

REPORT TO PARLIAMENT

Over- and underspending performance on revenue and expenditure for municipalities as at
30 June 2022

November 2023

PURPOSE:

1. To inform Parliament about the over- and underspending on adopted municipal adjustments budget for the 2021/22 financial year;
2. To highlight the trends pertaining to the over- and under collection of revenue for the 2021/22 financial year; and
3. To provide an update on the budget and financial management reforms and the ongoing support initiatives implemented to address the challenges in local government.

BACKGROUND:

4. The promulgation of the Municipal Finance Management Act (MFMA) in 2003 and subsequently the Municipal Budget and Reporting Regulations (MBRR) in 2009 resulted in the National Treasury implementing uniform reporting standards across local government budgeting and reporting systems. The legislation operates in unison and brings greater transparency on the financial management and enables comparison across the spectrum of local government.
5. The focus of the local government budget and financial management reform agenda is to strengthen financial management and financial governance in local government, however long-term financial sustainability remains a challenge for many municipalities.
6. There are still many municipalities that are non-compliant with Section 18 of the MFMA of 2003, that requires municipalities to adopt a funded budget, as unfunded budgets weaken sound financial management practices and the implementation of the Integrated Development Plan (IDP).
7. The adoption of unfunded budgets has a negative impact on the performance of the municipalities and are likely to lead municipalities into financial distress. The National Treasury publication through the Section 71 of MFMA provides for the in-year reporting act as an early warning system to assist the municipal council, national and provincial departments responsible for oversight to pro-actively intervene through various support mechanisms during the financial year to ensure that corrective actions are implemented by the municipalities.
8. The National Treasury publishes the financial informational for all 257 municipalities on a quarterly basis in terms of Section 71 of the MFMA, 2003 and the Division of Revenue Act (DoRA) promulgated in a particular year as part of the oversight responsibility. This Section 71 publication reflects on the quarterly statement of revenue and expenditure on local government, that includes spending on conditional grants as part of the monitoring and oversight responsibilities.

9. The accuracy and reliability of the information presented in the MFMA section 71 report, is of paramount importance, as it plays a crucial role in shaping policy decisions in line with the National Treasury's mandate.
10. The financial information in this report is based on the audited results for the year ending 30 June 2022, submitted by municipalities to the Local Government Database and Reporting System (LGDRS) as consolidated and verified before the system was locked.
11. The report focusses on the implementation of the 2021/22 adjustments budget for all 257 municipalities, with special emphasis on the over and underspending of different aspects of the budget such as the operating and capital expenditure, revenue generation, and conditional grants spending.
12. Additionally, the report concentrates on the aggregate high-level over and under performance at a provincial level, metropolitan, district and local municipalities. The detailed information is available in various reports previously disseminated by the National Treasury to the relevant stakeholders.

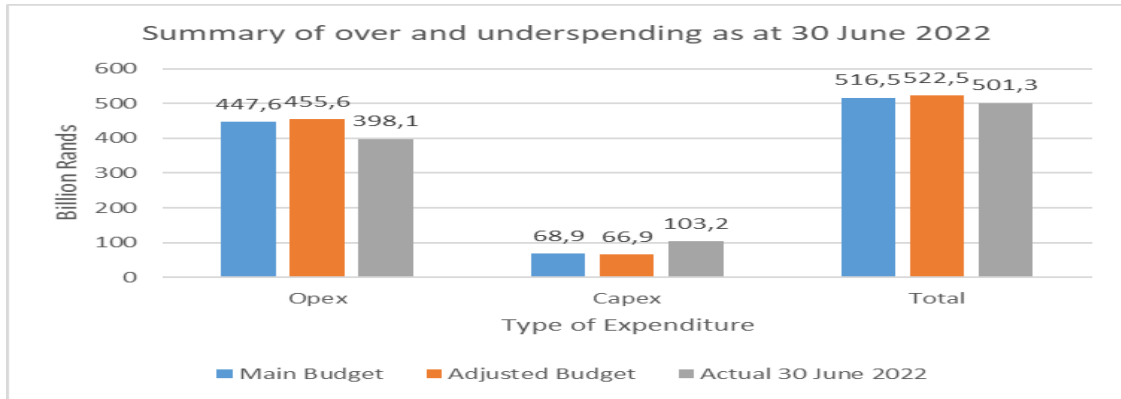
CRITERIA AND LIMITATIONS:

13. The over and underperformance report assesses the performance of municipalities by comparing the actual spending and collection of revenue against the budget allocation.
14. The margin between the actual and the budget is acceptable if it is between the range of zero (0) and 5 per cent, indicating either overperformance or underperformance. In other words, the acceptable standard is a variance of between 0 and 5 per cent of, indicating either overspending or underspending.
15. Any variance above 5 per cent of either underspending or overspending is concerning, and unacceptable.
16. The qualitative numbers of overspending, spending within the target, and underspending of municipalities per province are the main discussion of this report.
17. It is important to point out that the report was prepared using figures from the Municipal Standard Chart of Account (*mSCOA*) data strings submitted by the municipalities. The *mSCOA* Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government Database and Reporting System (portal) across the six *mSCOA* regulated segments.
18. As the *mSCOA* reform is maturing, the credibility of the information contained in the *mSCOA* data strings is gradually improving although some municipalities are still not fully compliant.
19. The information that is submitted by some municipalities is not credible due to financial system inadequacies and poor implementation of the *mSCOA* regulations in that certain municipalities are still transacting outside the *mSCOA* financial systems while others are submitting data strings with errors and others are using the regulated *mSCOA* segments incorrectly which compromise the information submitted.

DISCUSSIONS:

Summary of Over- and Underspending

20. The graphic illustration below depicts the general summary of the operating and the capital expenditure of all municipalities. The overview shows that the municipalities appropriated R447.6 billion in the adoption of the main budgets.
21. The main appropriation was revised during the adjustments budget processes to R455.6 billion which is an increase of 1.8 per cent of the operating budget. However, the actual performance reported indicates that only R398.1 billion was realised, depicting an underspending of R57.5 billion.



22. The capital expenditure budget was appropriated R68.9 billion during the adoption of original budget. This main appropriation was adjusted to R66.9 billion during the 2021/22 adjustments budget processes, which represent a decrease of 2.9 per cent of the capital expenditure budget. The 2021/22 audited performance reported that R103.2 billion was realised depicting an overspending of R36.3 billion.
23. Overall, the adjusted total (operational and capital) expenditure amounted to R522.5 billion and the actual results was R501.3 billion, an underspending by 21.2 billion.
24. The financial performance of all municipalities as at 30 June 2022 relating to the over- and under expenditure is consolidated per province and summarised in detail numbers in Table 1 below.

Table 1: Summarised over- and under spending as at 30 June 2022

R thousands	Main appropriation	Adjusted Budget	Year To Date: 30 June 2022	Total Expenditure as % of main	Total Expenditure as % of adjusted	(Over)	Under	Nett
Operating Expenditure	447 618 703	455 599 429	398 099 350	88,9%	87,4%	(4 451 465)	61 951 544	57 500 079
Capital Expenditure	68 858 541	66 902 648	103 187 132	149,9%	154,2%	(57 089 528)	20 805 044	(36 284 484)
Total Expenditure	516 477 244	522 502 077	501 286 482	97,1%	95,9%	(61 540 993)	82 756 587	21 215 595
of which								
Conditional grants Spending	37 753 781	37 454 733	21 594 918	57,2%	57,7%	(966 305)	16 826 120	15 859 815

Source: National Treasury Local Government Database and Reporting System

25. The total spending on conditional grants stood at R21.6 billion or 57.7 per cent of the adjusted budget of R37.5 billion. This budget was decreased by R299.1 million from the main appropriation of R37.8 billion. A nett underspending of R15.9 billion was realised, which necessitated the return of these unspent to the National Reserve Fund. This result is concerning given the service delivery backlogs and infrastructure challenges in the country.

