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MEDIA STATEMENT

Minister of Public Works and Infrastructure, Patricia de Lille briefs SCOPA on government debt to municipalities and Eskom

Today I appeared before the Standing Committee on Public Accounts (SCOPA) regarding outstanding government debt to municipalities and Eskom.

Along with the Director-General, Chief Financial Officer (CFO) of the Department of Public Works and Infrastructure (DPWI), I updated SCOPA on the department's plans, which have already started, to address the debt owed to municipalities and other service providers.

It has been reported that the DPWI owes Eskom R3 billion in municipal debt. However this is not the case.

The current system sees DPWI pay all municipal accounts and in some cases Eskom accounts on behalf of all national government departments. Other government departments in turn have to reimburse DPWI for these payments. Government departments owe DPWI R3.4 billion in relation to municipal services as at 31 December 2019.

Today we briefed SCOPA on the plan, strategy and progress made on the outstanding municipal rates and services owed by DPWI.

In August 2019, I started a campaign with the DPWI CFO to settle all outstanding national government debt owed to municipalities and Eskom.

The campaign with the CFO's office was a proactive measure to resolve all outstanding payment issues.

We have also introduced consequence management which has led to some officials being disciplined.

As government owns and occupies thousands of properties across the country, this is a massive task but one which myself and the department is committed to resolving because of the importance of the good financial standing of municipalities and DPWI.

Municipalities are owed money by DPWI for various reasons:

- Municipal accounts must be verified and validated prior to processing payments in order to avoid irregular and fruitless and wasteful expenditure; this include the verification of ownership and occupation of land parcels and buildings.
- DPWI pays these accounts on behalf of other user departments;
- Many government departments are not refunding DPWI and this creates cash flow problems for DPWI;
- Many municipalities submit inflated accounts. There are often conflicting amounts in terms of what is owed and in many instances - incorrect billing;
- Many municipalities submit accounts on properties rates and municipal services that should not have been billed to DPWI;
- Many properties in municipalities are categorised as either:
 - a) R293 properties. These are properties that have been erroneously transferred/donated to municipalities during the new South African democratic dispensation;
 - b) State Domestic Facilities (SDF): These are properties that are in the process of being registered under the ownership of the Department of Public Works and Infrastructure. SDF properties could either be properties not yet surveyed or surveyed but not registered.

The DPWI's CFO is spearheading the project to settle all Government debt owed by DPWI to municipalities and his office developed a project plan to:

- Reconcile outstanding government debt for municipal service billed;
- Agree with municipalities for settlement or recovery of the outstanding amount and obtain sign-off (confirmation of balance);
- Verification of ownership and occupation for property rates and municipal service accounts respectively;
- Provide clear recommendations to avoid repetition of issues.

Each of DPWI's eleven regional offices provides a weekly update and progress report on the engagements with municipalities to the CFO.

Finance officials in all DPWI regional offices engage with relevant municipal officials in the form of working sessions to reconcile and resolve on which verified accounts to be settled accurately.

In many municipalities, officials have to deal with thousands of municipal property and service accounts.

During engagements with DPWI and municipalities, officials establish the reasons for varying accounts, verify accounts and agree on the correct amount to be paid to the municipality.

Once the amount is verified and agreed upon, the DPWI finance unit pays the municipality within 30 days.

After DPWI pays the municipal accounts on behalf of other departments, we then rely on other national departments to reimburse us timeously in order to keep our books afloat.

I have previously raised this matter with Treasury and proposed that perhaps the long-term solution is that all national government departments must pay their accounts to municipalities directly.

The following details of the status of municipal accounts was shared with SCOPA today:

As of 30 June 2019, municipalities reported in terms Section 71 (S. 71) of the Municipal Finance Management Act (MFMA) that the overall government debt owed by the DPWI was just over R3 Billion.

At that stage (30 June 2019), 135 municipalities of the 257 municipalities reported their debt owed to DPWI. The remaining 122 municipalities did not report as per the statutory requirements.

The DPWI is however in the process of verifying and reconciling the debt owed for all 257 municipalities.

The government debt campaign started by DPWI on 1 August 2019 focussed on the verification and reconciliation of the outstanding debt.

As mentioned before, the project is monitored weekly by DPWI regional offices while progress update meetings are also held monthly with National Treasury.

During this campaign by DPWI, it was found that the initial reported amount of R3 billion owed to municipalities was proven to be unreliable and incorrect as is displayed in Section.71 MFMA information.

The following three (3) additional examples detail some of the information that came to light during engagements with municipalities and the verification process:

- Bushbuckridge Local Municipality in Mpumalanga disclosed an outstanding debt of R925.5 million as per S.71, however, our regional office has agreed with the municipality that the outstanding debt is R6.9 million as per our joint reconciliation of work performed;
- Emfuleni Local Municipality in Gauteng disclosed an outstanding debt of R185.9 million as per S.71, however, they were unable to provide any supporting documentation to support this rand value on enquiry from the regional office and Gauteng Government Debt Forum;
- Makhuduthamaga Local Municipality in Limpopo disclosed an outstanding debt of R362.2 million as per S.71, however, our regional office has agreed that the outstanding debt is R1.3 million as per our joint reconciliation work performed;

It is therefore essential that amounts disclosed by municipalities require verification and validation prior to processing payments in order to avoid irregular and fruitless and wasteful expenditure.

Letters were sent to all municipalities in October 2019 to inform them of the government debt project and solicit cooperation to jointly resolve the reported debt.

Ongoing working sessions are being held with various municipalities which include; account by account reconciliations, verification of property ownership, securing sign-off on agreement between parties, setting timelines for delivery of invoices based on sign-off and payment/account credits.

As of today, 4 February 2020, 63% (R1.97 billion) of the reported R3 billion debt has been resolved. After verification and engagements with the relevant municipalities, there was a difference of more than R1.7 billion from the amount stated in the Section 71 reports by the relevant municipalities.

This means that once all accounts of these municipalities were verified, the actual amount owed was R186 million as opposed to the initial reported amount of R1.97 billion. This represents a significant difference in the actual amount owed to municipalities than what was initially reported by municipalities.

While 63% of the debt has been resolved, the DPWI updated SCOPA on the progress with engagements with more municipalities.

DPWI is conducting ongoing engagements with 52 municipalities to verify R655 million reported as owed to municipalities in the 30 June 2019 Section 71 reports.

As part of the DPWI's government debt campaign, 142 municipalities still have to be engaged to verify an amount of R388 million as reported the Section 71 reports on 30 June 2019.

During engagements with the verification and reconciliation process, it has been found that municipalities are unable to substantiate the reported figures as stated in their Section 71 reports.

The DPWI is resolute in its commitment to settle all verified debts within 30 days of receipt of the statements invoices and reconciliation sign-offs.

Despite the debt owed to the DPWI, DPWI continues to pay municipalities and Eskom on time.

The DPWI has taken a decision to devolve the settling of municipal services to the various user departments with effect from 1 April 2020. This has been communicated with all user departments, Eskom and municipalities.

DPWI also met with Eskom on 5 December 2019 to address issues of common interest. No outstanding debt was highlighted during the meeting nor was outstanding debt raised in the follow up meeting on 21 January 2020.

Eskom in fact commended the DPWI on its timeous payment and confirmed the positive working relationship between its officials and DPWI officials.

DPWI is committed to settling all verified invoices within 30 days. Outstanding invoices are monitored on a weekly basis.

All unpaid invoices in DPWI's possession at 31 January 2020 are current except for three offices with an arrears of R4.9 million.

ENDS

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