| | | Kheis Local Municipality | 27 August 2004 |
| | | Phokwane District Municipality | 03 April 2003 |
| | | Moshaweng Municipality | 10 December 2002 |
| | | Ga-Segonyana Municipality | 10 December 2002 |
| 6. | Lepelle Northern Water | Greater Sekhukhune | 10 May 2004 |
| | | Greater Tubatse Municipality | 10 January 2006 |
| | | Capricon District Municipality | 10 January 2006 |
| 7. | Magalies Water | Tshwane Metropolitan | 23 June 2005 |
| | | Moses Kotane Local Municipality | 15 June 2005 |
| | | Madibeng Local Municipality | 22 June 2004 |
| | | Moretele Local Municipality | Draft contract to be signed in April 2006 |

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER 48

DATE OF PUBLICATION: 28 AUGUST 2006

DUE TO PARLIAMENT: 5 SEPTEMBER 2006

MR E M SOGONI TO ASK THE MINISTER OF FINANCE:

- (1) Whether the current level of progress in the implementation of the Local Government Municipal Finance Management Act, Act 56 of 2003 is adequate; if not, what is the position in this regard;
- (2) whether all municipalities have employed internal auditors; if not, why not?
C202E

REPLY:

- (1) Our phased approach to the implementation of the MFMA is informed by some of the valuable lessons we have learnt in implementing the PFMA in provincial and national spheres. In evaluating progress, we must remind ourselves of what the phased approach to implementation means in practical terms.

One element of the phased approach takes account of the varying capacities of municipalities, and seeks to ensure that those with high capacity (50 of them) would be able to implement in the shortest time possible. The medium capacity (107) and low (the remainder) capacity ones would be expected to follow. We need to allow municipalities time to build the capacity they require to be able to comply with the law before we insist on full compliance.

The second element of the phased approach relates to what municipalities ought to comply with in the initial stages. In this regard, the intention is to ensure that municipalities follow due processes in executing a number of their activities such as opening the planning and budgeting processes to public scrutiny (ensuring that the budget process is transparent) and tabling budgets, expenditure reports and annual reports at specific times. This will allow the executives and municipal council time to assess the progress their municipalities are making or failing to make, so that they can intervene on a timely basis.

Municipalities are also expected to follow proper supply chain management processes that are not open to manipulation and in which certain information gets disclosed as matter of course.

It is evident therefore that good progress has been made to date with the implementation of the MFMA. This is confirmed by the fact that only one municipality (Mpendle Local Municipality) failed to table a budget in time this year, in spite of the elections in March. Last year all municipalities submitted annual financial statements, although some of them did so slightly late. A few years ago there were backlogs in annual financial statements dating back several years. Nevertheless, while compliance has improved considerably, a lot of work remains to be done to improve the quality on all fronts.

- (2) Research with regard to practices on internal auditing at municipalities has just commenced. Initial reports suggest that 93 municipalities have in-house internal audit functions operational. 34 municipalities share the internal audit function with the district municipality and 1 has co-sourced the service with both internal and an external provider. 58 municipalities have completely outsourced the function to external providers. 53 municipalities have not yet instituted an internal audit function. The most common reason provided by municipalities which have not yet operationalised the internal audit function was the inability to attract the appropriate skilled persons and the lack of resources.

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER 50

DATE OF PUBLICATION: 28 AUGUST 2006

DUE TO PARLIAMENT: 5 SEPTEMBER 2006

MR D J BOTHA TO ASK THE MINISTER OF FINANCE:

Whether all municipalities have approved their budget before the start of the new budget year which commenced on 1 July 2006; if not, why not? **C205E**

REPLY:

From our records, all municipalities in the following provinces complied with the deadline prescribed in the MFMA for tabling budgets:

- Eastern Cape,
- Northern Cape,
- Free State,
- Gauteng,
- Mpumalanga,
- Limpopo,
- North West and
- Western Cape.

In the case of KZN only one municipality - Impendle Local Municipality - did not approve their budget on time and this was due to the delay in constituting a Council meeting as a result of the vacant Municipal Manager position.

