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Punishing municipalities only hurts growth, service delivery

In My View

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The National Treasury has once again set its fiscal boundaries, but its harsh "tough love" strategy risks turning failures in local government into a damaging situation for economic growth.

The main goal for the Treasury is to resolve the intergovernmental debt crisis and end the culture of financial irresponsibility in the state. With this policy change, departments may find their planned budget allocations automatically reduced by the Treasury.

As these cuts are top-slice corrections, departments will have less money than they expect for a financial year.

Negligent departments can no longer treat their municipalities as a source of free credit to balance their budgets.

Finance minister Enoch Godongwana said during the National Treasury's budget vote in parliament that Treasury would continue to use section 216(2) of the constitution to withhold funds from municipalities that do not pass a funded budget or break financial management laws.

For municipalities already facing serious governance crises, the Treasury's strict enforcement could worsen their economic decline. Under section 216(2), the Treasury can completely hold back funds from municipalities that fail to approve a fully funded budget or comply with financial regulations.

For poor or rural municipalities, their equitable share is crucial, as it supports free basic services for low-income residents. Cutting this funding could lead to immediate bankruptcy for a municipality.

If a municipality's budget is withheld, local infrastructure maintenance will cease.

This will lead to issues like burst water pipes, overflowing sewage, uncollected refuse and crumbling roads, harming the local environment.

Local businesses depend on reliable water, electricity and roads; without these, major employers such as factories, commercial centres or agricultural processors may downsize or move to areas with better services. As businesses leave and residents stop paying for non-existent services, the municipality's ability to generate revenue collapses.

This makes them fully reliant on national bailouts that are no longer available, sealing their financial fate.

While the new policy strategy aims to push municipalities to make smarter financial choices, the ordinary citizens who are not involved in the financial decision-making will continue to suffer the most.

The upside is that the threat of losing funds forces municipal councils to cut wasteful spending, tackle corruption and adopt credible, fully funded budgets.

This may help transform chaotic local administrations into transparent, well-managed institutions that can attract private sector investment.

By forcibly top-slicing billions from negligent departments and funneling it to affected municipalities, the Treasury is trying to stabilise local financial systems.

This may allow municipalities to settle their own catastrophic arrears with bulk suppliers like Eskom and various water boards, preventing nationwide grid and water systems collapse. For taxpayers already carrying the financial weight of the country through high personal, corporate and value-added taxes, this policy shift has severe consequences.

Taxpayers find themselves caught in a cycle of paying for government failures. Their national tax money ends up in departments that do not pay municipal bills.

Now, the Treasury is using that tax money to cover municipal debt while departments cut back on essential public services like healthcare, policing and education that taxpayers depend on. In the meantime, locals must pay for private security, private waste removal and private water supplies.

Infrastructure development is key to economic development. If departments lose budget space to cover old municipal debts, and non-compliant municipalities have their grants or equitable shares cut, spending on public infrastructure will come to a halt.

National economic growth will suffer as major projects in civil engineering, road construction and public works freeze. At the same time, cash-strapped departments and bankrupt municipalities will stop hiring in the public sector or reduce contract workers, worsening SA's unemployment crisis.

Under the standard Division of Revenue Act, infrastructure projects use labour-intensive programmes to provide funds directly to low-income households. Cutting these grants removes immediate job opportunities.

Without pay, consumer spending in local areas drops significantly, harming retail and service industries.

The National Treasury's strategy does not solve the real issues but tries to amputate local economies to protect essential services like Eskom and water boards. Thus, it seems unreasonable for the Treasury to treat local governments like misbehaving children.

The tragedy of this strategy is that it forces the most vulnerable citizens to suffer due to administrative problems while reinforcing the dysfunction in local councils.

By cutting off the equitable share and conditional infrastructure funding, the Treasury is directly severing the financial lifeline that supports free basic services for low-income households and sustains essential infrastructure.

If SA wants to prevent its struggling municipalities from becoming permanent economic failures, the National Treasury must end this damaging punishment cycle.

When basic services are cut, local economic activity dies.

The immediate victims are not the isolated municipal executives who write unviable budgets or mismanage procurement — they are the most vulnerable members of society.

This situation treats access to essential human rights as negotiable items in a national financial balancing act, systematically stripping the poorest households of their constitutional protections under the guise of reform.

Trying to achieve national financial stability by damaging local micro-economies is counterproductive. Fiscal discipline must be enforced by holding leaders accountable at the top, not by severing support at the bottom.

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