national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

RESPONSES TO ISSUES RAISED IN THE PUBLIC HEARING ON THE 2015 DIVISION OF REVENUE BILL HELD ON 14 APRIL 2015

BACKGROUND

The Select Committee on Finance held a public hearing on the 2015 Division of Revenue Bill in George in the Western Cape on 14 April 2015. A number of stakeholders made presentations and gave written inputs to the Committee. This note provides additional information and responses from National Treasury on some of the key issues raised in these submissions. The note focuses on the proposals made by stakeholders and inputs made during the public hearing on 14 April 2015. The note is organised with the responses to the inputs from each stakeholder grouped together.

NATIONAL TREASURY RESPONSES

1. Equal Education

a. Why were large reductions made on education infrastructure grants?

South Africa, like the rest of the world, suffered the effects of the 2008 global financial crisis. In response to which government adopted a counter-cyclical fiscal policy, protecting spending even as revenue fell. As a result debt expanded and now interest payments are the fastest growing element of government spending taking up 12 per cent of total revenue and coming in at R120.8 billion in 2014/15. South Africa's ability to continue to expand spending growth is now more constrained and there is a need to ensure fiscal sustainability through consolidation. South Africa must remain vigilant and be fiscally responsible.

To this end, a R25 billion reduction in the expenditure ceiling for 2015/16 and 2016/17 was announced subsequent to the 2014 MTPBS, with the view of protecting crucial and high impact programmes and infrastructure projects. However, the School Infrastructure Backlog grant was a poorly spending grant. In 2011/12 only 10.9 per cent of the allocation was spent. This increased to 41.6 per cent in 2012/13, and in 2013/14, 70 per cent of the allocated R1.96 billion was spent. As such, R297 million was reprioritised over the MTEF to offset baseline reduction to the Further Education and Training Colleges, National School Nutrition Programme and Occupation Specific Dispensation for Education Sector Therapists grants. This grant is still allocated R7 billion over the next three years. To address the capacity reason for underspending, the grant has been extended to run (from the initial three years) for seven years.

Similarly, the Education Infrastructure Grant saw a baseline reduction in 2015/16 of R213.9 million (or 2.2 per cent of the value of the grant). Over the MTEF the grant is allocated a total of R29.6 billion with a ring-fenced amount of R322.1 million for natural disasters.

b. The incentive component in the Education Infrastructure Grant should focus on incentivising the delivery of infrastructure and not just planning for infrastructure

While the allocation of the incentive is based on improved planning, the objective of the incentive is to improve the delivery of infrastructure. The incentive is allocated based on improved planning as years of experience in supporting provinces to improve their performance have shown that poor planning is the main constraint to effective infrastructure delivery.

The performance based incentive approach was announced in the 2012 MTBPS and applies to select infrastructure conditional grants: Education Infrastructure Grant and Health Facility Revitalisation Grant. Under the requirements introduced in the 2013 Division of Revenue Bill, provincial education departments had to go through a two-year planning process to be eligible to receive incentive allocations in 2015/16. The departments had to meet certain prerequisites in 2013/14 and have their infrastructure plans approved in 2014/15. The national Department of Basic Education and the National Treasury assessed the provinces' infrastructure plans. A moderation process was undertaken between the national departments, provincial treasuries and provincial departments of basic education to agree on the final scores.

National Treasury in consultation with national departments (Health and Education), has developed guidelines for the 2016 bidding process. These guidelines outline the minimum requirements that bidding plans should contain in order to qualify for the incentive allocation. National Treasury is currently engaged in workshops with each province on these draft guidelines (which includes all sections to be assessed as part of this approach) and is further receiving inputs that are raised at these workshops by provinces. These inputs will be discussed with relevant national sector departments for consideration in the final guidelines which will be issued end of April 2015. The elements that are assessed are split into 3 main components as follows: Human Resources – 20 per cent; Performance Evaluation – 30 per cent; and Planning – 50 per cent.

Provinces also continue to receive capacity support through the Infrastructure Delivery Improvement Programme (IDIP). The IDIP was initiated with a pilot in 2004 and has since been through three phases which progressively built capacity and systems in provincial and national government departments. Through IDIP, provinces will receive a technical assistant that will support the province in compiling bidding plans in line with the minimum requirements. These technical assistants will be inducted by National Treasury on the performance-based system in order to ensure that the support they provide in provinces is in line with the set criteria to obtain the incentive. Provinces also have access to short term technical assistants in areas where additional help is needed to support the department.