Expenditure Performance per province: Total Budget

26. Table 2a below shows the over and underspending of total expenditure, aggregated per province, as at 30 June 2022.

Table 2a: AGGREGATED BUDGETS OF TOTAL EXPENDITURE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main appropriation	Adjusted Budget	Audited Outcome: 30 June 2022	Total Expenditure as % of main appropriation	Total Expenditure as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
Summary per Province										
Eastern Cape	EC	49 041 809	50 830 833	81 016 229	165,2%	159,4%	(33 019 910)	2 834 514	(65,0%)	5,6%
Free State	FS	25 319 475	25 641 579	29 155 760	115,2%	113,7%	(5 288 490)	1 774 310	(20,6%)	6,9%
Gauteng	GT	181 865 325	181 309 287	134 415 291	73,9%	74,1%	(4 343 370)	51 237 367	(2,4%)	28,3%
Kwazulu-Natal	KZ	89 958 387	93 941 680	112 727 151	125,3%	120,0%	(23 054 476)	4 269 005	(24,5%)	4,5%
Limpopo	LP	28 121 303	28 238 314	30 970 063	110,1%	109,7%	(3 950 354)	1 218 605	(14,0%)	4,3%
Mpumalanga	MP	28 058 550	28 946 358	34 147 729	121,7%	118,0%	(6 518 010)	1 316 639	(22,5%)	4,5%
North West	NW	25 749 667	28 120 854	52 448 079	203,7%	186,5%	(26 693 176)	2 365 951	(94,9%)	8,4%
Northern Cape	NC	10 062 849	10 686 539	10 068 814	100,1%	94,2%	(378 607)	996 332	(3,5%)	9,3%
Western Cape	WC	83 112 660	84 700 684	79 853 059	96,1%	94,3%	(406 275)	5 253 900	(0,5%)	6,2%
Total National		521 290 025	532 416 130	564 802 174	108,3%	106,1%	(103 652 669)	71 266 624	(19,5%)	13,4%
Net							(32 386 045)			

Source: National Treasury Local Government Database and Reporting System

27. The total national aggregated expenditure was appropriated to R521.3 billion during the 2021/22 main budget and thereafter adjusted to R532.4 billion during the adjusted budget processes. The adjustments resulted into an increase of R11.1 billion or 2.1 per cent increase from the main appropriation.
28. The main provinces whose municipalities adjusted their budgets higher were Kwazulu-Natal with a total expenditure of R4.0 billion, North West with R2.4 billion, Eastern Cape with R1.8 billion, and Western Cape with R1.6 billion, respectively. Only Gauteng province decreased the total main appropriation by R556.0 million during the adjustment budget process.
29. The main appropriation budget is revised mainly to adjust the expenditure estimates if there are material changes during the current year, or to make provision for additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for.
30. Additionally, the main budget may be further adjusted to authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality in case of any emergency or exceptional circumstance, to authorise the utilisation of projected savings in one vote towards spending in another vote, or to authorise the spending of funds that were unspent at the end of the past financial year where the underspending could not reasonably have been foreseen at the time to include projected rollovers when the annual budget for the current year was approved by the council of the municipality, or to correct any errors in the annual budget.
31. Most of the municipalities adjusted their expenditure budgets in the main appropriation to budget for additional conditional grants, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality and to correct the errors in the annual budget.
32. The actual spending was reported at R564.8 billion against the adjusted budget of R532.4 billion, which is an overspending of R32.4 billion or 6.1 per cent of the adjusted budget.
33. The provinces that spent within their adjusted budgets allocations were Gauteng, Northern Cape, and the Western Cape. These provinces underspent by 25.9 per cent,

5.8 per cent, and 5.7 per cent, respectively. In aggregate or all combined total underspending of the three provinces amounted to R52.4 billion.

34. The other six province's total over expenditure amounted to R84.7 billion. The biggest overspending was observed in Eastern Cape at R30.2 billion, followed by North West and KwaZulu-Natal with R24.3 billion and R18.8 billion, respectively.
35. It is interesting to observe that Eastern Cape municipalities adjusted their budgets higher by R1.8 billion and overspent by R30.2 billion while North West and Kwazulu-Natal adjusted their budgets higher by R2.4 billion and R4.0 billion and overspent by R24.3 billion and R18.8 billion, respectively.
36. Gauteng municipalities adjusted their budgets lower by R556.0 million, at the same length the province reported an underspending at the end of the financial year. Western Cape municipalities adjusted their budgets higher by R1.6 billion and underspend by R4.8 billion.
37. A significant variance from adjusted budgets to the actual results signal poor planning and budgeting, inadequate financial management, and failure to execute and implement budgets by municipalities.
38. Table 2b below shows the number of municipalities that have over or underspent against their total adjustments budgets as at 30 June 2022.

Table 2b: OVER AND UNDER SPENDING OF TOTAL BUDGET FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient Information
		More than -15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
Summary per Province										
Eastern Cape	EC	9	0	6	4	1	2	7	10	0
Free State	FS	10	1	3	1	1	1	2	4	0
Gauteng	GT	2	0	0	2	3	1	0	3	0
Kwazulu-Natal	KZ	29	3	0	3	9	4	3	3	0
Limpopo	LP	4	3	3	2	5	5	1	4	0
Mpumalanga	MP	2	4	1	2	5	2	0	4	0
North West	NW	5	1	1	1	2	2	3	7	0
Northern Cape	NC	3	1	3	5	4	4	3	8	0
Western Cape	WC	1	0	1	0	7	9	9	3	0
Total		65	13	18	20	37	30	28	46	0

Source: National Treasury Local Government Database and Reporting System

39. Table 2b above provides quantitative numbers of overspending, spending within the target, and underspending of municipalities per province.
40. A total of twenty municipalities overspends within the range of zero and 5 per cent while thirty-seven municipalities underspend within the same range.
41. In other words, out of all two hundred and fifty-seven municipalities in the country, 7.8 per cent overspent between zero and 5 per cent and 14.4 per cent underspent within the range. The latter are seen to be within the target acceptable standard.
42. Municipalities which overspent in the region of zero and 5 per cent were found in Northern Cape and Eastern Cape, with five and four municipalities, respectively. The Northern Cape has thirty-one while Eastern Cape has thirty-nine municipalities in total each. Thus, Eastern Cape had at least five municipalities that overspent within the target variance of zero and 5 per cent while other provinces had lesser municipalities.
43. The municipalities which underspent in the range of zero and 5 per cent were found in Kwazulu-Natal and Western Cape, with nine and seven municipalities, respectively. Kwazulu-Natal has fifty-four municipalities while Western Cape has thirty municipalities

- in total each. Thus, Kwazulu-Natal had at least nine municipalities underspending within the target variance of zero and 5 per cent while other provinces had lesser municipalities.
44. A total of sixty-five municipalities out of two hundred and fifty-seven overspent by more than fifteen per cent; thirteen had overspending in the range of ten and fifteen per cent; and eighteen were between 5 and 10 per cent, respectively.
 45. Kwazulu-Natal had the most municipalities (twenty-nine) that overspent by more than fifteen per cent and followed by Free-State with ten municipalities. Mpumalanga had the most municipalities (4) that overspent within 10 and 15 per cent followed by Limpopo and Kwazulu-Natal with 3 municipalities each. Eastern Cape (6) has the most municipalities that overspent between 5 and 10 per cent followed by Free State, Limpopo, and Northern Cape with 3 municipalities each.
 46. The poorly performed province was Kwazulu-Natal with 53.7 per cent of the municipalities overspending by over fifteen per cent. Western Cape had the least number with one municipality overspending within the same range. This is commendable.
 47. Eastern Cape had the most municipalities (10) that underspent by more than fifteen per cent and followed by Northern Cape with eight (8) municipalities. Western Cape (9) had the most municipalities that underspent within the range of 10 and fifteen per cent, followed by Eastern Cape with 7 municipalities. Western Cape (9) had the most municipalities that overspent in the region of 5 and 10 per cent, followed by Limpopo with 5 municipalities.
 48. The poorly performed provinces were Eastern Cape, Northern Cape, and Northwest Province with more than fifteen per cent underspending variance. Western Cape had the least with 3 out of thirty municipalities and this is commendable.
 49. Underspending on operational expenditure is seen positively if it is caused by the implementation of cost containment measures. However, if the underspending is due to poor budgeting and planning (unrealistic projections) it becomes a concern as it compromises the implementation of capital expenditure budget.
 50. The underspending on capital expenditure is frowned upon since it has severe implications on service delivery to residents, overall economic growth, eradication of service delivery backlogs and job creation.
 51. The overspending on both capital and operational expenditure is not acceptable as it results in unauthorised expenditure (excess on the approved budget). This overspending due to poor budgeting (unrealistic projections) is a cause for concern. It highlights that the budgets were not properly informed by the appropriate budget assumptions and past performance.
 52. Municipalities are not advised to overspend the capital expenditure budget because it goes against prudent budgeting, however any adequately cash funded overspending on the capital expenditure adds value on service delivery to the people and on general economy and job creation.

