NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
QUESTION NUMBER: 1443 [NW1645E]

1443. Mr C Brink (DA) to ask the Minister of Finance:

(1) With reference to the report of the Public Affairs Research Institute that found that R9 billion budgeted and disbursed by the Government to municipalities in the 2019-20 financial year for the provision of free basic electricity (FBE) was misappropriated and/or misspent on unauthorised purposes, what is the National Treasury's position on the misappropriation of funds meant to alleviate the plight of indigent persons by municipalities;

(2) whether the National Treasury has put any mechanisms in place to monitor that funds allocated to municipalities for the provision of basic services to indigent persons are not misappropriated and/or misspent on unauthorised purposes; if not, what is the position in this regard; if so, what are the relevant details;

(3) whether the National Treasury has been informed of the misappropriation and/or misspending of the specified R9 billion budgeted and disbursed to municipalities for the provision of FBE; if not, what is the position in this regard; if so, what action does the National Treasury intend to take against municipalities that have been found to have misappropriated and/or misspent the FBE funds?

NW1645E

REPLY:

1. In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide a package of free basic services to poor households and to support additional costs for municipalities with limited own revenue potential. The local government equitable share (LGES) is an unconditional transfer that supplements the revenue that municipalities can raise themselves (including revenue raised through property rates and service charges). The components and sub-components of the LGES formula are neither an indicative budget nor a guideline as to how much should be spent on each service. Its annual baseline growth is determined, taking into account

household growth (typically about 3% per year) and cost increases, including for bulk electricity and bulk water, which are typically above inflation. Despite the government's progress in ensuring that millions of households receive basic services, the demand for services remains high and outstrips the pace of delivery. Municipalities are able to use a variety of targeting methods to distribute free basic services to households, including household income, geographical, property and service value. This flexible approach means arbitrary decisions may exclude certain households. The intended recipients of free basic services should be poor households. Each municipality identifies households falling within their prescribed classification method and municipalities develop a subsidy framework based on targeting mechanisms designed to ensure that wealthy or middle-income people do not benefit from free basic service; that is, so long as the household has a municipal account and is registered on the municipality's indigent register, it can get the free basic services package. Therefore, the R9 billion is indicative of how much it costs to cover the costs of providing free basic electricity to poor households and is therefore used to determine a fair and equitale allocation that each municipality is entitled to receive. Some municipalities have actually a Free Basic Services (FBS) policy that provides higher level of services than the norm indicated by the formual. The decision of how and where these funds are spent is up to the respective municipal councils. The Division of Revenue Act (DoRA) as a legislation that governs how grants are monitored does not give National Treasury and the National Transferring Officer (NTO) the powers to monitor spending on Equitable Share in line with indicative amounts reflected by the formula. This is different for direct grants whereby the DoRA is explicit on the monitoring mechanisms to be applied on a monthly basis.

2. The LGES is transferred by the Department of Cooperative Governance (DCoG). Due to being an unconditional transfer, the DoRA does not give National Treasury and DCoG the powers to monitor LGES expenditure. This is different for conditional grants as the DoRA is explicit on the monthly and quarterly reporting and monitoring requirements for these transfers. As noted above, the poverty threshold used in the LGES formula - which along with the cost factor for each service – determines each municipality's allocation for each service in the FBS component, is not an official poverty line or a required level to be used by municipalities in their own indigence policies. The Explanatory memo to DoRA does however state that, if municipalities choose to provide free basic services to fewer households than what they are funded for through the LGES, then their budget

documentation should clearly set out why they have made that choice and how they have consulted with their community during the budget process.

- Different national departments or NTOs administer conditional grants, and these departments are responsible for monitoring and ensuring that the conditional grants they allocate to municipalities are spent on their intended purpose. This is done through ensuring compliance with DoRA and the applicable conditional grants framework by municipalities, including providing business plans, implementation plans and cash flows. Municipalities also need to report on a monthly and quarterly basis to the national department administering the grant. The administering department also monitors and undertake site visits to ensure compliance by municipalities. Where there is non-compliance, they ought to apply the levers available to them through DoRA, which includes withholding transfers and they may propose the stopping and reallocation of a portion or an entire municipality's grant allocation.

In order to guard against the misuse of conditional grants, if the National Treasury (NT) anticipates that a municipality may underspend on the allocation or a portion of the allocation, NT may in its discretion or on request of a transferring officer, withhold, stop and re-allocate the transfer of a Schedule 4B or 5B allocation, or a portion to a municipality. This is in line with sections 17,18 and 19 of the 2020 DoRA and Section 38 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). Further, in instances where municipalities commit serious or persistent breach of any of the provisions of the DoRA or the MFMA, NT may decide to stop or withhold funds to a municipality by invoking section 216(2) of the Constitution and section 39 of MFMA for no more than 120 days subject to an approval by Parliament.

3. NT has not been informed and would not be in a position to determine that the funds for free basic services have been spent on other areas given that the allocations indicated by the formular are not meant to be indicator of budgets but to ensure equitable allocations per muncipality. What can be of assistance is for the respective municipal councils to have ways of monitoring budget spending by municipalities and ensure that there is consequence management for non-compliance with the DoRA prescripts as the councils and municipal managers have powers to implement such measures.