



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Ref No: GT423/5

Municipal Manager
Ms Gugu Thimane
Lesedi Municipality
P O BOX 201
HEIDELBERG
1438

Email: gugu.thimane@lesedi.gov.za

Dear Ms. Thimane

FAIURE TO ADOPT A FUNDED BUDGET AND PROCESS FOR CORRECTION

Our records show that your municipality has the tendency to adopted a budget that is not funded or aligned to section 18 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). Your municipality is cautioned against this poor practice. Please be reminded that should the municipality proceed with this action, it will be contrary to the Budget Council and Budget Forum resolutions that states no municipality will adopt an unfunded budget. Furthermore, this decision is consistent with the Strategy to Address Local Government Performance Failures which were subsequently endorsed by the same fora. This resolution was subsequently endorsed at the Eskom Political Task Team meeting on the 29 May 2020 that was chaired by the Honourable Deputy President.

Our experience confirms that adopting an unfunded budget is indicative that the municipality will experience cash flow challenges during the year which ultimately contributes to a transgression of the legal prescripts for payments to creditors within 30 days, thus compromising the financial sustainability of these institutions. Furthermore, we are aware that municipalities deliberately prioritise bulk suppliers last in the ranking for payment, this behaviour must stop.

In terms of the law the municipality is given the first opportunity to self-correct. The municipality (by implication the accounting officer) is requested to ensure that all steps are taken to rectify this situation. Unfortunately, this extraordinary situation requires an extraordinary solution. In light of this situation, the National Treasury and provincial treasuries taking its cue from the Constitution of South Africa and the MFMA, therefore, wishes to extend a hand of support to resolve this problem. As was the exercise undertaken for the special adjustments process in November 2019, the treasuries are committed to work closely with you to attain a funded status for the 2020/21 FY. Therefore, the following essential steps will be required to ensure that the budget adopted by Council is funded. The treasuries have been requested to engage with your municipality to correct the budget to a funded position. This may require the municipality to make unpleasant and unpopular decisions regarding operating revenue and expenditure projections immediately. We fully understand that the Covid-19 pandemic has presented a further dynamic in achieving a funded status and that collections levels have and will drop. It is therefore critical that expenditure is aligned to realistic collection levels. National Treasury is currently negotiating with the bulk suppliers to ring fence the arrear debt as well as to stop the interest from accumulating. These arrear amounts may be forcing your budget into an unfunded position. Results of these negotiations will be communicated with you soon. It is important that the revised budget contains current payments of bulk suppliers and the budget proposal over the 2020/21 MTREF shows a gradual improvement of cash surpluses for arrear payments that the municipality failed to honour in the past.

Failure to resolve this situation will result in the contravention of the provision of the MFMA in terms of Section 171 that states "The accounting officer of a municipality commits an act of financial misconduct if that accounting officer deliberately or negligently contravenes a provision of this Act".

Section 5(2) of the MFMA mandates National Treasury to take appropriate steps if a municipality commits a breach of this Act, including the stopping of funds to a municipality in terms of section 216(2) of the Constitution if the municipality commits a serious or persistent material breach of any measures referred to in that section and take any other appropriate steps necessary to perform its functions effectively.

The municipality is therefore encouraged to endeavour to prepare and adopt a funded budget.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M Ngqaleni', written in a cursive style.

MALIJENG NGQALENI
DEPUTY DIRECTOR-GENERAL
DATE:24/06/2020

CC: The Mayor
Ms L F Maloka - mayor@lesedi.gov.za

CFO
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