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER 51

DATE OF PUBLICATION: 28 AUGUST 2006

DUE TO PARLIAMENT: 5 SEPTEMBER 2006

MR M O ROBERTSON TO ASK THE MINISTER OF FINANCE:

Whether any new accounting standards for municipalities have been developed; if not, why not; if so, what are the relevant details? **C206E**

REPLY:

Section 122(3) of the Municipal Finance Management Act, 56 of 2003 (MFMA) requires that the financial statements of municipalities must be prepared in accordance with the accounting standards prescribed by the Minister of Finance for the public sector in terms of section 91(1)(b) of the Public Finance Management Act, 1 of 1999. Since the inception of the MFMA, the Minister has prescribed the following standards of Generally Accepted Municipal Accounting Practice (GAMAP), and Generally Accepted Accounting Practices (GRAP), which accordingly apply to municipalities:

| | |
|----------|--|
| GAMAP | Preface to the Standards of GAMAP |
| GAMAP 4 | The Effects of changes in Foreign Exchange Rates |
| GAMAP 6 | Consolidated Financial Statements and Accounting for Controlled Entities |
| GAMAP 7 | Accounting for Investments in Associates |
| GAMAP 8 | Financial Reporting of Interests in Joint Ventures |
| GAMAP 9 | Revenue |
| GAMAP 12 | Inventories |
| GAMAP 17 | Property, Plant and Equipment |
| GAMAP 19 | Provisions, Contingent Liabilities and Contingent Assets |
| GRAP 1 | Presentation of Financial Statements |
| GRAP 2 | Cash Flow Statements |
| GRAP 3 | Accounting Policies, Changes in Accounting Estimates and Errors |

These standards are implemented in a phased manner in line with the MFMA implementation plan.

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 52

DATE OF PUBLICATION: 26 MAY 2006

DUE TO PARLIAMENT: 08 JUNE 2006

MR T S RALANE TO ASK THE MINISTER OF FINANCE:

Whether any provinces have contingency reserves; if not, why not; if so, (a) how many provinces have (i) contingency reserves in the form of a single line budget vote item and (ii) budgeted for both surplus and contingency reserves and (b) what is the National Treasury's position on provinces establishing provincial contingency reserves?

C73E

REPLY:

- (a) (i) Yes, one (1) province, North West, has a contingency reserve in the form of a single line budget vote item.
- (ii) None of the provinces budgeted for both a surplus and a contingency reserve in the form of a single line budget vote item.
- (b) As the honourable member will recall, the Budget Council took a resolution on 02 February 2006 that all provinces commit and allocate all unallocated amounts. Given that the national budget makes provision for a contingency reserve which is available to all spheres subject to sections 16, 25 and 33 of the PFMA our preference is for provinces not to set aside amounts for unforeseeable and unavoidable expenditure. However, national government cannot prescribe against contingency reserves. Provinces alone can decide on the matter.

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER 65

DATE OF PUBLICATION: 7 NOVEMBER 2006

DUE TO PARLIAMENT: 14 NOVEMBER 2006

KGOSHI M L MOKOENA TO ASK THE MINISTER OF FINANCE:

Whether he or his department will take corrective measures against provinces that are unable to utilise their allocation within a financial year; if not, why not; if so, what measures? *C160E*

REPLY:

Treasury has taken a number of steps to deal with the issue of underspending as it pertains to provinces. These include:

1. Alerting Parliament and provinces both through the Budget Council and the President's Coordinating Council when underspending is anticipated – not after it has occurred. This has been done through in-depth discussions of the sections 40(4)(c) and 32 reports.
2. Instituting a process of stopping transfer of the provincial infrastructure allocation to provinces that are anticipated to underspend their infrastructure allocation. In the 2005/06 financial year R746, 7 million of the provincial infrastructure grant was stopped to five provinces. In that year provinces underspent their capital budgets by R938, 3 million. Implementing such a decision was tough, not only because it was based on projections, but because, invariably, the places that are unable to spend allocations are sometimes those that need the resources most.
3. Facilitating reallocation of funds that have been halted to departments that are demonstrating capacity to spend their allocations, first within the same province and thereafter between provinces. Where funds are reallocated between provinces they will get reallocated back once the "loosing" province has beefed up its capacity.

4. Finally, through the infrastructure delivery improvement programme we are assisting provinces with the delivery of infrastructure. This entails deploying persons with the requisite skills to departments that need support. We started the programme in education and extending it to health and public works.