Ongoing support has also been given to provinces through a human resources capacitation strategy which seeks to assist provincial departments to appoint the appropriate personnel within departments. Funding for these posts is available in the relevant conditional grants.

c. **There appears to be no clear policy for scholar transport and a new grant is needed for this (Equal Education also requested to be involved in planning for the grant)**

The Standing Committee on Appropriations, in its recommendations on the 2014 MTBPS, recommended that "The National Treasury, in consultation with the Department of Basic Education and with the assistance of the Financial and Fiscal Commission, should consider the formulation and development of a conditional grant for the provision of scholar transport." In replying to this recommendation in the 2015 Budget Review the Minister of Finance noted the proposal and committed that the National Treasury will engage with all the relevant stakeholders to evaluate the feasibility of this proposal.

The national departments of Basic Education and Transport are currently finalising a policy on scholar transport and this will form the basis of any consideration for changes to the funding of scholar transport in future. National Treasury has been consulted as part of this process. Any new conditional grant should fund objectives set out in official government policy and so any new grant for scholar transport would have to be based on this policy. One of the main challenges currently is that in some provinces the scholar transport function is performed by basic education departments while in other provinces it is performed by transport departments. This makes it difficult to structure a conditional grant as multiple departments are involved. It is hoped that the policy will provide clarity on this.

If any new grant is introduced, the national department responsible for administering the grant will be responsible for ensuring that appropriate stakeholders are consulted prior to the introduction of the grant. This could include consultations with NGOs such as Equal Education. Interested stakeholders should in the meantime continue to work with provincial departments of basic education and transport to continue to improve existing scholar transport services.

d. National Treasury appears to be taking over the construction of new school buildings

National Treasury, through the Office of the Chief Procurement Officer is setting norms and standardised plans for the construction of schools. Departments of Basic Education will still be responsible for the construction of the schools.

Government has identified that there is a significant variance in the cost paid for similar school facilities across the country. Significant savings can therefore be made by standardising the design of school buildings and setting norms for the construction costs of these buildings. This will mean that new architectural designs do not have to be separately developed for each new school and contracting for construction can be done based on the costed norms for the standardised designs (note that the designs are for top structures only as the cost of earthworks and construction of foundations will depend on the geography and geology of each site). This has the potential to save significant resources allowing government to accelerate the school building programme.

e. There is a lack of transparency in the allocations made to individual schools

Section 30(2)(a) of the 2015 Division of Revenue Bill requires that provincial treasuries must gazette the indicative allocation for every school in the province. The latest date that provinces may do this by is two weeks after the 2015 Division of Revenue Act is enacted. These gazettes should provide the information on exactly how much is allocated to each school. If Equal Education has any difficulties in obtaining copies of these gazettes they are welcome to ask National Treasury for assistance in this regard.

2. Afriforum

a. The Division of Revenue Bill should include provisions that allow the withholding of grants when Integrated Development Plans (IDPs) do not meet requisite standards

IDPs are the cornerstone of municipal planning as the IDP sets out a 5 year plan for how infrastructure services and other development activities will be carried out in a municipality. However, these plans do not form part of the 'treasury norms and standards' that Section 216 of the Constitution empowers National Treasury to set and to stop transfers of funds if municipalities do not comply with. It would be possible for individual conditional grants to include provisions in their conditions that municipalities be required to meet certain standards in aspects of their IDPs before funds from that grant can be transferred. This possibility can be explored with the departments responsible for administering individual conditional grants.

National Treasury has introduced the Service Delivery and Budget Implementation Plan (SDBIP) as a way of linking the broad targets set out in the five year IDP to the resources made available in a municipality's three year budget. All municipalities are required to compile and publish an SDBIP as part of their budget process.