Expenditure Performance: Operating Budget

53. Table 3a below shows the over- and underspending of operating expenditure as at 30 June 2022 per province.

Table 3a: AGGREGATED BUDGETS OF OPERATING EXPENDITURE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main appropriation	Adjusted Budget	Audited Outcome: 30 June 2022	Total Expenditure as % of main appropriation	Total Expenditure as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
Summary per Province										
Eastern Cape	EC	39 978 611	41 614 936	43 286 420	108,3%	104,0%	(2 843 479)	1 171 994	(6,8%)	2,8%
Free State	FS	22 127 805	22 394 891	25 557 859	115,5%	114,1%	(4 587 192)	1 424 224	(20,5%)	6,4%
Gauteng	GT	164 394 041	166 007 790	122 807 963	74,7%	74,0%	(3 881 917)	47 081 744	(2,3%)	28,4%
Kwazulu-Natal	KZ	77 904 480	81 145 308	81 346 162	104,4%	100,2%	(2 107 200)	1 906 345	(2,6%)	2,3%
Limpopo	LP	21 870 307	21 848 026	23 832 384	109,0%	109,1%	(2 703 578)	719 220	(12,4%)	3,3%
Mpumalanga	MP	23 536 823	23 927 795	26 349 487	112,0%	110,1%	(2 817 540)	395 848	(11,8%)	1,7%
North West	NW	22 272 598	23 956 867	23 923 123	107,4%	99,9%	(1 523 454)	1 557 197	(6,4%)	6,5%
Northern Cape	NC	8 696 524	9 086 251	8 649 830	99,5%	95,2%	(319 374)	755 796	(3,5%)	8,3%
Western Cape	WC	71 492 662	75 118 619	73 263 352	102,5%	97,5%	(285 594)	2 140 861	(0,4%)	2,8%
Total National		452 273 851	465 100 483	429 016 581	94,9%	92,2%	(21 069 328)	57 153 230	(4,5%)	12,3%
							Net	36 083 902		

Source: National Treasury Local Government Database and Reporting System

54. The total main operating expenditure budget amounted to R452.3 billion which increased by R12.8 billion to R465.1 billion. In aggregate, all 257 municipalities spent 92.2 per cent of the 2021/22 adjusted budget.
55. The net underspending amounted to R36.1 billion (7.8 per cent total operating expenditure as a percentage of the adjusted budget). The municipalities realised an actual spending of R429.0 billion of the appropriated adjusted budget of R465.1 billion.
56. The provinces with the overspending on the allocated operating expenditure budgets were Free State (R3.2 billion), Eastern Cape (R1.8 billion), Mpumalanga (R2.4 billion), Limpopo (R2.0 billion), and Kwazulu-Natal (R200.1 million). In aggregate, the total overspending amounts to R9.4 billion. The provinces achieved a performance of between 100.2 per cent and 114.1 per cent of the adjusted budgets.
57. The provinces with the underspending on the appropriated operating expenditure budgets were Gauteng (R43.2 billion), Western Cape (R1.9 billion), Northern Cape (R436.4 million), and North West (R33.7 million). In aggregate, the total underspending amounts to R45.5 billion.
58. Gauteng is the poorly performed province with 74.0 per cent realised of the adjusted operating expenditure budget of R122.8 billion. This underspending could be attributed to poor budget estimates and poor collection of revenue.
59. Under collection of revenue has a huge impact on the service delivery as the municipalities fund a certain portion of their capital expenditure budget from internally generated funds. Failure to collect the billed revenue result in underspending of the capital expenditure budget particularly with regards to the portion that is funded by the internally generate funds or available cash surplus.
60. Table 3b below shows the quantitative patterns of overspending and underspending on the 2021/22 adjusted operating expenditure budget.

Table 3b: OVER AND UNDER SPENDING OF OPERATING BUDGET FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient Information
		More than -15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
Summary per Province										
Eastern Cape	EC	7	5	4	1	6	5	3	8	0
Free State	FS	12	2	1	1	2	0	1	4	0
Gauteng	GT	2	0	0	3	3	0	0	3	0
Kwazulu-Natal	KZ	13	4	5	8	13	7	3	1	0
Limpopo	LP	6	1	1	6	3	4	2	4	0
Mpumalanga	MP	6	4	2	3	2	1	1	1	0
North West	NW	3	2	3	1	3	5	1	4	0
Northern Cape	NC	3	4	3	5	5	3	2	6	0
Western Cape	WC	1	0	1	3	8	9	5	3	0
Total		53	22	20	31	45	34	18	34	0

Source: National Treasury Local Government Database and Reporting System

61. Five (5) per cent variance (overspending and underspending) from the appropriated adjusted operating expenditure budget is considered acceptable whereas a variance of more than 5 per cent is considered unacceptable.
62. A total of thirty-one municipalities overspent their operating budgets in the range of zero and 5 per cent while a total of forty-five municipalities underspent in the same range.
63. In other words, out of all two hundred and fifty-seven municipalities in the country, 12.1 per cent overspent between zero and 5 per cent and 17.5 per cent underspent between zero and 5 per cent. The latter are seen to be within the targeted acceptable standard.
64. The municipalities with targeted range of overspending were seen in Kwazulu-Natal and Limpopo whereas municipalities that underspent within the same range were observed in Kwazulu-Natal and Western Cape.
65. 53 municipalities out of two hundred and fifty-seven municipalities overspent by more than 15 per cent which translates to 20.6 percent; twenty-two were between 10 and 15 per cent; and twenty were between 5 and 10 per cent, respectively.
66. Kwazulu-Natal had the most municipalities (thirteen) that overspent on the operating expenditure by more than 15 per cent, followed by Free-State with twelve municipalities. Eastern Cape (5) had the most municipalities that overspent by between 10 and 15 per cent, followed by Mpumalanga, Northern Cape, and Kwazulu-Natal with 4 municipalities each. Kwazulu-Natal (5) had the most municipalities that overspent by between 5 and 10 per cent, followed by Eastern Cape.
67. The poorly performed province on the aggregated budgets of the total operating expenditure is Kwazulu-Natal with 24.1 per cent of the municipalities overspending by over 15 per cent. The latter indicates that almost a quarter of municipalities in Kwazulu-Natal exceeded their appropriated adjusted budgets and incurred an unauthorised expenditure. Western Cape had the least with one municipality that overspent on the allocated adjusted budget.
68. Eastern Cape had the most municipalities (8) that underspent by more than 15 per cent, followed by Northern Cape with 6 municipalities. Western Cape (5) had the most municipalities that underspent by between 10 and 15 per cent, followed by Eastern Cape and Kwazulu-Natal with 3 municipalities, respectively. Western Cape (9) had the most municipalities that overspend by between 5 and 10 per cent, followed by Kwazulu-Natal with 7 municipalities.
69. The poorly performed province on the aggregated budgets of the operating expenditure with more than 15 per cent underspending was Eastern Cape which indicates that 20.1 per cent of municipalities in that province underspent on their appropriated adjusted

budgets. Western Cape had the least number of underspending with 3 municipalities in this category.

70. It is prudent that municipalities remain within their budget variance target range of 5 per cent to demonstrate proper planning and budget implementation.

Expenditure Performance: Capital Budget

71. The credibility of the audited outcome as at 30 June 2022 is questionable as shown in table 4a below. This could be because of the incorrect data strings submitted by the municipalities. For example, in Eastern Cape province the total capital budget was distorted by Nelson Mandela Bay reporting a capital budget performance of R29.9 billion which was obviously incorrect given the provincial adjusted capital budget of R9.2 billion.
72. The other provinces that reported audited outcomes incorrectly were Kwazulu-Natal which reported the actual spending of R31.4 billion or 245.3 per cent and North West with the actual spending of R28.5 billion or 685.0 per cent of the adjusted budget.

