



Municipal debt to Eskom: 2009-18

How much do municipalities owe Eskom? What is being done about this financial crisis? What have provinces done?

- Municipalities owe Eskom R17-billion (November 2018), an increase from R13.5-billion in March.¹ The debt was R4-billion in 2015, R175-million in 2009.²
- The National Treasury (NT) intervened in 2015, when about 62 municipalities were encouraged to enter into payment agreements, but not all are effective.³

- About 7.5 million people are facing possible electricity cuts.⁴
- The arrears now amount to almost 20% of Eskom's total annual revenue.
- Projections of the pre-2016 trend indicated that, without intervention, the debt would grow exponentially to R12-billion by March 2018 (see graphic).

- Interventions by Eskom and the NT have arrested the rate of growth, shifting it from exponential to linear.⁵ The linear growth in arrears suggests that existing defaulters are unable to roll back their debt.
- Persistent non-payment to Eskom is arguably a financial crisis, which under s139 of the Constitution is a ground for mandatory intervention by provincial government, failing which by national government, and requires the imposition of a recovery plan in the municipality.⁶
- Before the remedial action by Eskom and the NT in 2015, there were provincial (s139) interventions in 13 of the defaulters, but no mandatory interventions with recovery plans; also, 80% of the worst defaulters escaped provincial intervention.⁷
- The absence of a consistent pattern of provincial mandatory intervention raises the question whether provinces have the capacity for overseeing municipal functions (like electricity) where they have a power to intervene but no constitutional role in delivery.

Suggested citation: DM Powell and M O'Donovan (2018) 'Municipal Debt to Eskom 2009-2018' *Public Finance Watch*, Issue 2 (November 2018)

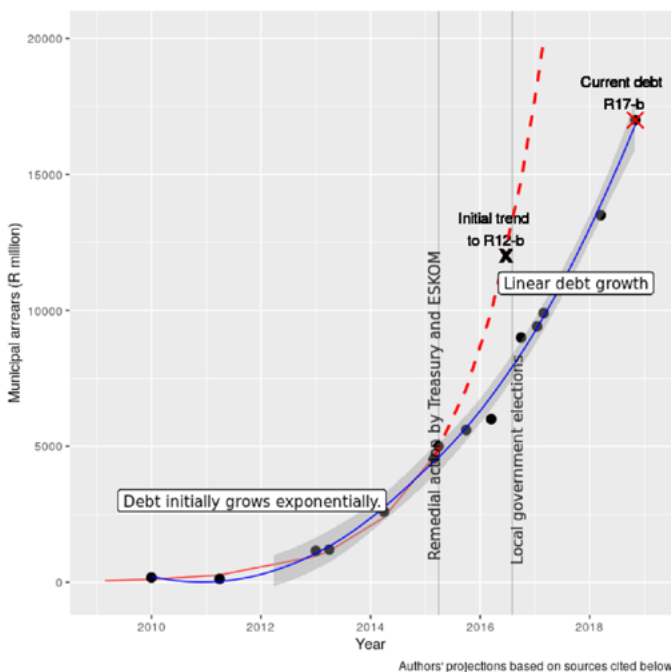


Diagram: Projections of the pre-2016 trend

¹ Davis, Gaye. 'Eskom: Municipal Debt has Reached Unsustainable Level.' Presence, Chantall. 'Municipal Debt Owed to Eskom is at a Staggering R17bn.' *IOL Business Report*. <https://bit.ly/2Fl5naT>, 13 November 2018.

² In 2009 Eskom first acknowledged that non-payment by municipalities for bulk electricity supply was a significant problem, with further warnings appearing in the annual report of 2011 and subsequent years. National Treasury. 'Presentation to Portfolio Committee on CoGTA on Debts Owed to Eskom and Water Boards.' National Treasury Report. Cape Town, May 2015. Eskom. 'Integrated Annual Report 2011.' Annual Report. Johannesburg: Eskom, 2011. In 2013, rising debt levels led to threats by Eskom to suspend bulk electricity supplies to municipalities in the North West and (in 2014) the Free State. Creamer, Terence. 'Eskom Issues Disconnection Notices as Municipal Arrears Pile up.' *Engineering News*. <https://bit.ly/2BiNl5g>, March 2013.

³ The NT suspended transfer of the equitable share to 60 municipalities in March 2015, and in April of that year Eskom warned it would suspend electricity to 20 municipalities in June. National Treasury. 'National Treasury Withholds Transfers of Funds to 60 Municipalities.' Media Release. Pretoria: National Treasury, February 2015. MyBroadBand. 'Eskom Threatens to Cut Off Municipal Power Areas Affected.' *MyBroadBand*. <https://bit.ly/2Kpc6Qh>, August 2017.

⁴ Statistics South Africa. '2011 Census Products.' *StatsSA*. <https://bit.ly/1Idl224>, October 2012. Africa, '2011 Census Products.'

⁵ Lund, Troye. 'Facing a Terrible Tangle.' *Financial Mail*, No. 24, July 2015.

⁶ We argue that the persistent failure to pay Eskom meets the requirements for mandatory intervention under s139(5) of the Constitution read with ss 139 and 140 of the Municipal Finance Management Act 56 of 2003.

⁷ Department of Co-operative Governance and Traditional Affairs. 'CoGTA Budget Vote Speech, 15 May 2018.' Department of Co-operative Governance and Traditional Affairs, May 15, 2018. <https://bit.ly/2DO8xCn>