3. Financial and Fiscal Commission

In their presentation the Financial and Fiscal Commission (FFC) raised a number of issues that require further engagements and joint work between National Treasury and the Commission. National Treasury will engage with the FFC to agree on the way forward. Some of the main points raised by the FFC are highlighted below:

a. The consultation process set out in the FFC Act should be followed whenever there is a function shift to avoid creating unfunded mandates

National Treasury agrees and will engage further with the FFC on this.

b. Built Environment Performance Plan requirements should be extended to other municipalities and spheres of government

National Treasury appreciates the confidence the FFC places in the role the Built Environment Performance Plans can play in transforming metropolitan municipalities. While we are already seeing improvements in cities' planning and performance as a result of these plans, the Built Environment Performance Plans are still an evolving concept and they should be further refined before they, or similar requirements are ready to be rolled out to other municipalities.

c. The provincial roads maintenance grant should be subject to the new two year planning and performance based incentive system

In the 2015 Division of Revenue Bill, several of the planning requirements applicable to the incentive grants have also been extended to the Provincial Road Maintenance Grant.

d. The fiscal framework should be reviewed continuously to ensure long term sustainability

National Treasury agrees with the need to continuously review the intergovernmental fiscal framework. As the system evolves we need to constantly review how it can be further improved to meet the promote delivery. National Treasury is committed to continuously reviewing aspects of the system, while also preserving the predictability and stability in transfers that allow provinces and municipalities to plan for the future. The review of local government infrastructure grants, which the FFC participates in, is one example of such review work currently underway.

4. South African Local Government Association

a. Work on the local government equitable share review has to continue so that local government gets a better share of the national fiscus, not the current 9 per cent. The inflationary increases in the equitable share also fall short of the increase in some administered prices such as water and electricity tariffs.

Over the 2015 MTEF direct transfers to local government account for 9 per cent of the division of revenue. However, when indirect grants are included (funds spent on behalf of municipalities) total spending on local government rises to 10 per cent of the division of revenue. This is a tremendous increase from the 3 per cent of the division of revenue allocated to local government in 2000. Between 2001/02 and 2011/12 the value of direct transfers to local government grew from R6.5 billion to R68.3 billion - an average annual growth rate of 27.2 per cent.

The equitable share formula has been updated to fully reflect the above inflation bulk price increases for water and electricity in 2015/16 as well as estimates of population growth. The formula is fully funded to cover these increases in 2015/16. SALGA was part of the review of the equitable share formula in 2012 and are invited to participate in the working group responsible for updating the formula annually. Further engagements of the equitable share working group will continue to assess various costing models in an effort to refine the equitable share without disrupting its stability or policy goals. The numbers presented by SALGA are part of a draft research project that could be used to inform further refinements to the formula once the research is completed.

The capacity of municipalities to absorb significant additional funds and use them well is also questionable. Local government still has worse under-spending than other spheres with only 90.6 per cent of infrastructure transfers spent in 2013/14 (an improvement from 82.2 per cent in 2012/13). There are also many examples of wasteful spending in municipalities.

b. SALGA will continue to pursue proposals for increased fiscal support for small rural municipalities with a limited tax base

The new local government equitable share formula, which will only be fully phased-in in 2017/18, is designed to provide additional funding to poorer and smaller municipalities. The R11.3 billion in 2015/16 allocated through the institutional and community services components of the formula include minimum allocations to assist small municipalities and are subject to a revenue adjustment factor that ensure less funding is allocated to municipalities that have significant potential to collect own revenues, so that more can be allocated to poorer municipalities. As a result of this, the formula allocates larger amounts on a per poor household basis to rural municipalities that to urban municipalities.

c. SALGA will work with National Treasury and the FFC to investigate a more workable funding model for district municipalities

National Treasury agrees that further work is needed on the funding model for district municipalities. District municipalities must be funded based on the functions that they perform and so any reforms to their funding model must be guided by the outcomes of the work being done by the Department of Cooperative Governance to review the role and functions of district municipalities. National Treasury would therefore propose that the Department of Cooperative Governance should also be included in any work on the future funding of district municipalities.

d. The as yet unresolved issue of the Human Settlements Development Grant is a matter of concern to us and should remain a matter of on-going discussion between SALGA, National Treasury and the Department of Human Settlements

National Treasury agrees that further discussions are needed between SALGA, National Treasury and the Department of Human Settlements on both the Human Settlements Development Grant and the Municipal Human Settlements Capacity Grant that was introduced in 2014/15 to build the capacity of cities to deliver human settlements programmes.

e. SALGA notes that National Treasury will not be funding the transformation of cities transport logistics but would rather assist them in deploying their own resources towards this endeavour