Table 4a: AGGREGATED BUDGETS OF CAPITAL EXPENDITURE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main appropriation	Adjusted Budget	Audited Outcome: 30 June 2022	Total Expenditure as % of main appropriation	Total Expenditure as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
Summary per Province										
Eastern Cape	EC	9 063 197	9 215 897	37 729 808	416,3%	409,4%	(31 509 862)	2 995 951	(341,9%)	32,5%
Free State	FS	3 191 669	3 246 687	3 597 901	112,7%	110,8%	(1 517 080)	1 165 867	(46,7%)	35,9%
Gauteng	GT	17 471 284	15 301 497	11 607 328	66,4%	75,9%	(587 982)	4 282 152	(3,8%)	28,0%
Kwazulu-Natal	KZ	12 053 908	12 796 373	31 380 989	260,3%	245,2%	(21 305 514)	2 720 897	(166,5%)	21,3%
Limpopo	LP	6 250 996	6 390 288	7 137 679	114,2%	111,7%	(2 192 443)	1 445 052	(34,3%)	22,6%
Mpumalanga	MP	4 521 727	5 018 563	7 798 242	172,5%	155,4%	(4 882 087)	2 102 408	(97,3%)	41,9%
North West	NW	3 477 068	4 163 988	28 524 955	820,4%	685,0%	(25 711 578)	1 350 610	(617,5%)	32,4%
Northern Cape	NC	1 366 325	1 600 288	1 418 984	103,9%	88,7%	(280 271)	461 575	(17,5%)	28,8%
Western Cape	WC	11 619 998	9 582 065	6 589 707	56,7%	68,8%	(204 384)	3 196 742	(2,1%)	33,4%
Total National		69 016 174	67 315 647	135 785 593	196,7%	201,7%	(88 191 201)	19 721 254	(131,0%)	29,3%
							Net	(68 469 947)		

Source: National Treasury Local Government Database and Reporting System

73. The aggregate capital budget expenditure in the main appropriation was R69.0 billion and was adjusted by R1.7 billion to R67.3 billion. The provinces with the biggest contribution to the capital budget are Gauteng due to three metropolitan municipalities and Kwazulu-Natal because it has the many municipalities (54) in the country.
74. Gauteng province decreased their main appropriation by R2.2 billion by adjusting the original budget of R17.5 billion to R15.3 billion. The other province that significantly reduced their main budget was Western Cape from R11.6 billion to R9.6 billion. The other 7 provinces increased their main appropriations during the adjustments budget processes.
75. The provinces with the least contribution to the capital budget are Northern Cape and Free State because of their rural demographics. Free State increased their main appropriation from R1.4 billion to R1.6 billion while Free State increased theirs by R55.0 million during the adjustment budget process.
76. The actual audited outcomes of North West, Mpumalanga, KwaZulu-Natal, and Eastern Cape are not credible due to the incorrect data strings submitted. Eastern Cape reported an actual expenditure of R37.7 billion against the budget of R9.2 billion, KwaZulu Natal reported an actual expenditure of R31.4 billion against the budget of R12.8 billion, Mpumalanga reported an actual expenditure of R7.8 billion against the budget of R5.0 billion and North West reported an actual expenditure of R28.5 billion against the budget

of R4.2 billion. Overall, the actual capital expenditure amounted to R135.8 billion against the budget of R67.3 billion which resulted into a net overspending of R68.5 billion.

77. Limpopo and Free State exceeded their allocated adjusted budgets by 11.7 per cent and 10.8 per cent, respectively. Gauteng, Northern Cape, and Western Cape realised the spending of 75.9 per cent, 88.7 per cent, and 68.8 per cent, respectively.
78. There are many challenges faced by municipalities in spending the capital expenditure budget, including:
- a. budget preparation and adoption process – municipalities adopt unfunded budgets which impact on the realisation of a surplus cash to inject into the capital budget in a form of internally generated revenues;
 - b. poor contract management and forward procurement planning – municipalities implement projects during the year instead of the beginning of the year and ultimately fail to complete projects on time;
 - c. poor capital conditional grants spending – start procurement late will results into unspent conditional funds;
 - d. internal inefficiencies – key vacancies, late advertising of tenders, the bid committees that are failing to evaluate the bids on time and or avoiding participating in bid evaluations results into failure to implement capital budgets;
 - e. the external interruptions – the high levels of unemployment in South Africa, has led to local communities protesting and stopping projects at project sites either demanding employment or sub-contracting from contractors operating in their area of location;
 - f. incompetent and impatient contractors – the work stoppages and long unresolved issues between the municipality and the community result into contractors abandoning sites including the contractors that are failing to produce satisfying or quality work, affecting capital budget implementation;
 - g. disputes between contractors and the municipality – poor contracting and unresolved disputes between contractors and the municipality result into a contractor taking the municipality to court (litigation) and affecting continuation of capital implementation; and
 - h. poor financial management – some municipalities use conditional grants for purposes other than the set conditions and when funds are not returned to the NRF the National Treasury consequently offset from the release of the equitable share. This has a ripple effect on the service delivery and in turn, the poor communities are affected.
79. One of the criteria set by the National Treasury for the rollover of unspent conditional grants, include positive cash (equivalent or exceeding the unspent conditional grants) in the municipal bank account, and spending in line with the conditional framework. Municipalities that do not meet the criteria were not approved for rollover of the unspent conditional grants.
80. It is also important to note that municipalities do not pay the full 100 per cent of the invoice of the construction project but retains a portion of the payment, in retention account. This retention is held until the municipality is satisfied with the quality and compliance of the project with the specified standards and project specifications. The

purpose is to ensure that there are no construction defects in terms of the project specifications.

81. Table 7 below shows the number of municipalities per province that have over - or underspent their adjusted capital budgets. It should be noted that spending within a 10 per cent variance of the capital budget is considered acceptable.
82. The changes in national transfers and the subdued economic growth in the communities does affect the investment in local government infrastructure.

Table 4b: OVER AND UNDER SPENDING OF CAPITAL BUDGET FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient
		More than -15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	Information
Summary per Province										
Eastern Cape	EC	11	0	0	0	1	0	1	26	0
Free State	FS	3	0	0	0	0	1	1	18	0
Gauteng	GT	2	0	0	0	1	3	0	5	0
Kwazulu-Natal	KZ	31	0	2	0	2	2	6	11	0
Limpopo	LP	6	0	0	2	0	1	1	17	0
Mpumalanga	MP	3	1	1	0	1	0	0	14	0
North West	NW	6	0	1	0	0	1	1	13	0
Northern Cape	NC	4	1	0	0	2	1	2	21	0
Western Cape	WC	4	0	1	1	1	5	2	16	0
Total		70	2	5	3	8	14	14	141	0

Source: National Treasury Local Government Database and Reporting System

83. Table 4b above depicts the variances by province in terms of the under and overspending on capital expenditure budget.
84. The 5 per cent variance of overspending or underspending from the appropriated adjusted capital expenditure budget is considered acceptable and any variance more than 5 per cent is considered unacceptable.
85. With regards to over and underspending of, a total of three (3) municipalities overspent on their capital expenditure budgets in the range of zero and 5 per cent while a total of 8 municipalities underspent in the same range. In other words, out of all two hundred and fifty-seven municipalities in the country, 1.2 per cent overspent between zero and 5 per cent and 3.1 per cent underspent between zero and 5 per cent.
86. The is worrisome to note that a significant number of municipalities are unable to achieve a target range of 5 per cent variance between the budget and actuals.
87. The provinces with targeted range of overspending were seen in Kwazulu-Natal and Eastern Cape with thirty-one and eleven municipalities, respectively. The provinces with targeted range of underspending were observed in Eastern Cape and Northern Cape with twenty-six and twenty-one municipalities, respectively.
88. A total of seventy municipalities out of two hundred and fifty-seven municipalities overspent by more than 15 per cent which translates to 27.2 per cent.
89. The poorly performed province on the aggregated budgets on capital expenditure was Kwazulu-Natal with 44.3 per cent of the municipalities overspending by over 15 per cent. This is an indication that almost half of municipalities in KwaZulu-Natal exceeded their appropriated adjusted capital budgets and incurred an unauthorised expenditure. Free State and Mpumalanga had the least with three (3) municipalities each that exceeded the allocated adjusted capital budget by more than 15 per cent.
90. Eastern Cape had the most municipalities twenty-six that underspent by more than 15 per cent, followed by Northern Cape with twenty-one municipalities. Kwazulu-Natal (6) had the most municipalities that underspent between 10 and 15 per cent, followed by Northern Cape and Western Cape with 2 municipalities, respectively. Western Cape (5)

had the most municipalities that overspent between 5 and 10 per cent, followed by Gauteng with 3 municipalities.

91. The poorly performed provinces on the aggregated budgets on capital expenditure with more than 15 per cent underspending variance is Eastern Cape. This indicates that over 66.7 per cent of municipalities in Eastern Cape underspent their appropriated adjusted capital budgets by 15 per cent because of incorrect budget estimates and inadequate budget implementation. Gauteng had the least with 5 municipalities in this category.
92. It is prudent that municipalities remain within their budget variance target range of 5 per cent to demonstrate proper planning and capital budget implementation.

