

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER: 523 [CW629E]**

**DATE OF PUBLICATION: 21 SEPTEMBER 2012**

**523. Mrs E C van Lingen (DA-EC) to ask the Minister of Finance:**

- (1) Whether the National Treasury is working with the Auditor-General to address the (a) annual budget submissions by the municipalities with poor audit outcomes of the previous year's audit reports and (b) inflated budgets of local municipalities in terms of their own income records of the previous financial year; if not, what is the position in this regard; if so, what are the relevant details;
- (2) whether the National Treasury has put any measures in place to address the (a) decaying infrastructure, (b) maintenance backlogs and (c) increased bulk infrastructure facilities to accommodate urbanisation in local municipalities; if not, why not; if so, what are the relevant details?

CW629E

**REPLY:**

***1 (a) annual budget submissions by the municipalities with poor audit outcomes of the previous year's audit reports:***

- Yes. National Treasury (NT) maintains a close working relationship with the Auditor General to improve various aspects of the audit process as a whole and to strengthen the quality of information received from municipalities in terms of the annual financial statement submissions. This relationship is reinforced at both the political and administrative level with monthly meetings taking place between officials from the Auditor-General's (AG) office and officials from the National Treasury.
- While there is useful collaboration between the Office of the Auditor General and the National Treasury, improving the quality of information and ensuring that **annual budgets** are credible, submitted timeously and respond to issues raised in previous audits are closely related to the mandate of the National Treasury rather than that of the Auditor-General. The audit process is an audit of the Annual Financial Statements (year-end procedures) and not a direct audit of the annual budget.

***(b) inflated budgets of local municipalities in terms of their own income records of the previous financial year; if not, what is the position in this regard; if so, what are the relevant details:***

- With regard to the inflation of budgets, in 2009 National Treasury issued Municipal Budget and Reporting Regulations to standardise budgeting reporting across all municipalities. The budget formats are designed to ensure that information is provided over a seven year horizon consistent with national and provincial budget documents. This includes audited information for the previous three years, the budget for the current financial year and the budget for the next MTEF period (3 years). By providing audited information for the previous reporting figures, National Treasury is able to establish a revenue and expenditure trend. If budgets have been artificially inflated, these will be easily recognised by evaluating past performance.
- In addition to the budget formats, National Treasury has, during the last four years, institutionalised a Municipal Budget and Benchmark exercise. During this process, National Treasury interrogates the draft budgets of the 17 non-delegated municipalities to determine if budgets are credible, funded, relevant (i.e. do they respond to municipal Integrated Development Plans) and sustainable before they are adopted by Council.

2. Yes, National Treasury has put the following measures in place for:

a) Decaying infrastructure

Decaying infrastructure is a result of failure to prioritise maintenance and poor asset management practises in municipalities. The Municipal Budget Reporting Regulations (MBRR) requires municipalities to budget and submit related information to NT for assessment. This approach supports sector initiatives aimed at institutionalising good asset management practises. The budget regulations and guidelines which are part of the budget reforms being implemented by NT require the following:

- Municipalities have to disclose to NT the split between investment towards new and renewal of existing infrastructure. This measure enables NT to monitor the extent to which infrastructure is renewed in line with the life cycle of the assets. NT recommends that municipalities should have a balance between investing in new and renewal of existing assets, which is aimed at ensuring that there is an appropriate balance in the provision for infrastructure and the maintenance thereof.
- Municipalities are required to provide information to NT on repairs and maintenance for all asset classes.

Various additional programs are investigated for implementation aiming to improve the current systems and to provide benchmarks:

- The SCOA (Standard Chart of Accounts) is a special project to be implemented in Local Government. The SCOA will break down all costs into segments per line item with the aim to provide consistency in terms of reporting between municipalities and to improve credibility of information. The expenditure items are segmented into different line items which will include bulk purchases, repairs and maintenance (for property, plant, equipment and general expenditure) per sector.

- The SCOA will provide better information for sectors to enforce their legislative requirements. For instance NERSA is responsible for issuing electricity distribution licenses with conditions including proper provision for maintenance and operations.
- Furthermore, NT is also investigating a costing system to ring-fence services within municipalities. The purpose is to ring-fence municipal services to have a cost reflective tariff setting for each municipal service. The ring-fencing will enable NT to assess the cost of providing each service per municipality and the provision for maintenance.
- Municipalities are required to structure their tariffs for utility services to encourage more efficient use of these services and to generate the resources required to fund the maintenance, renewal and expansion of the infrastructure required to provide the services. In electricity these are also enforced by NERSA.

#### b) Maintenance backlogs

Repairs and maintenance should be funded as part of the operating costs of the assets;

- The operating costs of providing services to non-poor households and businesses are funded through grants and service charges. Such costs need to be included in the setting of tariff charges. Municipalities need to prioritise maintenance backlog through tariffs and other sources of funding.
- The operating costs of providing free basic services for the poor are being provided for, from the national fiscus through the local government equitable share. The current review of the formula is making it very explicit and transparent that maintenance will be part of the costs covered by the equitable share.

The enforcement of these requirements should be possible with more transparent budgeting for the sectors, and audit process will also put added pressure to change a culture towards life cycle management of the infrastructure assets which will require appropriate balance for creation of new infrastructure and maintenance including refurbishment.

As a matter of good practise, to ensure sustainability of the useful life of the infrastructure, municipalities are encouraged to develop and maintain asset registers to inform maintenance or renewal as part of their asset management plans. This forms part of auditing requirements by the Auditor General.

#### c) Bulk infrastructure to accommodate urbanisation

In recognition of the urbanisation pressure on infrastructure requirement particularly to service the poor in informal settlement, government introduced reforms in the funding to cities to better respond to these challenges.

Starting with the 8 metros government created the Urban Settlements Development Grant (USDG) in 2011/12 out of the consolidation of MIG Cities and a portion of the

Integrated Human Settlements Development Grant. The USDG supplements municipal capital budgets to address bulk and reticulation infrastructure that supports the poor and stimulates economic growth. Municipalities may also borrow funds from the financial markets to finance the economic infrastructure portion of their capital budgets.

It is envisaged that MIG in the rest of large urban municipalities will respond to the bulk needs on urbanisation in addition to the provision that have been made in the 2011/12 budget in Human Settlement Grant for the informal settlement in non-metro urban areas.