National government continues to fund the rollout of public transport infrastructure in cities though the Public Transport Network Grant, which is allocated R18.7 billion over the 2015 MTEF. However, SALGA is correct to note that National Treasury would also like to encourage cities to invest more of their own resources in the construction and operations of these public transport networks. This is one of the outcomes of the first phase of the review of local government infrastructure grants (which SALGA forms part of, together with the FFC and DCoG). Public transport has tremendous potential to act as a catalyst for urban spatial integration and transformation, but we must also be careful to ensure that the networks that are developed will be financially sustainable for the cities responsible for operating them. Further work on this will be done in the next phase of the grants review.

f. SALGA will continue to work on the issue of unfunded/underfunded mandates

National Treasury has held many discussions with SALGA on the topic of underfunded mandates and supports SALGA's intention to do further work on this topic. National Treasury is also undertaking work on the subject as part of the review of the own revenue sources of metropolitan municipalities. Part of this research project examines whether the revenues of municipalities are commensurate with the functions they are required to perform and whether they have any unfunded or underfunded mandates.

g. SALGA is concerned and disturbed by the knee-jerk action by NT of withholding the local government equitable share to some municipalities as it undermines the performance of their functions and the delivery of basic services to the poor

The withholding of local government equitable share (LGES) allocations was an extraordinary step taken by National Treasury after persistent failures by municipalities to honour the debts they owe to Eskom, water boards and other creditors delivering services to the municipalities. This action followed years of engagements and warnings to municipalities that they must pay what they owe. Unfortunately it has become a common practice in certain municipalities that current invoices and outstanding debt to Eskom and water boards are not prioritised for payment.

Legal basis for the withholding

National Treasury is empowered by Section 216(2) of the Constitution to stop the transfer of funds (conditional and non-conditional grants) to any organ of state that commits a serious or persistent breach of the measures prescribed to promote transparency, accountability and the effective financial management of the economy, debt and the public sector.

Section 65(2)(e) of the Municipal Finance Management Act, 2003 (MFMA, Act No. 56 of 2003) states that "The accounting officer of a municipality is responsible for the management of the expenditure of the municipality" and "that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure".

Section 227(1)(a) of the Constitution provides that "local government and each province…is entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it". As the LGES is an unconditional allocation to local government, although Section 216(2) of the

Constitution allows National Treasury, subject to the provisions in Sections 38 and 39 of the MFMA, to withhold the transfer of the LGES to a municipality, National Treasury cannot redirect the LGES to the municipality's creditors.

Municipal debt to water boards

The following table is extracted from MFMA Section 41 reports which are compiled monthly. As at 31 December 2014, municipal arrears to Water Boards totalled R2.3 billion. Eighty-two per cent of this debt is older than 120 days. Ninety one per cent of the amounts owed to water boards are attributable to municipalities in Free State, Mpumalanga, North West and Limpopo.

Outstanding amounts owed to Water Boards as at December 2014

Water Boards	Current	30 days	60 days	90 days	120 days+	Total	Total Arrear Debt
Magalies Water	24 184	5 525	3 706	1 974	15 001	50 390	26 206
Pelladrift Water	296	296	258	253	421	1 524	1 228
Amatola	94 114	12 840	1 315	8 593	58 548	175 410	81 296
Bloem Water	38 693	3 731	3 398	2 198	74 375	122 396	83 703
Rand Water	847 487	60 863	21 046	26 545	65 105	1 021 046	173 559
Overberg Water	1 505	65	66	61	464	2 161	656
Sedibeng Water	65 394	78 425	68 936	69 543	1 361 969	1 644 267	1 578 873
uMhlathuze	19 476	7 570	8	–	–	27 054	7 578
Lepelle North Water	43 010	13 427	13 921	17 390	326 396	414 144	371 135
Umgeni Water	203 378	6 218	110	88	261	210 055	6 678
Total	**1 337 537**	**188 960**	**112 765**	**126 645**	**1 902 540**	**3 668 447**	**2 330 910**

As shown from the table above, more than half of the outstanding debt to Water Boards is owed to Sedibeng Water Board (68 per cent). The table below highlights the top ten municipal debtors, the age of the debt as well as the supplying/affected Water Board.

