

Business Day

New legislation aims to improve how municipalities are allocated funds

by [Linda Ensor](#), 01 March 2016

THE Financial and Fiscal Commission (FFC) has welcomed the inclusion of a new clause in the Division of Revenue Bill, which will allow the Treasury to change the nature of its funding to municipalities if they fail to follow proper procurement procedures.

FFC chairman and CEO Bongani Khumalo told a joint meeting of Parliament's appropriation and finance committees on Tuesday that transgressions of procurement regulations justified interventions by the Treasury.

The new clause will allow the Treasury to convert a portion of a direct allocation to a municipality to an indirect allocation "if there is satisfactory evidence that a municipality has failed to follow procurement procedures stated in the Municipal Finance Management Act".

Changing an allocation from a direct to an indirect grant would mean that the department administering that particular grant would take over the function and spend the grant as it sees fit.

Mr Khumalo said this would not be popular with municipalities as it would reduce their discretion over the expenditure of the funds. He welcomed the clause as it would put in place a mechanism to ensure the fast-tracking of spending and the reclassification of grants.

"There is a need to ensure that the clause is much clearer in setting the threshold levels of procurement transgression, at which point the grant is converted to an indirect grant and the timeframe within which the grant remains an indirect grant after conversion," Mr Khumalo told MPs.

Mr Khumalo said the FFC would like to see the scope of legitimate Treasury intervention broadened to include acting when municipalities underspent. A differentiated approach was needed to address the different problems experienced by municipalities and procurement was just a first step.

He welcomed the other new clause in the Division of Revenue Bill, which clarifies the grounds on the which Treasury can be withheld or stopped by linking this to the constitution. Last year, the Treasury withheld the equitable share allocation to some municipalities that failed to pay their water and electricity bills, in contravention of their constitutional mandate to provide basic services This caused an outcry.

Mr Khumalo said the FFC would prefer to see the amounts allocated within the equitable share for water and electricity provision to be ringfenced rather than the allocations stopped altogether. It also recommended that where nonpayment for services take place, this be analysed. If it is due to bad management then action should be taken against the individuals concerned.

Commenting on the 2016-17 budget tabled last week by Finance Minister Pravin Gordhan, Mr Khumalo said SA had not yet entered an era of austerity as there was no real contraction of government expenditure. He welcomed the fact that the social wage — the grants paid to millions of people — had been protected.

<http://www.bdlive.co.za/national/law/2016/03/01/new-legislation-aims-to-improve-how-municipalities-are-allocated-funds>