



Paul Berkowitz
Underspending a
huge worry

MUNICIPAL SPENDING

Debt keeps piling up

Municipalities are owed a staggering R56bn in outstanding debt — more than R6bn up on the previous year. Most of the debt — mainly for water, property rates and electricity — is owed to the six metros (55%) while 21% is owed to SA's 21 secondary cities.

These figures were produced by Citydex, a new division of the empowerment ratings agency Empowerdex, compiled using the financial reports of the metros and secondary cities. The report is one of the most insightful analyses on the state of finances of all 283 municipalities. Because of the Municipal Finance Management Act's financial reporting criteria, this is the first time analysts have been able to compare spending across financial years.

Paul Berkowitz, a research analyst at Citydex, says a portion of this debt increase is from municipalities reporting on their debtors book for the first time, but it is unclear why so much debt is still

on the books. "Only a tiny percentage of debt is being written off," says Berkowitz. "But it's difficult to say why more debt is not being written off faster."

Most debt (56%) is owed by households, with businesses owing 12% and government 5%. A large portion (27%) is not allocated to any debtor.

The breakdown of debt for the metros is almost identical to the national average. In secondary cities, more debt is allocated to households (64%) and less to other debtors (20%).

An important discovery is that 79% of all debt is older than 90 days, up from 74% at the beginning of the financial year. "This suggests, if debt is not paid within 30 days, the chances of recovering that debt fall sharply," Berkowitz says.

Less than 3% of all debt was written off over the course of the year and a large percentage is not recovered immediately and remains on the books. "Much of the

debt on the books may be years old, but relatively little of this debt is written off," the Citydex report states.

Berkowitz believes 80% of all debt would be older than 90 days if electricity debt were not "younger" — it makes up only 50% of the debt older than 90 days.

One possible reason for this is that it is easier to suspend electricity than water and sanitation services, and that many residents have prepaid electricity.

The municipal underspending that emerged in the Citydex report is a worry.

Last week, national treasury reported that municipalities had underspent their budgets by R18,9bn in the 2009/2010 financial year, which ended on June 30.

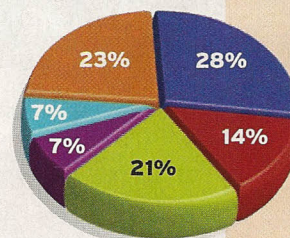
There was no improvement in the underspending level from the previous year, when the aggregate net underspending was 9,1% of the total municipal budget, compared to 8,9% now. "This persistent underspending is concerning," says Berkowitz. He worries municipalities may be neglecting infrastructure maintenance. "If municipalities are underspending their operational budget, then that means assets are not being maintained, and these will have to be replaced later on. This has serious implications for service delivery."

Citydex analysts found there is no budget for repairs and maintenance in most municipalities in 2009/2010. It appears to have been absorbed into the other expenditure line items.

"If this is the case, it represents a move towards a less transparent budget, making it harder to determine whether municipalities are successful in asset management," the report states. **Prakash Naidoo**

BREAKDOWN OF DEBT BY INCOME SOURCE

Total (end-Q4 2009/2010)



Water
Property rates
Refuse removal
Electricity
Sanitation
Other

SOURCE: CITYDEX