Arrear Debt by municipality - Top Ten Municipalities owing the Water Boards as December 2014

MUNICIPALITY	Current	30 days	60 days	90 days	120 days+	Total Debt	Total Arrear Debt
Matjhabeng LM	35 175	47 875	43 500	42 105	843 876	1 012 531	977 356
Mopani District Municipality	9 690	8 117	8 545	10 057	313 170	349 579	339 889
NMMDM (Western Side)	875	2 009	3 542	3 812	151 136	161 374	160 499
Mafikeng Local Municipality	6 481	6 473	6 522	6 521	129 573	155 570	149 089
Bushbuckridge Local Municipality	18 684	20 464	20 077	21 686	35 605	116 517	97 833
Nala LM	3 395	4 583	4 013	3 852	62 620	78 463	75 068
Kopanong Local Municipality	3 344	3 563	3 300	2 104	64 341	76 653	73 309
Maquassi Hills LM	4 017	5 018	4 513	4 766	45 905	64 219	60 202
Nama-Khoi LM	2 920	2 821	–	–	56 587	62 328	59 408
OR Tambo District Municipality	45 854	–	82	8 198	49 107	103 241	57 388
Other Municipalities	1 207 102	88 038	18 669	23 543	150 620	1 487 972	280 870
Total	**1 337 537**	**188 960**	**112 765**	**126 645**	**1 902 540**	**3 668 447**	**2 330 910**

National Treasury took the approach that efforts to recover unpaid amounts should focus on the water boards' top ten municipal debtors as this will result in the greatest impact in reducing the overall debt owed to water boards. Based on engagements which National Treasury has had with the water boards over the last few years, the amount owed by municipalities falling outside the top ten is largely "under control" as payment agreements are either in place or currently being negotiated between the water boards and respective municipalities.

Municipal debt to Eskom

Municipal arrears to Eskom totalled R4.5 billion as at 31 December 2014. 71 per cent of this debt is older than 90 days. The current debt owed to Eskom is R4.6 billion. The following is extracted from MFMA Section 41 reports.

Age analysis of arrear debt owed to Eskom per Province as at December 2014

Name of Municipality	Current	30 days	60 days	90 days	90 days+	Total	Arrear Debt
Eastern Cape Municipalities	341 389	28 273	22 617	19 762	94 812	506 853	165 464
Free State Municipalities	232 126	3 673	179 648	80 580	1 415 997	1 912 024	1 679 898
Gauteng Municipalities	1 767 151	10 883	59 357	26 999	72 341	1 936 731	169 580
Kwazulu Natal Municipalities	837 417	52 434	2 262	2	–	892 115	54 698
Limpopo Municipalities	121 424	8 820	22 010	3 295	102 760	258 309	136 885
Mpumalanga Municipalities	218 982	130 957	172 570	217 183	976 069	1 715 761	1 496 779
North West Municipalities	224 946	61 400	104 383	35 286	422 155	848 170	623 225
Northern Cape Municipalities	81 872	4 461	23 521	15 408	94 693	219 954	138 083
Western Cape Municipalities	734 270	2 064	6 384	5 264	8 982	756 963	22 693
TOTAL	**4 559 577**	**302 964**	**592 752**	**403 777**	**3 187 810**	**9 046 880**	**4 487 303**

Municipalities in the Free State, Mpumalanga and North West provinces account for 37 per cent, 33 per cent and 14 per cent of the debt owed to Eskom respectively. The extract below highlights Eskom's top twenty municipal debtors as well as the age of the debt.

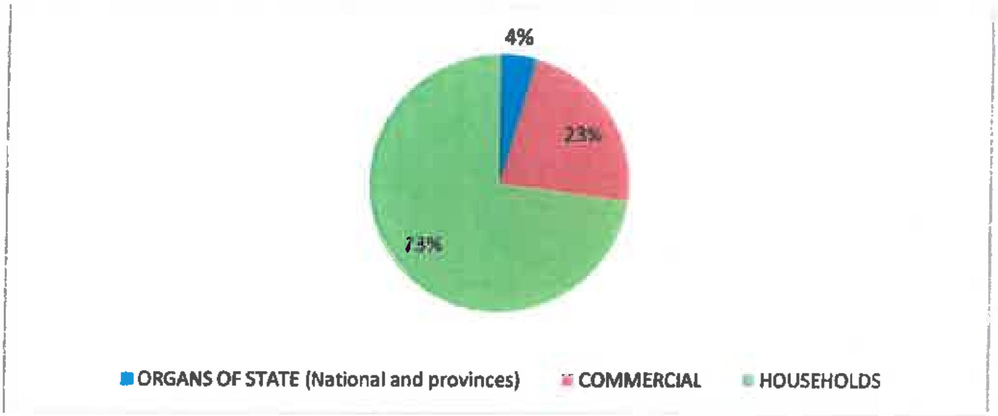
Age analysis of arrear debt owed to Eskom by the top twenty municipalities as at December 2014

