

## Business Day

### **Councils still adopt budgets with spending set higher than income**

#### **The adoption of unfunded budgets is a contravention of the Municipal Finance Management Act**

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About 40% of SA's municipalities adopted unfunded budgets for 2020/2021, meaning that their expenditure was expected to exceed their projected revenue.

Finance minister Tito Mboweni said in reply to a parliamentary question this week that a total of 106 of SA's 257 municipalities adopted unfunded budgets for 2020/2021. Adopting unfunded budgets is a violation of the Municipal Finance Management Act, which stipulates that municipalities base their budgets on a reasonable estimate of expected revenue. Often, however, municipalities overestimate their revenue, resulting ultimately in a financial crisis or their realistically anticipated revenue is insufficient to meet planned spending.

Mboweni's comments came ahead of a briefing Tuesday by the Finance and Fiscal Commission (FFC) to parliament's standing committee on appropriations on the 2020/2021 budget's division of revenue between national, provincial and local government. During the briefing, the FFC programme manager of the local government unit, Mkhululi Ncube, noted that many municipalities would be left with higher debt as a result of the Covid-19 pandemic "as revenue collections fall far below the norm".

Municipal customers affected by the lockdown have been unable to pay for services. As a result there will be a wide gap between municipal revenue and expenditure as is the case with unfunded budgets.

Ncube noted that the "Covid-19 pandemic has threatened the viability of many municipalities and compounded their deep seated financial, fiscal, governance and service delivery challenges".

Ncube told MPs that "many municipalities will be left with wider deficits due to the rapid expansion of Covid-19 related expenditures in the face of widespread revenue under-collections."

Replying to a question by DA MP Dennis Ryder, Mboweni noted that the provincial breakdown of municipalities with unfunded budgets were as follows: Eastern Cape (9), Free State (18), Gauteng (7), KwaZulu-Natal (19), Limpopo (6), Mpumalanga (8), Northern Cape (19), North West (17) and Western Cape (3).

Mboweni said national and provincial treasuries had access to all municipal budgets annually prior to their adoption in council but sometimes the municipalities “choose not to take our advice into consideration”.

According to the 2020 Budget Review, 123 municipalities had unfunded budgets in 2019/2020 — the highest level since 2013/2014 — which were reduced to 66 after the Treasury’s intervention. When 36 of these 66 failed to address the Treasury’s concerns, their funding from national government was withheld. The Treasury noted in the review that withholding transfers “have led to a significant increase in the number of municipalities with funded budgets in 2020/2021”.

In reply to another question by DA MP Hildegard Boshoff, the minister disclosed that there were 33 municipalities that were not honouring or only partially honouring their payment arrangements with Eskom. There were 44 municipalities with valid payment arrangements, he said.

Municipalities owe Eskom R36bn according to a statement made in February by Eskom CEO Andre de Ruyter with 10 municipalities owing 70% of this amount.

Briefing the appropriations committee, Ncube said the pandemic had amplified challenges regarding citizen access to basic services provided by municipalities such as housing, water and sanitation.

Though the government provided R11bn to relieve municipalities of Covid-19 related pressures, spending of such funds has been low. According to the Treasury, “from March 2020 to February 2021 ... municipalities had spent close to 40% of the R11bn added to the local government equitable share”.

Ncube warned that the decline of 4% in the real average growth rate of the local government equitable share allocation over the next three years may adversely affect the delivery of basic services to the poor and vulnerable who are counting on government for relief from Covid-19 circumstances and rising unemployment.

“The commission therefore implores municipalities to strengthen their revenue collection systems and plug revenue leakages, through harnessing new smart technologies,” he said.

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