**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER:** **1213 [NW1466E]**

**DATE OF PUBLICATION: 11 APRIL 2022**

**1213.   Mr I M Groenewald (FF Plus) to ask the Minister of Finance:**

*[Interdepartmental transfer from Cooperative Governance and Traditional Affairs with effect 11 April 2022]*

(1)    With regard to unfunded budgets at municipalities, which municipal budgets were (a)(i) unfunded in June 2021 and (ii) still unfunded after the intervention by the National Treasury at municipalities at the end of November 2021 and (b) unfunded after the local government adjustment budget process was completed;

(2)     whether there are any municipalities whose budgets became unfunded after the adjustment budget process ensured that the budgets were funded and/or approved in the 2021-22 budget approval process; if not, what is the position in this regard; if so, what are the relevant details;

(3)     whether he will make a statement on the matter?                                    NW1466E

**REPLY**

*(1)(a)(i)* There were 106 municipalities that adopted unfunded budgets. The attached Annexure A provides the list of municipalities per province that adopted unfunded budgets for the 2020/21 financial year.

*(1)(ii)* There was no intervention introduced during this period, however, National Treasury and Provincial Treasuries have institutionalised processes to guide municipalities. During the window of opportunity, 31 March and end of May of each year, Treasuries assess the budgets of municipalities, this is referred to as the Benchmark process. During this process, municipalities whose budgets are assessed to be unfunded are advised to correct this position before adoption. Unfortunately, some municipalities ignore this advice and continue to adopt unfunded budgets. Those that adopt unfunded budgets are requested to correct this position during the adjustments budget period by the end of February of the following year. Once the unfunded budget is adopted, this is the only legal opportunity to rectify the position.

In addition, the National Treasury targets the 2nd instalment (December of each year) of the Equitable Share allocation to ensure compliance with Section 18 of the Municipal Finance Management Act (MFMA) and address unfunded budgets.

If a municipality is not able to achieve a funded budget position within a year or two due to the extent of the problem, such as high Eskom debt, the National Treasury has created an opportunity for municipalities to adopt a credible funding plan that will ensure that the funding position is improved. The implementation of these plans is monitored through quarterly reports submitted by municipalities.

Furthermore, the National Treasury also circulates annually, a document that compares the original budget, adjusted budget and the outcomes as per the Annual Financial Statements, in essence this exercise highlights that municipalities are simply “living beyond their means” when it reflects a deficit position.

To date, the resolution emanating from the Budget Council and Budget Forum, which forms the political platform for discussing and addressing municipal matters, was not to accept the adoption of an unfunded budget by any municipality.

*(1)(b)* After the 2020/21 adjustments budget process, 105 municipalities were recorded to have unfunded position with 5 additional municipalities undetermined. The detail of the unfunded list is in the attached Annexure A.

1. The attached Annexure A shows that 112 municipalities adopted unfunded budgets for the 2021/22 financial year. Many municipalities that adopted an unfunded budget during the adjustments period (2020/21) of the previous year are found to have adopted an unfunded budget for the 2021/22 year (main budget). During the preparation of the new budgets, municipalities often increase their expenditure budget and not align it to realistic anticipated revenue to be collected by them. On the other hand, some municipalities base their budgets on a collection rate far beyond their capability. When the National or Provincial treasuries undertake their assessment of the budget based on previous years audit outcomes, the budget is assessed to be unfunded.
2. The Minister of Finance usually refers to the funding position of municipalities in the Budget Speech and it is published in the Budget Review and the Medium Term Budget Policy Statement. Due to the importance of adopting a funded budget, addressing unfunded budgets is a standing item on the agenda of Budget Council and Budget Forum, which is the political platform in the municipal context.