Expenditure Performance: Conditional Grants

Table 5a: AGGREGATED CONDITIONAL GRANTS EXPENDITURE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main allocation	Adjusted allocation	Year to date: 30 June 2022	Total Expenditure as % of Main allocation	Total Expenditure as % of Adjusted allocation	(Over)	Under	(Over) as % of Adjusted Allocation	Under as % of Adjusted Allocation
Summary per Province										
Eastern Cape	EC	5 739 276	5 627 765	3 811 816	66,4%	67,7%	(545 218)	2 361 167	(9,7%)	42,0%
Free State	FS	2 114 037	2 078 971	925 916	43,8%	44,5%	(74 471)	1 227 526	(3,6%)	59,0%
Gauteng	GT	5 605 314	5 609 025	2 419 250	43,2%	43,1%	-	3 189 775	-	56,9%
Kwazulu-Natal	KZ	7 363 790	7 981 378	5 006 992	68,0%	62,7%	(37 688)	3 012 074	(0,5%)	37,7%
Limpopo	LP	4 839 940	4 829 222	3 172 834	65,6%	65,7%	(36 587)	1 692 975	(0,8%)	35,1%
Mpumalanga	MP	3 384 378	3 723 462	2 233 222	66,0%	60,0%	(148 786)	1 639 026	(4,0%)	44,0%
North West	NW	3 184 603	3 019 242	892 810	28,0%	29,6%	-	2 126 432	-	70,4%
Northern Cape	NC	1 288 423	1 405 157	687 779	53,4%	48,9%	(43 885)	761 263	(3,1%)	54,2%
Western Cape	WC	4 234 020	3 180 511	2 444 299	57,7%	76,9%	(79 670)	815 882	(2,5%)	25,7%
Total		37 753 781	37 454 733	21 594 918	57,2%	57,7%	(966 305)	16 826 120	(2,6%)	44,9%
							Nett	15 859 815		

Source: National Treasury Local Government Database and Reporting System

93. Table 5a above, depicts the conditional grants allocation and the spending thereof. Municipalities were allocated R37.8 billion in the 2021/22 original budgets which was adjusted lower by 0.8 per cent to R37.5 billion. Municipalities spent only R21.6 billion of the adjusted allocation. The net unspent allocation amounted to R15.9 billion.
94. The poorly performed provinces were North West (29.6 per cent), Gauteng (43.1 per cent), and Free State (44.5 per cent) on their actual spending against the adjusted conditional grants allocations. In aggregate, the 3 provinces underspent their allocations by R6.5 billion of their allocated R10.7 billion. This proves that there is a great challenge to drive service delivery if provinces are unable to utilise the allocated grants.
95. The high level of underspending is prevalent in municipalities that are dysfunctional and financially distressed. These municipalities often utilise conditional grants funding meant for capital projects towards operational purposes with the hope that the utilised portion will be deducted from the future local government equitable share tranches.
96. The provinces that underspent on their allocated conditional grants were Gauteng with R3.2 billion, Kwazulu-Natal with R3.0 billion, North West with R2.1 billion, Eastern Cape with R1.8 billion, Limpopo with R1.7 billion and Mpumalanga with R1.5 billion.

Table 5b: OVER AND UNDER SPENDING OF CONDITIONAL GRANTS FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient Information
		More than -15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
Summary per Province										
Eastern Cape	EC	9	2	3	1	3	1	1	19	0
Free State	FS	1	0	1	1	1	0	1	18	0
Gauteng	GT	0	0	0	0	1	1	1	8	0
Kwazulu-Natal	KZ	1	0	1	11	10	3	4	24	0
Limpopo	LP	1	0	0	1	1	4	2	18	0
Mpumalanga	MP	3	0	1	1	2	0	0	13	0
North West	NW	0	0	0	0	0	0	1	21	0
Northern Cape	NC	1	0	0	1	1	1	0	27	0
Western Cape	WC	6	0	1	0	4	1	2	16	0
Total		22	2	7	16	23	11	12	164	0

Source: National Treasury Local Government Database and Reporting System

97. Table 5b above depicts the variances by province in terms of their under and overspending on conditional grants. The 5 per cent variance of overspending or underspending of allocated grants is considered acceptable and any variance more than the 5 per cent is considered unacceptable.
98. Only sixteen municipalities overspent between zero and 5 per cent while a total of twenty-three municipalities underspent in the same range. In other words, out of all two hundred and fifty-seven municipalities in the country, 6.2 per cent overspent between zero and 5 per cent and 8.9 per cent underspent between zero and 5 per cent. Kwazulu-Natal was the province with the most municipalities within the range of zero and five.
99. It is worrisome to note that most municipalities are unable to achieve a target range of 5 per cent variance between the budget and the actual performance.
100. The municipalities with targeted range of overspending were found in Kwazulu-Natal and Western Cape with 9 and 6, respectively. The municipalities with targeted range of underspending were observed in Kwazulu-Natal with twenty-four and Northern Cape with twenty-seven.
101. The concern is that 63.8 per cent or hundred and sixty-four municipalities underspent by more than 15 per cent.

Table 6: AGGREGATED CONDITIONAL GRANTS EXPENDITURE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main allocation	Adjusted allocation	Actual Expenditure National Department	Actual Expenditure by Municipalities	Exp as % of Adj allocation National Department	Exp as % of Adj allocation by Municipalities
Per Grant							
Infrastructure Transfers		35 548 783	35 076 603	28 330 047	20 402 528	80,8%	58,2%
Municipal infrastructure grant	MIG	15 592 748	15 592 748	14 128 924	9 904 717	90,6%	63,5%
Public transport network grant	PTCG	6 514 533	5 174 533	3 696 559	2 153 456	71,4%	41,6%
Integrated national electrification programme (municipal) grant	INEG	2 003 157	2 003 157	1 535 908	1 292 334	76,7%	64,5%
Neighbourhood development partnership grant (capital grant)	NDPG	566 611	1 317 611	626 225	416 459	47,5%	31,6%
Rural roads assets management systems grant	RTSG	109 870	109 870	68 267	49 770	62,1%	45,3%
Integrated city development grant	ICDG	-	-	-	4 340	-	-
Regional bulk infrastructure grant	RBIG	2 156 025	2 237 370	1 353 537	1 488 289	60,5%	66,5%
Water services infrastructure grant	WSIG	3 620 327	3 620 327	2 904 391	2 137 313	80,2%	59,0%
Municipal emergency housing grant	MEHG	30 997	66 472	3 676	28 323	5,5%	42,6%
Integrated urban development grant	IUDG	1 009 068	1 009 068	944 009	694 101	93,6%	68,8%
Metro informal settlements partnership grant	MISG	3 945 447	3 945 447	3 068 551	2 233 427	77,8%	56,6%
Capacity Building and Other Current Transfers		2 204 998	2 378 130	1 535 456	1 192 390	64,6%	50,1%
Programme and project preparation support grant	PPPG	341 312	341 312	161 732	46 071	47,4%	13,5%
Local government financial management grant	FMG	552 061	552 061	489 618	332 321	88,7%	60,2%
Municipal systems improvement grant	MSIG	-	-	-	55	-	-
Expanded public works programme integrated grant for municipalities	PWPG	778 395	778 395	420 736	447 840	54,1%	57,5%
Infrastructure skills development grant	ISDG	155 217	155 217	125 494	105 403	80,9%	67,9%
Energy efficiency and demand side management grant	EEDG	220 874	220 874	172 830	132 420	78,2%	60,0%
Municipal disaster grant	DRG	157 139	330 271	165 046	128 280	50,0%	38,8%
Total		37 753 781	37 454 733	29 865 503	21 594 918	79,7%	57,7%

Source: National Treasury Local Government Database and Reporting System

102. Table 6 above shows the over or underspending on transfers allocations for 2021/22 financial year per grant.
103. The total amount spent by municipalities was R21.6 billion or 57.7 per cent of the adjusted allocation, while the transferring department reported that R29.9 billion or 79.7 per cent. The reason for the R8.3 billion discrepancies is the reporting timing between the transferring departments and municipalities.
104. The underspending on the adjusted allocations was reported at 20.3 per cent by the transferring department and 42.3 per cent by municipalities as at 30 June 2022.
105. When considering the spending as per the national departments report, the grants that have high spending is the Integrated Urban Development Grant (IUDG) at 93.6 per cent, Municipal Infrastructure Grant (MIG) at 90.6 per cent, Infrastructure Skills Development Grant (ISDG) at 80.9 per cent, and the Integrated National Electrification Programme Grant (INEPG) at 76.7 per cent.
106. The IUDG has a higher spending percentage because it plays a crucial role in facilitating the funding to support urban development initiatives. This grant aims to facilitate development and improvement of infrastructure and services in urban areas, thereby boosting the funding available for public investment in economic infrastructure, which is vital for the economic development. The IUDG total spending was reported at R944 million or 93.6 per cent of the adjusted allocation of R1.0 billion.
107. The IUDG is allocated to metropolitan municipalities in place of the municipal infrastructure grant. The grant recognises that municipalities differ in terms of their context and introduces a differentiated approach to encourage integrated development in cities. The MIG is also showing higher spending in other categories of municipalities.
108. The MIG provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities. MIG further provides specific funding for the development of asset management plans for infrastructure servicing the poor communities. The MIG total spent was R14.1 billion of the adjusted allocation of R15.6 billion.