Name of Municipality	Current	30 days	60 days	90 days	90 days+	Total	Arrear Debt
MALUTI A PHOFUNG MUNICIPALITY	36 098	110	42 143	41 364	479 365	599 080	562 982
EMALAHLENI LOCAL MUNICIPALITY	59 495	4 240	58 887	53 906	439 299	615 827	556 332
MATJHABENG MUNICIPALITY	33 958	–	66 792	1 195	441 144	543 088	509 131
NGWATHE LOCAL MUNICIPALITY	13 129	–	14 001	14 591	270 848	312 569	299 440
THABA CHWEU LOCAL MUNICIPALITY	13 077	11 198	11 807	–	210 437	246 520	233 443
LEKWA LOCAL MUNICIPALITY	48	18 659	18 002	17 452	160 368	214 529	214 481
CITY OF MATLOSANA LOCAL MUNICIPALITY	37 568	37 725	39 213	5 000	119 812	239 318	201 749
GOVAN MBEKI MUNICIPALITY	32 561	44 100	3 472	126 158	547	206 838	174 278
NALEDI LOCAL MUNICIPALITY	7 369	213	7 816	10 811	104 589	130 898	123 529
MBOMBELA LOCAL MUNICIPALITY	37 830	38 501	38 956	365	37 219	152 872	115 042
THABAZIMBI LOCAL MUNICIPALITY	5 180	4 518	4 850	–	83 143	97 690	92 511
RANDFONTEIN LOCAL MUNICIPALITY	22 876	–	30 316	26 397	25 398	104 988	82 111
DITSOBOTLA LOCAL MUNICIPALITY (including Lichtenburg)	7 223	7 496	8 482	534	62 604	86 339	79 117
NALA LOCAL MUNICIPALITY	5 497	–	16 027	2	58 348	79 874	74 377
MSUKALIGWA LOCAL MUNICIPALITY	13 452	396	12 616	11 418	48 041	85 922	72 470
WESTONARIA LOCAL MUNICIPALITY	6 159	6 335	6 620	–	46 911	66 025	59 867
MAKANA LOCAL MUNICIPALITY	7 275	–	8 474	8 261	40 724	64 734	57 459
ULUNDI LOCAL MUNICIPALITY	2 625	51 929	–	–	–	54 554	51 929
DIHLABENG MUNICIPALITY	9 908	0	10 844	10 391	27 369	58 512	48 604
MKHONDO LOCAL MUNICIPALITY	6 350	–	13 440	772	31 881	52 443	46 093
Other Municipalities	4 191 285	77 545	179 891	75 160	499 763	5 023 644	832 359
TOTAL	**4 559 577**	**302 964**	**592 752**	**403 777**	**3 187 810**	**9 046 880**	**4 487 303**

Debts owed to municipalities

73 per cent of total arrears owed to municipalities as at 31 December 2014 is attributed to households, twenty three per cent to businesses, and only four per cent is attributable to organs of state.

Arrears of debt owed to municipalities per customer category as at 31 December 2014



The table below presents aggregate debt owed to municipalities by national departments per province as at 31 December 2014. National departments in Gauteng have the highest amount of arrears owed to municipalities (R522 million). This is followed by KwaZulu-Natal and Limpopo with outstanding debts of R233 million and R162 billion respectively.

