



**The Office of the Official Opposition
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Date:	18 June 2021
To:	Hon Tito Mboweni MP Minister for Finance National Government
Cc:	Hon Gadija Brown MPL MEC for Finance Free State Legislature
From:	Hon Leona Kleynhans MPL Member of the Official Opposition Free State Legislature
Subject:	URGENT: 2021/2022 Budget Maluti-a-Phofung Municipality

Dear Hon Minister,

It is with great concern that we note the budget 2021/22 adopted by the Maluti-a-Phofung council on 10 June 2021.

It is clear from the information contained in the budget document that the municipality faces an extreme financial crisis and that there is no prospect whatsoever of the municipality being able to continue in this manner.

The budget is contrary to section 17 of the MFMA, and section 215(3) of the Constitution of the Republic of South Africa.

The brief financial overview summarised below will aim to indicate to you why this is the case.



1. Financial Overview:

Operating Revenue - R 1 800 467 000

Operating Expenditure - R 2 504 011 000

Budget Deficit – R 703 544 000

- 1.1. The budget proposes a shortfall of R703 million, however, due to the projected revenue being understated and overly ambitious, it is likely that the shortfall will ultimately breach R1,2 billion. It is not clear what the debt impairment figure of R278 million is based on.
- 1.2. There is no Indigent Register in an area with the highest unemployment rate in the Free State.
- 1.3. The budget document does not indicate the total debtors' amount, or the estimated irrecoverable debt, although an R81 million revenue provision is made for 'interest earned'. Due to the fact that there is no credit control policy being implemented, this provision is unrealistic.
- 1.4. There is no billing currently taking place, due to the fact that the contract for printing of invoices has lapsed.
- 1.5. The projected revenue is said to be R744 million, although in the current year only R201 million was collected in the first 10 months. It is estimated that the actual revenue collected in the current year will be R241 million. This trend would add R500 million to the proposed deficit. The municipality admits that meters are not being read.
- 1.6. The average collection rate is said to be 45% which is far removed from the reality.
- 1.7. No figure is given for the actual revenue and expenditure for the previous financial years, apparently due to the officials being unable to access the MSCOA system, and previous audits not being completed.
- 1.8. The budget contains no cash flow projection.



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- 1.9. The proposed increased cost to the municipality of salaries, allowances and benefits is R626 million, which includes an allocation to the Speaker of R10 048 822. The salaries of the MM of R2 080 714, and the CFO of R1 689 208 are subject of a court challenge by the MEC of COGTA. No audit of employees has been undertaken making the allocation to employee costs unreliable.
- 1.10. The budget makes no provision for the Eskom Service Delivery Agreement, whereby Eskom will take over the electricity function of the municipality, including revenue collection, and infrastructure maintenance, as well as a R1,8 billion capital investment. Council have agreed in principle to the Eskom proposal although details are to be clarified. When implemented, this agreement will have a major impact on the budget of the municipality.
- 1.11. There is no report in the budget of the revenue collected in the previous financial years.
- 1.12. No provision is made in the budget for the numerous litigations in which the municipality is currently engaged, including but not limited to Eskom, Harrismith Business Forum, Rural Maintenance (Pty) Ltd, and the MEC. The outcome of these litigations could have major implications for the budget.
- 1.13. The average tariff increase is 3,9%, which we believe is above the CPI index for the period. The electricity tariff increase is 14,59%.

2. Analysis:

- 2.1. In addition to the above, it has also been reported in council that the management is refusing to co-operate with the Audit Committee, and is refusing to provide important documentation such as the Action Plan to address AG audit report, filling of critical positions, Performance Management System, Litigations Reports, Internal Audit Reports, Financial Reports, Mid-year Performance Report, Draft Annual Report 2017/18. The MM and CFO are also refusing to attend meetings of the Audit Committee.
- 2.2. This budget does not give residents any insight at all into how the municipality is being managed, or how it will go forward. In fact, it is mainly just a thumb-sucking exercise.



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2.3. I have attached the Mayors Report to council, which gives an indication of the ineptness of the leadership.

3. Conclusion:

3.1. It is very clear that the gains made by the section 139 intervention, which was prematurely lifted by the MEC for COGTA in June 2020, have been reversed. The municipality is floundering helplessly, and lacks any leadership skill. The Troika, and the MM and CFO, are refusing advice from National or Provincial Treasury, and are blundering forward in the dark.

3.2. The 380 000 residents are denied the most basic services, through this incompetent leadership, while the Tshiame Special Economic Zone cannot get off the ground.

3.3. In our opinion, the budget must be rejected by National Treasury, and a mandatory section 139 National Intervention instituted in order to gain control of the financial situation. As things stand Maluti-a-Phofung is simply a bottomless pit into which the fiscus is pouring funds with no benefit to residents at all.

Yours faithfully,

Leona Kleynhans
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