109. Of a serious concern is conditional grants which were underspent by over 50 per cent as depicted in the table above.
110. A certain number of municipalities qualified for the roll-over of conditional grants on unspent allocation while other's applications were rejected for various reasons including failure to comply with the provisions of DoRA, which are, amongst others, lack of cash in the bank, rollover request of the same grant for the third consecutive time and vacancies in the Municipal Manager and Chief Financial Officer positions.

Revenue Performance

111. Table 7a below shows that the main appropriation of the total revenue was R516.5 billion for the 2021/22 financial year and during the adjusted budget process, R6.0 billion was added that resulted in the adjusted budget of R522.5 billion.

Table 7a: AGGREGATED BUDGETS OF TOTAL REVENUE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main appropriation	Adjusted Budget	Audited Outcome: 30 June 2022	Total Revenue as % of main appropriation	Total Revenue as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
Summary per Province										
Eastern Cape	EC	47 963 136	49 581 791	47 593 571	99,2%	96,0%	(2 824 705)	4 812 925	(5,7%)	9,7%
Free State	FS	24 638 598	24 523 706	22 501 834	91,3%	91,8%	(1 546 094)	3 567 966	(6,3%)	14,5%
Gauteng	GT	182 493 956	182 241 840	128 166 153	70,2%	70,3%	(494 804)	54 570 491	(0,3%)	29,9%
Kwazulu-Natal	KZ	89 193 030	90 375 341	105 260 022	118,0%	116,5%	(18 498 041)	3 613 360	(20,5%)	4,0%
Limpopo	LP	28 634 141	28 588 177	28 860 689	100,8%	101,0%	(3 040 411)	2 767 899	(10,6%)	9,7%
Mpumalanga	MP	26 934 342	27 249 081	28 720 948	106,6%	105,4%	(4 653 919)	3 182 052	(17,1%)	11,7%
North West	NW	24 860 092	26 325 501	50 227 139	202,0%	190,8%	(25 639 752)	1 738 114	(97,4%)	6,6%
Northern Cape	NC	9 837 185	10 248 005	9 118 557	92,7%	89,0%	(209 643)	1 339 091	(2,0%)	13,1%
Western Cape	WC	81 922 765	83 368 634	80 837 570	98,7%	97,0%	(372 696)	2 903 761	(0,4%)	3,5%
Total National		516 477 244	522 502 077	501 286 482	97,1%	95,9%	(57 280 064)	78 495 658	(11,0%)	15,0%
							Net	21 215 595		

Source: National Treasury Local Government Database and Reporting System

112. Eastern Cape increased its budget by (R1.6 billion), Kwazulu-Natal by (R1.2 billion), North west by (R1.5 billion), Western Cape by (R1.4 billion), Northern Cape by (R410.8 million) and Mpumalanga by (R314.7 million) during the adjustments budget processes. In aggregate, the increases amounted to R6.4 billion.
113. Free State, Gauteng, and Limpopo decreased their main appropriations during the adjustments budget process by R413.0 million in aggregate. The net underperformance by all provinces amounted to R21.2 billion as shown in the table above.
114. The aggregate revenue in terms of the audited outcome as at 30 June 2022 was R501.3 billion against the adjusted budget of R522.5 billion or 95.9 per cent of the 2021/22 adjusted budget.
115. The province which overperformed is North West with 190.8 per cent or R50.2 billion revenue over the adjusted budget of R26.3 billion. The other provinces that exceeded 100 per cent of their adjusted budget were Kwazulu-Natal (116.5 per cent), Limpopo (101.0 per cent), and Mpumalanga (105.4 per cent).
116. The other provinces performed below 97 per cent. The worst underperformed province was Gauteng with the revenue of R128.2 billion or 70.3 per cent of the adjusted budget of R182.2 billion. This implies that the province underbilled the residence by R54.1 billion because of many factors including the change in consumption by the consumers.
117. Table 7b below shows the number of municipalities that have over or under performed on their total adjusted revenue budgets for the 2021/22 financial year. As explained in the expenditure tables above.

Table 7b: OVER AND UNDER COLLECTION OF TOTAL BUDGET FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient Information
		More than 15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
Summary per Province										
Eastern Cape	EC	4	0	2	0	5	7	4	17	0
Free State	FS	1	1	1	0	3	2	6	9	0
Gauteng	GT	0	0	1	1	4	1	0	4	0
Kwazulu-Natal	KZ	24	3	2	2	10	5	4	4	0
Limpopo	LP	3	0	0	3	4	4	3	10	0
Mpumalanga	MP	1	0	1	1	2	5	4	6	0
North West	NW	3	1	0	1	5	3	4	5	0
Northern Cape	NC	1	1	0	2	4	5	7	11	0
Western Cape	WC	1	0	2	3	10	7	4	3	0
Total		38	6	9	13	47	39	36	69	0

Source: National Treasury Local Government Database and Reporting System

118. Thirteen of the two hundred and fifty-seven municipalities managed to generate more revenue against the budget within a target of between 0 and 5 per cent while forty-seven municipalities have performed within a target of between 0 and 5 per cent of the total billed revenue.
119. The provinces which performed between zero (0) and 5 per cent were Limpopo and Western Cape with 3 municipalities each. Limpopo and Western Cape have twenty-seven and thirty municipalities in total each.
120. It is disappointing to note that none of the municipalities in Eastern Cape and Free State achieved a target of 5 per cent variance.
121. The municipalities which underperformed within the range of zero (0) and 5 per cent were found in Kwazulu-Natal and Western Cape with 10 municipalities each. Kwazulu-Natal has 54 municipalities while Western Cape has thirty municipalities in total. Thus, at least 18.5 per cent of municipalities in Kwazulu-Natal underperformed within the target variance of zero (0) and 5 per cent while Western Cape was 33.3 per cent of the municipalities.
122. A total of thirty-eight municipalities out of two hundred and fifty-seven municipalities overperformed by more than 15 per cent. Six (6) were performed within the range of 10 and 15 per cent and nine (9) were between 5 and 10 per cent, respectively.
123. Kwazulu-Natal had the most municipalities (twenty-nine) that exceeded their revenue targets by more than 15 per cent, followed by Free-State with 4 municipalities. Kwazulu-Natal municipalities (3) overperformed by between 10 and 15 per cent, followed by Free State, North West, and Northern Cape with 1 municipality each. Eastern Cape, Western Cape and Kwazulu-Natal have most municipalities that overspent by between 5 and 10 per with 3 municipalities each. The poorly performed province is Kwazulu-Natal with 63.2 per cent of all municipalities that are found in that province and have overspent by over 15 per cent. Gauteng had no municipality that overbilled by over 15 over cent which is commendable.
124. Eastern Cape had the most municipalities (17) that underperformed by more than 15 per cent, followed by Limpopo with 10 municipalities. Northern Cape (7) had the most municipalities that underperformed between 10 and 15 per cent, followed by Free State with 6 municipalities. Western Cape and Eastern Cape had the most municipalities that overperformed between 5 and 10 per cent with 7 municipalities.

125. The province that underperformed with more than 15 per cent on the aggregated revenue budgets was Eastern Cape. On the other hand, Western Cape had the least municipalities with 3 out of 30.
126. Aggregate underperformance on total revenue is seen negatively if it is due to operational inefficiencies throughout the revenue value chain. Additionally, underperformance because of poor budgeting (unrealistic projections) is a cause for concern. This underperformance generally affects the municipality's performance because unbilled revenue cannot be collected, leading to potential shortfalls that affect both the committed expenditure and service delivery.

Revenue Performance: Operational Budget

127. Table 8a below depicts the operating revenues for the financial year 2021/22 per province. The main appropriation of the operating revenue was R447.6 billion for the 2021/22 financial year and during the adjusted budget process, almost R8.0 billion was added which resulted in the adjusted budget of R455.6 billion.
128. The provinces that significantly increased their operating revenues were Eastern Cape by R1.5 billion, Gauteng by R1.9 billion and Western Cape by R3.5 billion, respectively.
129. Free State reduced its budget by (R164.4 million), Mpumalanga by (R188.8 million), and Limpopo by (R199.7 million), from their main appropriations during the adjustments budget process which resulted to a reduction of R553.0 million in aggregate. The net increases and decreases by all provinces amounted to R8.0 billion as shown in the table below.
130. The aggregate revenue generated was reported as R398.1 billion against the adjusted budget of R455.6 billion or 87.4 per cent as at 30 June 2022.
131. The provinces which overperformed were Western Cape and Limpopo with 100.8 per cent or R74.4 billion billed over the adjusted budget of R73.8 billion and 100.1 per cent or R22.2 billion billed over the adjusted budget of R22.2 billion.
132. The other provinces (Eastern Cape and KwaZulu Natal) underperformed with 97.5 per cent and 97.4 per cent, respectively. The worst underperformed province was Gauteng with 70.2 per cent, which generated R117.2 billion of the adjusted budget of R166.9 billion. This implies that municipalities in Gauteng underperformed by R49.8 billion or 29.8 per cent.

