**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER:** **1033** **[NW1143E]**

**DATE OF PUBLICATION: 24 MARCH 2023**

**1033. Mr E M Buthelezi (IFP) to ask the Minister of Finance:**

Whether, with reference to the concern of the SA Local Government Association about the proposal by the National Treasury for persons to consider the use and move to solar energy, and the possible revenue loss that this will have on municipalities and the ultimate increase of electricity prices for those who are not able to move off the grid, the National Treasury has (a) any plans and/or (b) a budget to stabilise and/or rebuild dysfunctional councils that desperately need the funds that they receive from providing electricity to the communities that they serve; if not, why not, in each case; if so, what are the relevant details in each case? NW1143E

**REPLY**

National Treasury will be engaging with the South African Local Government Association (SALGA) on its concerns, as it is not necessarily correct that a municipality will lose revenue, especially if there is greater economic activity as a result of more secure electricity to business and households.

Further, households are being encouraged to use and move to solar energy as part of the government's deliberate attempt to reduce the demand for energy that is causing the load-shedding crisis. In the absence of such efforts, more pressure on the grid could result in grid collapses which would be more detrimental to municipal finances. Therefore, participating in this initiative may benefit municipalities as a result of a "payback scheme". By feeding excess energy back into the grid, customers can provide stored excess energy at lower rates than Eskom at peak times.

National Treasury has observed that many municipalities adopted tariffs that are not cost-reflective, which in essence means they are not recovering the full cost of providing electricity in the first place. To make the tariff more affordable, municipalities need to eliminate inefficiencies in the service value chain. The changing energy sector and its impact on municipal services must also be considered when setting tariffs. Energy conservation and efficacy must be facilitated and enforced in municipal consumption (across all services). Municipal operations should align with the decline in traditional electricity purchases by buying less from Eskom. It is also necessary for municipal strategy to re-align any earlier resolutions to flat rate selected areas with national policy, which limits the supply of basic water and electricity to 50 kilowatt hours of electricity and 6 kiloliters of water for indigent consumers.

The National Treasury is currently undertaking research on establishing norms and standards for electricity surcharges. This is in line with section 8 of the Municipal Fiscal Powers and Functions Act, 2007. This Act gives the Minister of Finance the power to prescribe mandatory national norms and standards for regulating municipal surcharges on electricity. The National Treasury is also working on identifying supplementary or replacement revenue sources for electricity surcharges as part of this ongoing research.

Considering the fiscal and economic risks posed by loadshedding, there is a need for further research into: 1) the implications of local trends in municipal finances; 2) how the municipal electricity business can adjust; and 3) how to minimize the adverse fiscal and economic impacts that energy sector reforms could have.

The National Treasury’s 2021 State of Local Government Finances report found that 165 municipalities were in financial distress at the end of 2020/21. Revenue management was the most prevalent factor contributing to financial distress. Moreover, many municipalities fail to adopt funded budgets, which means they will not be financially sustainable even if they remain within their budgets. This implies that they lack credible financial management. Those indicators are early warning signs of dysfunctional councils in the future.

In addition to issues that are leading to dysfunctional councils, our analysis shows that municipalities are diverting the LGES free basic provision to other initiatives, mainly paying salaries and a generous system of benefits for employees.

Once the research and engagements with SALGA are concluded, National Treasury will respond to the budgetary challenges via the annual budget process.