

NATIONAL TREASURY WITHDRAWS SUSPENSION OF TRANSFERS TO NALA MUNICIPALITY

1 February 2013

National Treasury has withdrawn the suspension of transfers to Nala Municipality in the Free State because the municipality has made satisfactory progress in addressing Treasury's concerns relating to financial management and in implementing the recommendations by KPMG on dealing with corruption.

Treasury invoked Section 216 (2) of the Constitution in September 2012 and stopped transfers to Nala of the municipality's remaining share of the 2012/13 Equitable Share and conditional grants allocations. By then, Nala had already received R82 million of its R203.9 million allocation for the 2012/13 financial year.

Treasury officials visited the municipality on 24 January 2013 and concluded that the Municipality was on the right track. For example, the municipality has appointed a Chief Financial Officer and a Municipal Manager, as recommended by KPMG.

Treasury therefore, recommended to the Minister of Finance that the suspension of transfers to Nala be withdrawn on condition that the Council of Nala Municipality adopted a resolution to:

- Ensure that Nala Municipality finalises its 2009/10 and 2010/11 annual financial statements and the said statements are submitted to the Auditor-General for audit purposes by no later than 30 June 2013;
- Fully support municipal management's implementation of the recommendations in KPMG's 2010 forensic report;
- Cooperate with the Office of the Accountant-General (OAG) in the National Treasury when the OAG investigates allegations of fraud and corruption by councillors and officials named in the KPMG report;
- Ensure that Nala Municipality strives to recoup monies from municipal officials who were recently found guilty of corruption charges, and subsequently dismissed from the municipality;
- Supports efforts by the municipality to recover all monies paid to contractors who failed to complete or implement projects;
- Supports efforts by the municipality to repay all conditional grants that, over the years, were used by the municipality to finance its operating expenditures;
- Supports the review of the municipality's bloated and top-heavy organogram to be completed by no later 31 March 2013;
- Attend training sessions facilitated by the National Treasury and/or Free State Provincial Treasury aimed at clarifying the roles and responsibilities of councillors; and
- Ensure that the municipality provides the Minister of Finance with monthly progress reports on matters raised in this resolution.

The council has since adopted the resolution and council members have each signed a pledge to adhere by the conditions of the resolution. Notwithstanding this progress, Treasury is under no illusion that Nala will be able to implement successfully all of KPMG's recommendations and fix its financial management challenges without assistance.

Nala, for example, does not have the capacity to collect most of the revenue it is owed. It has not billed its customers for at least two years and it will be unable to, on its own, compile the outstanding 2010/11 annual financial statements.

The National Treasury will therefore, provide the municipality with the technical assistance and the support it may need in the short to medium term.

Nala Municipality has been warned that non-compliance with any of the above nine conditions will result in National Treasury promptly re-invoking Section 216(2) of the Constitution and, for the second time, stopping the transfer of all grant allocations due to the municipality.

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