Table 8a: AGGREGATED BUDGETS OF OPERATING REVENUE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main appropriation	Adjusted Budget	Audited Outcome: 30 June 2022	Total Revenue as % of main appropriation	Total Revenue as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
Summary per Province										
Eastern Cape	EC	39 038 920	40 574 090	39 556 289	101,3%	97,5%	(801 977)	1 819 778	(2,0%)	4,5%
Free State	FS	21 455 824	21 291 394	18 915 125	88,2%	88,8%	(85 430)	2 461 699	(0,4%)	11,6%
Gauteng	GT	165 010 203	166 943 886	117 167 815	71,0%	70,2%	(234 102)	50 010 173	(0,1%)	30,0%
Kwazulu-Natal	KZ	77 139 752	77 551 347	75 549 488	97,9%	97,4%	(335 487)	2 337 345	(0,4%)	3,0%
Limpopo	LP	22 390 510	22 201 670	22 223 795	99,3%	100,1%	(1 139 491)	1 117 365	(5,1%)	5,0%
Mpumalanga	MP	22 435 215	22 235 513	21 178 474	94,4%	95,2%	(218 634)	1 275 673	(1,0%)	5,7%
North West	NW	21 373 903	22 362 151	21 405 050	100,1%	95,7%	(213 930)	1 171 030	(1,0%)	5,2%
Northern Cape	NC	8 471 460	8 648 867	7 701 700	90,9%	89,0%	(23 306)	970 473	(0,3%)	11,2%
Western Cape	WC	70 302 917	73 790 511	74 401 614	105,8%	100,8%	(1 399 109)	788 006	(1,9%)	1,1%
Total National		447 618 703	455 599 429	398 099 350	88,9%	87,4%	(4 451 465)	61 951 544	(1,0%)	13,6%
Net								57 500 079		

Source: National Treasury Local Government Database and Reporting System

133. Table 8b below shows the number of municipalities that have over or under performed on their operating adjusted revenue budgets for the 2021/22 financial year.

Table 8b: OVER AND UNDER COLLECTION OF OPERATING BUDGET FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient Information
		More than -15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
Summary per Province										
Eastern Cape	EC	2	0	1	6	10	6	5	9	0
Free State	FS	2	0	2	2	5	4	2	6	0
Gauteng	GT	0	0	0	3	3	2	0	3	0
Kwazulu-Natal	KZ	0	0	3	18	13	13	4	3	0
Limpopo	LP	2	1	0	3	8	6	5	2	0
Mpumalanga	MP	0	1	4	0	9	3	2	1	0
North West	NW	1	0	1	7	5	4	2	2	0
Northern Cape	NC	1	0	1	3	6	5	7	8	0
Western Cape	WC	1	1	0	13	7	4	2	2	0
Total		9	3	12	55	66	47	29	36	0

Source: National Treasury Local Government Database and Reporting System

134. In total fifty-five municipalities against two hundred and fifty-seven municipalities overperformed in the region of 0 and 5 per cent against the budget while sixty-six municipalities underperformed within the same range.
135. The municipalities which performed within the range of zero (0) and 5 per cent were found in Kwazulu-Natal and Eastern Cape with thirteen and ten municipalities, respectively. Kwazulu-Natal and Western Cape has fifty-four and thirty municipalities in total each.
136. It is disappointing to note that none of the Mpumalanga municipalities achieved a target of 5 per cent variance.
137. The municipalities which underperformed between zero (0) and 5 per cent were seen in Kwazulu-Natal and Eastern Cape with thirteen and ten municipalities, respectively. Kwazulu-Natal has fifty-four municipalities while Eastern Cape has thirty-nine municipalities in total. Thus, at least 24.1 per cent of municipalities in Kwazulu-Natal underperformed within the target variance of zero (0) and 5 per cent while Eastern Cape was 25.6 per cent of the municipalities.
138. A total of nine municipalities out of two hundred and fifty-seven municipalities overperformed by more than 15 per cent; 3 were between 10 and 15 per cent; and 12 were between 5 and 10 per cent, respectively. These municipalities were seen in Limpopo, Free State and Eastern Cape with 2 municipalities each. Eastern Cape, Limpopo and Free state have thirty-nine, twenty-seven, and twenty-three municipalities, respectively.
139. Kwazulu-Natal, Gauteng, and Mpumalanga had no municipalities which overperformance of more than 15 per cent. Limpopo, Mpumalanga, and Western cape had one municipality each that overperformed by between 5 and 10 percent.
140. Municipalities that overperformed by generating revenue of more than 15 per cent of the budget were mainly found in Limpopo, Free State and Eastern Cape with 2 municipalities each. It is commendable to note that Gauteng, Mpumalanga, and Kwazulu-Natal had no municipality in this category.
141. The poorly performed provinces on operating billed revenue with more than 15 per cent variance were Eastern Cape with 9 municipalities and Northern Cape with 8 municipalities.
142. Amongst the factors that contributes to revenue management inefficiencies in municipalities, the most common are:
- Over-ambitious revenue estimates – there is a tendency for municipal councils to inflate revenue projections to produce a surplus budget. In most cases, these

revenue estimates are inconsistent with the economic realities prevailing in these municipalities;

- b) Weak management of the overall revenue value chain – including the setting of tariffs for trading services and administering the property transfer processes accordingly, implementation of the valuation roll, billing of all the residents and delivery of invoices to the right customers;
- c) Poor implementation of debt collection and credit control policies – municipalities have adopted stringent measures over their debtors, but it is in with the implementation of those policies that most municipalities consistently fail. As a result, outstanding consumer debtors are escalating at an alarming rate;
- d) Illegal electricity connections – municipalities are losing significant amounts of revenue through electricity theft and tampering of electricity meters;
- e) Distribution losses due to ageing infrastructure – many municipalities are experiencing losses in water and electricity due to the age and condition of infrastructure assets. These municipalities persistently under budget for the repairs and maintenance and renewal of existing infrastructure; and
- f) Weaknesses in the implementation of indigent policies – municipalities are not paying adequate attention to properly profiling indigent households. This has resulted in the provision of free basic services to beneficiaries that are not entitled to benefit. A further contributory factor to poor municipal revenues is the provision of free basic services more than the National Government Policy guidelines, namely, 6 kl of water and 50kw/h of electricity per households per month.

Under collection of revenue versus the debtors' book

143. As shown in table 9 below, total debtors as at 30 June 2022 amounted to R255.4 billion which is escalating year-on-year.

