**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NUMBER:** **293 [NW306E]**

**DATE OF PUBLICATION: 17 FEBRUARY 2023**

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

With reference to the State of the Nation Address on 9 February 2023, wherein the President of the Republic, Mr M C Ramaphosa, noted that 163 out of 257 municipalities are dysfunctional, and that one of the contributing factors for this was ineffective and corrupt financial and administrative management, how does the National Treasury intend to engage the affected municipalities to co-ordinate intergovernmental financial and fiscal relations as per their mandate to ensure the Government’s fiscal policy is implemented on a local level, in order to enforce transparency and effective management of national revenue within municipalities?  NW306E

**REPLY**

In responding to the question, it is important to first contextualise the widespread and sometimes inaccurate use of the term municipal dysfunction. Municipal dysfunction refers to a situation where a municipality is not functioning as it is supposed to and the discharge of a municipality’s constitutional responsibilities is impaired for some or other reason. However, there are various degrees of municipal dysfunction ranging from dysfunction which is less serious or temporary in nature requiring only appropriate support to rectify and dysfunction that implies a full-blown crisis in the financial and service delivery affairs of a municipality warranting intervention. Often, the use of the term “municipal dysfunctionality” is construed to mean that a municipality is in crisis which is not necessarily the correct interpretation.

The 165 municipalities referred to by the President in his State of the Nation Address, are municipalities that the National Treasury has identified in its annual municipal financial health assessment to be in financial distress. This means that according to the 13 indicators used by the National Treasury to measure the financial health of municipalities based on their audited financial statements, these municipalities are showing signs of existing, recurring and/or potentially serious financial problems. Again, this should not be construed as a necessary crisis in the municipality’s financial affairs.

The assessment is just one of the many early warning systems developed by the National Treasury to indicate where problems are emerging in a municipality’s financial health and if used proactively as early warning systems should be, to avoid these problems from morphing into a financial crisis. This results of this annual assessment should be interpreted alongside many of the in-year monitoring systems already institutionalized by the National Treasury including the monthly S71 reporting process. The National Treasury also publishes on a quarterly basis municipal performance indicators outlined in Section 138 and 140 of the MFMA. S138 indicators are used to indicate “serious financial problems” in a municipality whilst S140 indicators refer to a “financial crisis”. Serious financial problems should ideally be addressed via a discretionary financial recovery plan prepared by the respective province whilst financial crises require that the Provincial Executive Committees institute a mandatory intervention in terms of Section 139(5) of the Constitution and imposes a financial recovery plan on the municipality.

The role of the Provincial Treasury is to implement S213 of the Constitution and to assist the National Treasury in enforcing compliance with the measures established in terms of S216 of the Constitution and chapter 2 of the Municipal Finance Management Act (no: 56 of 2003 as amended).

In terms of the delegation of responsibility, the National Treasury shares the responsibility for the oversight of municipal finances with the Provincial Treasuries. The role of the National Treasury is to develop the policies, regulations, norms and standards required to improve financial management and reporting in municipalities and the National Treasury is also responsible for directly monitoring the performance of the 17 largest municipalities responsible for 80 per cent of municipal expenditure. The remaining 239 municipalities are monitored by the respective Provincial Treasuries.

Apart from the development of early warning systems which help municipalities to identify the extent of their financial problems where they exist, there are several other support initiatives which the NT has focused on to strengthen and enforce transparency, improve fiscal discipline and promote the better use of municipal revenue. These include initiatives focused on improving budget compliance, such as the Municipal Budget and Reporting regulations which aim to standardize the format of municipal budgets, the adoption of a realistically funded and credible budgets by municipalities, integration and management of the revenue value chain, providing technical support to build municipal financial management capacity through the Municipal Finance Improvement Programme (MFIP), resolution of municipal financial problems through the development of financial recovery plans, the introduction of a Standard Chart of Accounts for municipalities (*m*SCOA) and processes to deal timeously with financial misconduct and consequence management.

National and Provincial Treasuries also engage municipalities annually through budget and benchmark engagements where the tabled budget is subjected to a rigorous assessment prior to adoption by the municipal council. There are also mid-year performance assessments which provide an opportunity to assess the financial and service delivery performance of the municipality against the adopted budget and effect the necessary adjustments. National Treasury also enforces compliance in terms of s18 of the Municipal Finance Management Act by ensuring that any municipality who adopts an unfunded budget must develop a credible funding plan which seeks to gradually improve the financial position of the municipality and achieve a funded budget status. The implementation of these funding plans is monitored on a quarterly basis by the Treasuries.