

NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 1 [NW2E]

DATE OF PUBLICATION: 09 FEBRUARY 2012

Mr J J McGluwa (ID) to ask the Minister of Finance:

- (1) Which 66 of the 278 municipalities are in financial distress;
- (2) what are the relevant details of the reasons why each of the 66 municipalities is in its current predicament;
- (3) whether this situation will affect the budget allocations for the new financial year. if not, what is the position in this regard; if so, (a) how and (b) what are the further relevant details;
- (4) whether he has put corrective measures in place; if not, why not; if so, what are the relevant details?

NW2E

REPLY:

- (1) The 66 municipalities that fall within the “distress” category are listed as part of the released report. The Honourable member can access the copy from our website at following link:

http://mfma.treasury.gov.za/Media_Releases/Pages/default.aspx

- (2) There are specific criteria applied in determining “distressed municipalities”: amongst others are:
 - a. Cash as a percentage of operating expenditure - very low levels of available cash may result in the municipality being unable to pay employees and suppliers
 - b. Persistence of negative cash balances - evidence that cash flow problems have persisted for a period of time

- c. Over spending of original operating budgets – failure to compile a credible operating budget or to manage the implementation of the operating budget properly
- d. Underspending of original capital budgets - failure to compile a credible capital budget or to manage the implementation of the capital budget properly
- e. Debtors as a percentage of own revenue – high level of debtors reflects poor revenue management, and a failure on the part of the municipality to collect own revenues
- f. Year-on-year growth in debtors – high growth suggests a recent breakdown in debtor management
- g. Creditors as a percentage of cash and investments – high levels indicate that the municipality is not paying suppliers timeously, and is at risk of defaulting on payments

National Treasury uses these criteria mainly to target its intervention programme in municipalities.

- (3) No. National Treasury and Provincial Treasuries will collaborate with municipalities to ensure that the 2012/13 budgets are sustainable and underpinned by credible assumptions. We expect that this assessment will assist municipalities to correct their future budgets accordingly. National Treasury is currently conducting mid-year assessments of all municipal budgets to determine the risks and recommend mitigation strategies. All municipal budgets (drafts to be presented by 31 March 2012 in respective Municipal Councils) will be assessed for their credibility in April/May. National Treasury expects that Municipal Councils will adjust their draft budgets accordingly to ensure their sustainability.
- (4) Yes. Corrective measures have been put in place. The answer above, (3) partly articulates the strategy around budget preparation. However, the budget preparation, while it is a good start will not address the problem on its own. National Treasury has established a Municipal Finances Monitoring Committee, consisting of officials from both the National Treasury and the provincial treasuries, that will be tasked with co-ordinating such investigations and then determining what specific support should be provided, or whether an intervention is required due to a crisis in the municipality's finances.

The aim of establishing the Committee is to ensure that the support that National Treasury is already providing to municipalities is better targeted to municipalities that really need it. Among the support initiatives already in place to address municipal issues with poor financial management are:

- a. The Financial Management Grant that funds the appointment of recently graduated interns to the Budget and Treasury Offices of municipalities;
- b. The Municipal Financial Improvement Programme (MFIP) that deploys experts to municipalities that require direct hands-on-support with financial management issues;
- c. The MFMA Helpline – an email help facility that assists municipalities with any MFMA or financial management related queries;
- d. The MFMA Learning portal – that provides an on-line training course for municipal finance officials;
- e. Direct monitoring and feedback of municipalities' budgets and section 71 (in-year) reports;
- f. Training workshops for municipal CFOs and officials on issues related to the MFMA and budgeting; and
- g. Training workshops for Mayors and councillors (organised with SALGA) on financial management issues, particularly budgeting.

In addition, National Treasury is working with provincial treasuries to improve the capacity of their MFMA Units by providing funding for the appointment of five local government specialists in each treasury, and by providing extensive training related to the oversight of municipal budgets and municipal finances more generally. The aim is to strengthen the provincial treasuries' capacity to provide technical support to municipalities in financial distress.