



FACT SHEET

MUNICIPAL DEBT RELIEF



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



LEGISLATIVE FRAMEWORK

- MFMA, Municipal System Act and Municipal Structures Act is the legislative framework for local government.
- PFMA is the legislative framework for Eskom Holdings.
- The Electricity Regulation Act in conjunction with the above is the legislative framework governing the energy sector.

THE MUNICIPAL DEBT SPIRAL

- Resulted from a combination of challenges over time, including a consumer culture to not pay for services, inefficiencies in municipalities and Eskom, unintended consequences / gaps in legislation, Eskom inability to assist municipal revenue collection of property rates and service charges in Eskom supplied areas within municipal demarcations, etc.
- In this context –
 - Government's approaches to rescue the municipal debt spiral is not showing the desired improvement yet – the focused initiatives need more work over the medium to longer term and require legislative amendments that will take time to affect before implementation.
 - The National Treasury- and Provincial Treasuries' support, and Local Government Equitable Share (LGES) withholding for persistent failure have achieved limited improvement.
- Some municipalities are in a position of financial gridlock that require a radical change towards their insolvent trajectory while being mindful that a persistent culture of financial mismanagement behaviour coupled with a consumer culture to not pay, primarily led to their position.
- Municipal Eskom debt is a **material risk to the Eskom debt relief.**

MUNICIPAL DEBT RELIEF AND WHAT GOVERNMENT AIMS TO ACHIEVE

- Government's debt relief to Eskom will improve Eskom's sustainability and facilitate the condition for Eskom, that Eskom write-off the municipal debt, interest and penalties under strict conditions with the National Treasury's guidance.
- The approach means that **no additional funds are required from the fiscus.**
- Municipal Debt Relief is extraordinary support and is intended to:
 - Improve Eskom's balance sheet
 - Bring about critical changes to the energy sector
 - Change behaviour in the municipal space
 - Restore basic minimum financial management best practices
 - Deal with the consumer culture of not paying for services consumed
 - Restore financial sustainability in municipalities

MUNICIPAL DEBT RELIEF CONSISTS OF FOUR (4) ELEMENTS

1. **Conditional and Application based debt-write off:** Eskom to write-off the debt (including interest and penalties) off all municipalities that owe Eskom as at 31 March 2023 (*excluding the March 2023 current account*) over 3 years.
2. **Resolving municipal non-payment:** New mechanisms are explored to deal with the non-payment by municipalities of electricity debt. These include working with the National Energy Regulator of South Africa (NERSA) and the Department of Mineral Resources and Energy (DMRE) to facilitate improved consequence management (i.e. amending the license conditions of all licensees to introduce processes to revoke the license of a defaulter).
3. Eskom and municipalities to **implement a regime of installation of smart pre-paid meters** to improve collection for commercial, business and household consumers. Then only, on an individual case-by-case basis, should debt forgiveness be considered for customers, within normal credit control processes.
4. The National Treasury to continue **municipal revenue enhancement initiatives:** to address weaknesses in the revenue value chain in municipalities. These include setting cost reflective tariffs, to develop proper budget policies to facilitate revenue enhancement, ensuring completeness of revenue by aggressively addressing variances between the billing system and the General Valuation Roll (GVR) for alignment, and issuing a transversal smart meter solution to progressively generate cash pre-service (*vs. the current approach of post-service*) in municipalities.

MUNICIPAL DEBT RELIEF IS CONDITIONAL

- Government's debt relief to Eskom includes 33 conditions, relating to Eskom's finances and operations - **some of these are pertinent to Eskom practices in the municipal space:**

Some of the conditions for Eskom relating to the municipal space

Once the municipality successfully applied to the National Treasury –

- A stay of related legal proceedings.
- Terminate any existing payment arrangement relating to the 31 March 2023 arrears.
- Limited Active Partnering Support (knowledge sharing / technical advice only) to selected municipalities for electricity pricing, distribution losses and to determine the appropriate Notified Maximum Demand (NMD) threshold.

All municipalities, irrespective of them owing Eskom -

- A 30-day payment period to all municipalities (Including metros) – Eskom may only charge interest from the 31st day (capped at the prevailing prime plus 2.5 per cent).
- Restrict the Notified Maximum Demand (NMD) at bulk supply points (subject to the municipality agreeing and Eskom technical ability).
- Up to date wheeling agreements (within a 3-year cycle) and *interim LG use of the Eskom wheeling tariff until NERSA approves the municipal tariff.*
- Follow all dispute resolutions available to Eskom in terms of legislation or contractually before instituting any new litigation.
- Annual reporting of any litigation with LG and within 10 days any refusal of a wheeling agreement.

- Municipal debt relief includes 14 conditions for municipalities, relating to sustainable finances, and operational- and technical best practices.
- Eskom can only write-off one third of the municipal Eskom arrear debt, interest and penalties if the municipality complied with all the conditions for municipalities for 12 consecutive months (*36 months for a full debt write-off*).
- MFMA Circular 124 provides the full set of conditions for municipalities that can be accessed at the following link - [MFMA Circular No 124 - All Documents \(treasury.gov.za\)](#) –

Some of the conditions for municipalities

Once the municipality successfully applied to the National Treasury –

- Maintain a minimum average collection - use electricity and water as collection tools.
- Unless the consumer is a registered indigent – in which case supply must be restricted to the national free basic policy limits.
- If the municipality collects less than 80 per cent of its revenue during any quarter - demonstrate that the failure relates to Eskom supplied area(s) / technical engineering inability to restrict water supply / Eskom SDA refusal.
- Ring-fence all electricity-, water-and sanitation revenue collected – apply to pay the Eskom current account (1st) and the bulk water current account (2nd) before any other monthly payments.
- Progressively install smart pre-paid meters – all new connections must be smart pre-paid.
- A 3-year restriction on any municipal borrowing.
- Phase-in cost-reflective tariffs.
- Ensure spending fully aligns to realistically anticipated revenue collection (Funded Budget principles) – if not, must adopt the budget together with a credible plan to achieve a funded budget.

DO ALL MUNICIPALITIES QUALIFY FOR MUNICIPAL DEBT RELIEF?

- Only municipalities that owed Eskom as of 31 March 2023 (excluding the March 2023 current account) fall within the scope of Municipal Debt Relief.
- The relief is application based – this means that only municipalities that successfully apply to the National Treasury qualifies for municipal debt relief from the date the application is approved.
- ***Until a municipality's application is approved***, it must continue to pay Eskom monthly both the 31 March 2023 arrears and current account – interest also continues to accrue.
- This means that if a municipality's application for relief is approved on 10 May 2023, the interest on the 31 March 2023 arrears that accumulated from 01 April up to and including 09 May 2023, will be for the municipality's own account.