Debts owed by national departments to municipalities per province as at 31 December 2014*

PROVINCE (R'000)	0- 30 Days	31 - 60 Days	61 - 90 Days	91 Days +	Total	Total arrear
Eastern Cape	11 889	14 098	5 629	62 057	93 673	81 784
Free State	9 071	6 677	6 213	61 170	83 131	74 060
Gauteng	74 823	(8 958)	23 568	507 899	597 332	522 509
KwaZulu-Natal	39 001	12 968	9 589	210 796	272 354	233 353
Limpopo	5 287	6 446	4 667	151 805	168 205	162 918
Mpumalanga	51 952	6 102	8 640	80 462	147 156	95 204
Northern Cape	4 296	1 369	1 621	31 634	38 920	34 624
North West	18 057	5 500	4 296	69 570	97 423	79 366
Western Cape	5 057	1 616	1 405	13 428	21 506	16 449
Total Provinces	219 433	45 818	65 628	1 189	1 519 700	1 300 267

* Negative figures are as a result of mistakes in reporting by some municipalities
Source: Local Government Database, National Treasury

Provincial departments owe R2.07 billion to municipalities, of which 91 per cent or R1.8 billion is arrears. Provincial departments in Free State owe R554 million, of which R515 million is arrears, provincial departments in Gauteng, KwaZulu-Natal, and Northern Cape owe more than R300 million in arrears to their respective municipalities.

Debts owed by provincial departments to municipalities per province as at 31 December 2014*

PROVINCE (R'000)	0- 30 Days	31 - 60 Days	61 - 90 Days	91 Days +	Total	Total arrear
Eastern Cape	36 390	32 298	12 291	184 551	265 530	229 140
Free State	39 130	41 513	36 894	437 175	554 712	515 582
Gauteng	44 607	33 246	28 317	256 410	362 580	317 973
KwaZulu-Natal	28 708	15 028	(4 502)	333 043	372 277	343 569
Limpopo	3 538	3 377	2 833	51 449	61 197	57 659
Mpumalanga	(3 444)	1 802	1 046	8 105	7 509	10 953
Northern Cape	7 949	5 962	4 994	322 261	341 166	333 217
North West	2 113	2 549	2 306	21 612	28 580	26 467
Western Cape	8 758	1 439	2 554	11 472	24 223	15 465
Total Provinces	**167 749**	**137 214**	**86 733**	**1 626 078**	**2 017 774**	**1 850 025**

* Negative figures are as a result of mistakes in reporting by some municipalities.
Source: Local Government Database, National Treasury

National Treasury intends to impose similar requirements on defaulting national and provincial departments for arrear debt owed to municipalities for property rates and service charges. In the case of provincial departments National Treasury will work with provincial treasuries to impose these requirements.

In several cases there are disputes about the amounts that provincial departments have been charged for outstanding property rates. A task team has been set up in the national Department of Public Works to review all outstanding debts owed to municipalities by national and provincial departments. In each province there are also engagements between the province and municipalities to resolve disputes on a case-by-case basis.

Municipalities will also be encouraged to implement their credit control policies on defaulting institutions, including national and provincial departments. This is necessary to ensure proper accountability in the long-term by all levels of government.

Process undertaken to encourage payments by municipalities

National Treasury has been engaging with municipalities on the issue of non-payment of creditors over several years through various forums and circulars and in several cases where we have been asked to try to resolve disputes. Municipalities have repeatedly agreed that they will pay amounts they owe, but in many cases this commitment has not been followed through.

On 6 March 2015 National Treasury issued a correspondence to municipalities encouraging them to:

1. settle their current accounts with Eskom and Water Boards;
2. to confirm repayment arrangements with Eskom and Water Boards; and
3. to ensure that their political leadership is aware of the municipality's circumstances by requesting a Council resolution in support of the repayment arrangement.

The deadline for this request was 13 March 2015. In addition, the municipalities were required to request assistance with a financial recovery plan.

The list of municipalities affected by this process comprised of the top 55 municipalities owing Eskom and the top 10 municipalities owing various water boards. In certain cases there were common municipalities with arrear debt owed to both

Eskom and a water board. In total 59 municipalities were on the list and had the March tranche of their equitable share payments withheld. The full list of affected municipalities is provided in Annexure A.

Progress to date

11 of the 59 municipalities complied with the requirements listed above before the end of March and received their equitable share payments in March.

By 16 April 2015 a further three municipalities had met these requirements and National Treasury has requested that the Department of Cooperative Governance release funds to these municipalities. This means that 14 of the original 59 municipalities have already received their equitable share allocations. Further funds will be released as soon as municipalities demonstrate their compliance with the requirements set by National Treasury and communicated to them on 6 March 2015, as set out above.

