

NATIONAL COUNCIL OF PROVINCES
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 447 [CW474E]
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447. Mr D R Ryder (Gauteng: DA) to ask the Minister of Finance:

- (1) Which municipalities and their entities (a) have authorisation from the National Treasury to operate an overdraft on their bank accounts and (b) currently operate their bank accounts with overdraft;
- (2) (a) to what limit the banks allow the overdraft to operate for each municipality, (b) what is the last reported overdrawn balance, (c) what was the overdrawn balance as at the end of the 2021/22 financial year, (d) what interest rate is charged on overdrawn balances, (e) what interest bill was for the past financial year and (f) what was the total of the (i) facility and (ii) penalty fees that were charged by the banks for the said financial year;
- (3) whether such overdraft balances are taken into account when calculating the national debt; if not, what is the position in this regard; if so, what are the relevant details?

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REPLY

(1) (a) – The Honourable Member to note that municipalities can legally operate an in-year overdraft. In terms of S230A of the Constitution, a municipal council may raise loans for capital and current expenditure for the municipality, but loans for current expenditure may be raised only when necessary for bridging purposes during a fiscal year and binds itself and a future council in the exercise of its legislative and executive authority. Sections 10 and 85 of the Municipal Finance Management Act, Act 56 of 2003, (MFMA) make the responsibility to administer municipal and municipal entity bank accounts rest with the accounting officers of those institutions. Additionally, in terms of Section 45 (2) of the MFMA, a municipality may incur short-term debt, which include overdrafts, only if a resolution of the Municipal Council, signed by the Mayor has approved that agreement, the Accounting Officer has signed the agreement or other document which creates or acknowledges the debt. The National Treasury is not required to authorise such overdrafts, and does not keep a record of such overdraft.

(1) (b) - the information relating to municipalities operating bank overdrafts change from time to time based on their cash flows, namely their incoming and outgoing cash. Municipalities do have bank overdraft facilities that they can draw down on from time to time, as required to manage available cash. They are, however, not allowed to operate operational deficit between financial years. Annexure A provides more details in this regard.

(2) (a) - A municipality or municipal entity may enter into an agreement with a bank for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that the credit limit must be specified by a council resolution of the council. The limits allowed by the banks would be addressed in those agreements. The National Treasury does not have such information.

(2) (b) and (c) – Municipalities provide information in terms of Section 71 of the MFMA. The National Treasury published report for the third quarter ended 31 March 2022 reflects 49 municipalities with unaudited total negative cash and cash equivalent balances of R18.3 billion. Municipal Managers and Municipal Chief Financial Officers formally sign-off on the information contained in the Section 71 publication. Information for the fourth quarter ending June 2022 was not available when the response was prepared and will be contained in a subsequent National Treasury publication.

(2)(d), (e), (f), (i), (ii) - The interest rate applicable to each credit facility or bank overdraft is determined by the bank and would be contained in the agreement between the municipality or municipal entity and the bank. These rates differ and are also dependant on the terms, amount and duration of the facility, amongst others. The National Treasury does not have information on the total interest bill, fees or penalties charged.

(3) National government debt is incurred in financing the national government's gross borrowing requirement. This does not include bank overdrafts of municipalities and their entities.