

**NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1063 [NW1152E]
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1063. Mr W M Madisha (Cope) to ask the Minister of Finance:

In view of his recent remarks regarding a number of cities that are on the brink of collapse (details furnished), (a) which cities was he referring to, (b) what are the root causes of their imminent collapse and (c) what steps does he propose should be taken to avert the collapse of each city?

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REPLY:

- (a) The statement made by the Minister of Finance during the Executive Leadership course was not referring to any specific Metropolitan, Intermediate City or municipalities. The Minister was speaking in general based on the National Treasury's broad observation over time with regard to financial management challenges which if not properly addressed could lead to collapse as evidenced by the experience of other cities elsewhere.
- (b) It is well known that a number of municipalities face significant governance, service delivery and financial challenges. These are often related, and the National Treasury has repeatedly emphasized that governance challenges are the most common underlying driver of service delivery and financial challenges.

The National Treasury does have concerns about the performance of some municipalities with respect to governance, institutional, financial health and service delivery, some of which are not able to pay creditors and are struggling to pay for bulk water and electricity.

The National Treasury publishes detailed information on all municipalities in its annual report on the state of local government finances and financial management, the latest report will soon be released. The report does identify those municipalities that are in financial distress, there were 95 municipalities in financial distress in 2016/17 report. Although these municipalities are cause for immediate concern, it should be noted that all of our municipalities – including metropolitan municipalities - have significant room to improve performance on many of the indicators tracked in the state of local government finances and financial management.

- (c) National and Provincial governments provide extensive support to all municipalities in terms of section 154 of the Constitution. Details of these support measures are also provided in the state of local government finances report. More recently, the adoption of the Integrated Urban Development Framework (IUDF) has led to greater coordination and focussing of support to different categories of municipalities, in order to enable them to respond more effectively to their development challenges and align their performance with our national development goals. With the IUDF, the Cities Support Programme, which is coordinated by the National Treasury, are working closely with our metropolitan municipalities. The Department of Cooperative Governance has begun to rollout out a complementary programme for Intermediate Cities, while the design of a small towns programme is being finalised in consultation with the SA Local Government Association. These programmes strongly

complement the systemic support and reform programmes such as Back to Basics (B2B) and Municipal Financial Management reforms.

The National Treasury and the Department of Cooperative Governance (DCoG) are collaborating to prioritise municipalities that are in financial distress and failing to deliver services for support and intervention to restore them to sustainability, working in collaboration with provinces.

The previous Minister of Finance during his Medium Term Budget Policy Statement (MTBPS) in October 2017, recognised the municipal financial management challenges experienced and announced the introduction of a funding mechanism to support the recovery plans for municipalities that face a financial crisis, as provided for in section 139(5) of The Constitution. The DoRA published in February 2018 provides a brief background to the proposed funding mechanism namely, the Municipal Restructuring Grant (MRG).

The purpose of this grant, as described in the DoRA, is “to be a short term intervention that will fund the turnaround of struggling municipalities”. This will provide some financial relief to municipalities that require financial support to improve their current situation. It is important to note that this grant allocation is not intended to fund the complete financial recovery plan but rather to contribute to the implementation of corrective action that demonstrates sufficient alignment to NT’s “game changers” referred to previously in this document.