It is also vitally important that we acknowledge that underspending of capital budgets among provinces has been on a declining trend over the past three years. Three years ago (2002/03) provinces underspent their capital budgets by R1, 1 billion, which represented 10, 6 per cent of their combined capital budget. In 2005/06 total underspending of the capital budget amounted to R938, 3 billion or some 6 per cent of an even much larger capital budgets. This is a remarkable improvement, and it needs to be noticed and applauded. For if we fail to acknowledge it we shall inadvertently destroy the morale of those who have contributed to bringing about the change. Simultaneously, we must continue to use the quarterly reports to monitor spending patterns during the course of the financial year.

NATIONAL COUNCIL OF PROVINCES

QUESTION FOR ORAL REPLY

QUESTION NUMBER 66

DATE OF PUBLICATION: 7 NOVEMBER 2006

DUE TO PARLIAMENT: 14 NOVEMBER 2006

MR E M SOGONI TO ASK THE MINISTER OF FINANCE:

- (1) Whether, with regard to municipalities borrowing financial resources from the Development Bank of Southern Africa, he intends to regulate the borrowing practices of municipalities; if not, why not; if so, what are the relevant details;
- (2) whether municipalities that have the capacity to spend their allocations appropriately will receive such allocations; if not, why not;
- (3) whether he will make a statement on the matter? **C207E**

REPLY:

- (1) At the outset, I wish to advise that borrowing by municipalities from the DBSA is governed and regulated by the same laws that are applicable to other institutions. We do not have a separate framework or set of regulations for the DBSA, and we do not intend introducing such a framework in the foreseeable future.

National Treasury will be publishing regulations on municipal borrowing and disclosures, shortly. This is intended to further stimulate the domestic market and the interest shown by the private sector in lending to municipalities in support of infrastructure and economic development.

(2) & (3)

I assume that this part of the questions relates to the eligibility of municipalities to borrow from the DBSA. In that regard, I wish to indicate that, like similar institutions, the DBSA has procedures for evaluating each borrowing application. As Governor of the Development Bank of Southern African, I would not dictate how the DBSA makes such decisions in relation to each application.

However, as a general approach to lending to municipalities, I consciously encourage the DBSA to look more sympathetically at applications from low and medium capacity municipalities - also to view its role to be more than just lending to municipalities. In this regard, I am pleased to advise this House that their involvement in capacity building initiatives such as Siyenza Manje is quite encouraging.

NATIONAL COUNCIL OF PROVINCES
QUESTION FOR ORAL REPLY
QUESTION NUMBER 75
14 NOVEMBER 2006

MR D BOTHA TO ASK THE MINISTER OF FINANCE:

Whether the National Treasury has transferred unutilised resources, originally distributed as conditional grants, to another provincial department (a) within the same province and/or (b) in a different province in the financial year ending 31 March 2006; if not, why not; if so, what are the relevant details? **C 326E**

REPLY:

- (a) No. In instances where this is necessary it is left to the discretion of the provinces.
- (b) Yes, let me start of by saying that Section 34 of the Division of Revenue Act 1 of 2005 prescribed that “where there are indications that a province will definitely not spend appropriated funds, such funds could be stopped and on the determinations that there are real spending possibilities in another province, that such funds may then be redirected to a province where there has been an indication that there are real spending pressures. “Funds for two grants were withheld and reallocated in terms of section 35 of the 2005 Division of Revenue Act because of slow spending”.

Firstly, the Hospital Revitalization Grant: The amount withheld was as follows:

- R10 million from Eastern Cape,
- R7 million from Free State,
- R10 million from Limpopo,
- R40 million from North West and
- R24 million from the Western Cape.

Of the R91 million withheld, R71 million was transferred to Gauteng and R20 million to Northern Cape during the 2005 provincial Adjustments Estimate process.

Secondly, the Provincial Infrastructure Grant for Mpumalanga (R20 million) and Limpopo (R100 million) were stopped during the 2005/06 financial year and funds were re-directed to North West (R55 million) and Western Cape (R65 million) who indicated that they could absorb and spend the re-allocated funds. These amounts will be appropriated during the 2006 provincial Adjustments Estimate process.