National Treasury is currently in the process of meeting with each of the affected municipalities to gain a better understanding of the circumstances in each municipality that led to them not paying their creditors and to agree on what steps must be taken for the equitable share funds to be released. These meetings also agree on what additional support can be provided to the municipality to assist them to change and improve their management practices. Stakeholders that attend the meetings and contribute support include National Treasury, the Department of Cooperative Governance, SALGA and provincial treasuries. The approach of these meetings is to try to understand the root causes of a municipality's failure to pay its creditors and to assist them to deal with these problems so that they change their payment culture and do not find themselves in the same situation again.

The following general observations about the causes of municipalities' failure to pay their creditors have emerged from the engagements between these municipalities and National Treasury:

- Poor leadership and weak financial management led to mismanagement of finances which in turn allowed the debt to escalate;
- Weak tariff setting ability in municipalities contributed to tariffs being set that are not fully cost reflective;
- Poor revenue management has meant that payments due creditors far exceed revenue collected; and
- Past repayment arrangement were not affordable and realistic (not cash backed) and in many cases were signed merely for compliance.

National Treasury is also concerned about some of the practices Eskom is using in its billing of municipalities and will discuss these with Eskom. These include:

- Eskom's requirement for a 15 day payment period for the current account which contradicts the 30 days payment rule as per the MFMA;
- The escalating interest charged on arrear debt as a result of Eskom's policy to impose an interest rate of prime plus five per cent on defaulting customers; and
- Penalties charged as a result of municipalities exceeding their maximum demand.

National Treasury together with the Department of Cooperative Governance will also consider reviewing the Service Level Agreements between district municipalities and local municipalities that have in some cases lead to disputes over who is responsible for paying for bulk water from water boards.

5. Written input from Mr David Mokome

a. Does Section 10 of the Bill refer to the national or municipal financial year?

The requirement in Section 10(1)(a)(ii) of the Bill is that the transferring officer must certify that any requested plans on how allocations will be used by a municipality, have been approved before the start of the financial year, refers to the financial year of the municipality. See paragraph (b) of the definition of "financial year" in clause 1. However, it should be noted that though approval of the plans will be required before the start of the 2015/16 financial year, i.e. on 1 July 2015 only, the transferring officer must certify as to the approval of plans within 14 days after the DORA for 2015/16 takes effect. The DORA for 2014/15 took effect on 26 April 2014.

b. The Division of Revenue Act should require reporting on how funds that have been rolled-over are spent

Conditional grant funds that are approved for roll-overs are already monitored by transferring officers and treasuries required in terms of the Public Finance Management Act and Municipal Finance Management Act. In the case of provinces these funds are reported on as part of the in-year monitoring system. The spending of these amounts is then monitored as part of the total spending on the grant for the new financial year. In the case of municipalities, MFMA Circular 75 requires that any rolled-over amount must be reported on separately.

6. Written input from Nomkolokoto Junior Secondary School

a. Teachers of Nomkolokoto Junior Secondary School lodged a complaint that they do not receive the rural incentive allowance despite working in a school that meets the definition of a rural school

The gazette issued by the Department of Basic Education on the rural allowance provides guidance on who should qualify and how this allowance is to be calculated. However, the implementation of the incentive scheme is at the discretion of the respective MECs, based on whether implementation is affordable considering the province's budget and priorities. In the Eastern Cape the allowance was implemented through a bargaining chamber process with labour unions and the employer represented. This process identified 511 schools in the province that should qualify for the rural allowance as they are at least 24 kilometres from a town. Nomkolokoto Junior Secondary School does not qualify for the allowance as the school is 21 kilometres from the town of Rode. The Eastern Cape Department of Education has responded to previous queries on this case by writing to the school on 19 September 2014 and to the circuit manager on 3 November 2014. The school was also advised that if they were not satisfied with the response they could refer this matter to the Chief Education Specialist: Labour Relations within the district office and follow a formal dispute process.

APPROVAL OF NATIONAL TREASURY INPUT:

MALIJENG NGQALENI
DEPUTY DIRECTOR-GENERAL: INTERGOVERNMENTAL RELATIONS
NATIONAL TREASURY

DATE: 17/04/2015