



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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SECTION 71 MUNICIPAL FINANCIAL REPORTING: TECHNICAL NOTES

LEGISLATIVE REQUIREMENTS:

1. Section 71 of the Municipal Finance Management Act (MFMA) requires municipalities to submit to the relevant provincial treasury a monthly statement on the state of the municipality's budget, by no later than 10 working days after the end of the month. The statement must be in the format of a signed document and electronic format. Section 74 of the MFMA requires accounting officers to submit such information, returns, documents and motivations as may be required.
2. The provincial treasury must by no later than 22 working days after the end of each month submit to the National Treasury a consolidated statement on the state of the municipalities' budgets in the prescribed format.
3. To facilitate transparency the National Treasury publishes this information within 30 days after the end of each quarter.
4. Provincial treasuries are required to publish monthly financial results of the municipalities delegated to them and provide this information to the National Treasury on a routine basis. The National Treasury consolidates this information on a quarterly basis for publication.

OBJECTIVES:

5. The 17 metro and larger municipalities under the direct oversight by National Treasury (i.e. the non-delegated municipalities) are required to publish their Section 71 reports that are submitted to their respective Mayors on their municipal websites.

6. Publishing this information is part of the evolving system of reporting envisaged by the MFMA. The aim is to assist in oversight of performance, address shortcomings, improve internal controls and facilitate service delivery. Publishing this information improves transparency and fosters effective oversight, promotes fiscal discipline and provides a mechanism for measuring the ongoing performance of the municipality. Should this information reveal any problems within a municipality, Mayors, provincial treasuries and National Treasury are required to take prompt remedial action.
7. The financial analysis focuses on a number of key aspects of financial performance; including the status of the capital and operational budgets, debtors and grants. The information pertaining to metropolitan municipalities and other selected high capacity municipalities are analysed separately, due to the national implications of the collective impact these municipalities have on service delivery.
8. The implementation of capital budgets by municipalities is a vital element of the roll-out of service delivery. The focus of the financial report on this element is intended to motivate municipalities to meet their budget and service delivery commitments to the community, and to highlight deviations in this regard.
9. The analysis of the implementation of municipalities' operational budget is intended to monitor whether expenditure is taking place within the approved budget limits and that revenue targets are being realized so as to ensure the agreed service delivery targets are achieved in a sustainable manner.
10. Material under-expenditure is indicative of poor service delivery performance. Over-expenditure may be an indication of unauthorized payments, poor service delivery planning or unsustainable pricing of services.
11. Debt collection is a crucial element of financial sustainability, with non-payment by debtors putting the ability of municipalities to meet their expenditure plans at risk. Debtors' aged analysis is a generally accepted early warning technique to indicate when collection levels and the time taken to collect are deteriorating. High or increasing levels of late payments, and high or increasing levels of the absolute value of outstanding debts, are clear indications that there are problems with a municipalities revenue collection systems.
12. In addition to fulfilling its general oversight role, National Treasury is focusing on the spending of conditional grants to municipalities, because in the past these grants have failed to achieve their intended objectives due to the non-implementation of the municipal service delivery plans relating to them.

COVERAGE:

13. This publication covers the financial results of 181 municipalities together with the conditional grant information for all national grants per grant type for all 283 municipalities.
14. The publication shows the information for the fourth quarter of the 2006/07 municipal financial year; and also the accumulated year-to-date effect and a comparison between the first, second and third quarter information on one page.
15. The information is presented per province, consisting of details per municipality and is divided into the following categories:

- Operating Revenue and Expenditure per quarter;
- Capital Revenue and Expenditure per quarter;
- Cash Receipts and Payments per quarter;
- Operating Revenue and Expenditure per function (Water & Electricity) per quarter;
- Debtors Age analysis; and
- Creditor Age analysis.

The contact details of the Municipal Manager and Chief Financial Officer of each municipality has also been included.

16. The Section 71 publication covers all 6 metro's, the 11 other non-delegated municipalities over which the National Treasury has oversight, and municipalities from the following provinces:
 - Free State – all 25 local and district municipalities;
 - Gauteng – all 11 local and district municipalities;
 - KwaZulu-Natal – 50 local and district municipalities;
 - Limpopo – 25 local and district municipalities;
 - Mpumalanga – 18 local and district municipalities;
 - North West – 18 local and district municipalities; and
 - Western Cape – 28 local and district municipalities.
17. The information is presented in the following way:
 - High-level summary of the metro's and other municipalities directly under the oversight of National Treasury;
 - Detailed results of the 181 municipalities per province;
 - High-level summary of the conditional grants for all 283 municipalities; and
 - Details of the conditional grants per municipality per province.
18. The conditional grants part of the publication covers all 283 municipalities.
 - It is presented per province, with a summary sheet and details per municipality.
 - It indicates the budget as set out in the Division of Revenue Act, the amount actually transferred to municipalities and the actual spent to date by municipalities.

FUTURE INTENTIONS:

19. The National Treasury intends, as part of future publications, to list the information for municipalities that:
- Do not report in terms of Section 71 by submitting the appropriate return forms (Appendix B);
 - Submit in-year reports after the MFMA due date;
 - Do not sign-off the information in the format of the publication which should correspond with the source documents submitted to the Local Government database; and
 - Appear to submit information that on analysis is not credible.

ENQUIRIES REGARDING THE PUBLISHED FIGURES:

20. The information is based on the Section 71 MFMA reports signed by the municipal manager and sent to the relevant provincial treasury, and submitted to the National Treasury. Queries on expenditure or budget numbers should therefore, in the first instance, be referred to the municipal manager of the relevant municipality. The contact details for each municipality appear on the same page as their monthly financial information. In the first instance queries on conditional grants should be referred to the departmental head of the relevant administering national department.