Table 9: Debtors Age Analysis as at 30 June 2022

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total		Actual Bad Debts Written Off to		Impairment -Bad Debts ito Council	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Debtors Age Analysis By Income Source														
Trade and Other Receivables from Exchange Transactions - Water	4 332 759	5,3%	2 463 471	3,0%	2 502 435	3,1%	72 025 757	88,6%	81 324 422	31,8%	2 088 416	2,6%	55 269 942	68,0%
Trade and Other Receivables from Exchange Transactions - Electricity	6 647 252	23,8%	1 277 188	4,6%	1 289 915	4,6%	18 735 559	67,0%	27 949 914	10,9%	506 607	1,8%	16 831 956	60,2%
Receivables from Non-exchange Transactions - Property Rates	4 559 559	9,1%	1 518 780	3,0%	1 698 390	3,4%	42 366 540	84,5%	50 143 268	19,6%	873 979	1,7%	41 270 798	82,3%
Receivables from Exchange Transactions - Waste Water Management	1 585 858	6,0%	783 770	3,0%	815 787	3,1%	23 178 419	87,9%	26 363 835	10,3%	550 409	2,1%	14 883 123	56,5%
Receivables from Exchange Transactions - Waste Management	1 157 978	5,3%	494 141	2,3%	557 768	2,6%	19 615 500	89,9%	21 825 387	8,5%	(554 519)	(2,5%)	10 938 824	50,1%
Receivables from Exchange Transactions - Property Rental Debtors	73 620	2,3%	48 352	1,5%	55 187	1,7%	2 982 569	88,1%	3 159 729	1,2%	(143 984)	(4,6%)	1 287 144	40,7%
Interest on Arrear Debtor Accounts	954 238	3,3%	559 934	1,9%	804 171	2,8%	26 713 339	92,0%	29 031 681	11,4%	847 316	2,9%	15 683 880	54,0%
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	249	1,1%	147	0,6%	141	0,6%	22 356	97,7%	22 893	0,0%	-	-	-	-
Other	973 536	6,2%	478 786	3,1%	534 380	3,4%	13 641 911	87,3%	15 628 612	6,1%	(2 896 227)	(18,5%)	7 471 838	47,8%
Total	20 285 048	7,9%	7 624 568	3,0%	8 258 174	3,2%	219 281 950	85,8%	255 449 740	100,0%	1 271 998	0,5%	163 637 505	64,1%
Debtors Age Analysis By Customer Group														
Organs of State	1 532 868	9,0%	520 981	3,1%	737 373	4,3%	14 285 120	83,7%	17 076 343	6,7%	315 255	1,8%	4 527 115	26,5%
Commercial	8 221 118	16,1%	1 993 228	3,9%	1 842 415	3,6%	38 998 447	76,4%	51 055 208	20,0%	(1 412 756)	(2,8%)	23 767 221	46,6%
Households	10 240 749	5,6%	5 064 425	2,8%	5 516 330	3,0%	161 023 561	88,5%	181 845 065	71,2%	2 351 882	1,3%	133 765 262	73,6%
Other	290 314	5,3%	45 933	0,8%	162 056	3,0%	4 974 821	90,9%	5 473 124	2,1%	17 617	0,3%	1 577 906	28,8%
Total	20 285 048	7,9%	7 624 568	3,0%	8 258 174	3,2%	219 281 950	85,8%	255 449 740	100,0%	1 271 998	0,5%	163 637 505	64,1%
Per Province														
Eastern Cape	2 261 932	9,1%	941 507	3,8%	903 690	3,6%	20 711 300	83,5%	24 818 429	9,7%	348 513	1,4%	62 076 637	250,1%
Free State	1 457 743	5,3%	571 087	2,1%	1 600 190	5,8%	24 011 426	86,9%	27 640 445	10,8%	174 629	0,6%	10 303 230	37,3%
Gauteng	6 228 762	7,5%	3 121 671	3,7%	2 650 969	3,2%	71 400 994	85,6%	83 402 396	32,6%	548 385	0,7%	35 583 433	42,7%
Kwazulu-Natal	3 313 741	9,3%	1 149 004	3,2%	1 096 989	3,1%	30 110 198	84,4%	35 669 932	14,0%	42 315	0,1%	58 068 779	162,8%
Limpopo	865 415	6,1%	344 822	2,4%	359 291	2,5%	12 528 603	88,9%	14 098 131	5,5%	105 676	0,7%	(3 300 335)	(23,4%)
Mpumalanga	1 010 431	5,1%	383 344	1,9%	399 807	2,0%	18 039 419	91,0%	19 833 002	7,8%	865	0,0%	-	-
North West	1 516 675	5,3%	391 102	1,4%	612 154	2,1%	26 198 741	91,2%	28 718 672	11,2%	9 955	0,0%	-	-
Northern Cape	475 971	5,5%	198 525	2,3%	299 521	3,5%	7 629 041	88,7%	8 603 058	3,4%	(1 977)	(0,0%)	905 762	10,5%
Western Cape	3 154 377	24,9%	523 505	4,1%	335 563	2,6%	8 652 228	68,3%	12 665 674	5,0%	43 637	0,3%	-	-
Total	20 285 048	7,9%	7 624 568	3,0%	8 258 174	3,2%	219 281 950	85,8%	255 449 740	100,0%	1 271 998	0,5%	163 637 505	64,1%

Source: National Treasury Local Government Database and Reporting System

144. The biggest contributor to the total debt of R255.4 was water at R81.3 billion or 31.8 per cent of the total debt amount of R255.4 billion, followed by property rates accounts at R50.1 billion or 19.6 per cent and electricity accounts at R27.9 billion or 10.9 per cent. It is interesting to observe that interest on arrear accounts exceeded debt owed for electricity, refuse and sanitation services, totaling R29.0 billion or 11.4 per cent, which explains that municipal accounts are not paid regularly by consumers of the services.
145. The debtors by customers group indicates that households contributed R181.8 billion or 71.2 per cent of the total outstanding debt, followed by commercial which accounts for R51.1 billion or 20.0 per cent, while organs of state stood at R17.1 billion or 6.7 per cent.
146. The biggest contributing provinces to the outstanding debtors accounts were Gauteng at R83.4 billion or 32.6 per cent, KwaZulu-Natal reported at R35.7 billion or 14.0 per cent and North West amounting to R28.7 billion or 11.2 per cent. The Northern Cape had the lowest outstanding debtors accounts at R8.6 billion or 3.4 per cent.
147. The biggest risk to financial stability and debtor's accounts collectability is that, in most provinces, 85.8 per cent or R219.3 billion of the outstanding debtors accounts are over 90 days' period. This significantly reduces the level of probability for being collected in the short term.

148. Many municipalities do not adequately provide for debt impairment and end up sitting with high uncollectable revenues and large debtors' books. Municipalities have contracted debt collection agencies to assist with collecting the arrear accounts, however, the efficacy of outsourcing is not always realised.
149. The under collection of billed revenue has a direct effect on the cash position of municipalities considering that expenditure projections are based on the level of projected billed revenue instead of actual revenue collection. The time lagging between when the actual consumers pay their accounts and when the municipality pays its creditors creates a cash flow challenges because of the timing differences.
150. Failure to properly implement correct billing results in disputes between consumers and the municipality in respect of the monthly invoice and statements due to errors, miscalculations, and inaccurate billing because of no actual meter readings. This causes delays in the payment of current accounts while the arrear accounts are increasing. There has been some progress in this situation where most municipalities have conducted data cleansing processes to ensure that general valuation rolls correctly reconcile with the information on the billing systems, allowing consumers to receive the accurate accounts.
151. Among the factors contributing to non-payment of services, include unaffordability of electricity services as tariff increases are financially challenging for most consumers to pay their full current accounts. The above-inflation hikes determined by NERSA pose a major challenge for municipalities in ensuring that electricity increases are within the affordable levels. In addition, faulty meter readings and incorrect consumer information also contribute to incorrect billing.
152. There is a slow up-take by disadvantaged consumers to register as indigent customers which ends up contributing to an increase in bad debtors. This places the burden on municipalities to bill these consumers as those that are affording municipal services only to find out that these customers are actual meeting the criteria to be supported through the social package policies.
153. Certain municipalities have categorised their accounts and targeting high value consumers for business, residential, municipal staff, councilors, and government departments to pay their accounts promptly. The use of technology has made it much easier for consumers to interact with their municipalities regarding the accounts.
154. When municipalities can bill revenues, implement measures in place to collected monies owed and generate necessary cash inflows it becomes viable to invest into capital projects.
155. Table 9a below depicts the aggregated capital revenue budgeted and the actual realised per province.

Table 9a: AGGREGATED BUDGETS OF CAPITAL REVENUE FOR THE 4th Quarter Ended 30 June 2022

R thousands	Code	Main appropriation	Adjusted Budget	Audited Outcome: 30 June 2022	Total Revenue as % of main appropriation	Total Revenue as % of adjusted budget	(Over)	Under	(Over) as % of adjusted budget	Under as % of adjusted budget
Summary per Province										
Eastern Cape	EC	8 924 215	9 007 701	8 037 282	90,1%	89,2%	(2 434 465)	3 404 884	(27,0%)	37,8%
Free State	FS	3 182 774	3 232 312	3 586 710	112,7%	111,0%	(1 517 042)	1 162 645	(46,9%)	36,0%
Gauteng	GT	17 483 753	15 297 954	10 998 338	62,9%	71,9%	(262 217)	4 561 833	(1,7%)	29,8%
Kwazulu-Natal	KZ	12 053 278	12 823 994	29 710 534	246,5%	231,7%	(19 529 328)	2 642 789	(152,3%)	20,6%
Limpopo	LP	6 243 631	6 386 507	6 636 894	106,3%	103,9%	(2 113 262)	1 862 876	(33,1%)	29,2%
Mpumalanga	MP	4 499 127	5 013 568	7 542 474	167,6%	150,4%	(4 836 437)	2 307 532	(96,5%)	46,0%
North West	NW	3 486 189	3 963 350	28 822 089	826,8%	727,2%	(25 817 887)	959 149	(651,4%)	24,2%
Northern Cape	NC	1 365 725	1 599 138	1 416 857	103,7%	88,6%	(278 920)	461 201	(17,4%)	28,8%
Western Cape	WC	11 619 848	9 578 123	6 435 956	55,4%	67,2%	(299 968)	3 442 136	(3,1%)	35,9%
Total National		68 858 541	66 902 648	103 187 132	149,9%	154,2%	(57 089 528)	20 805 044	(85,3%)	31,1%
							Net	(36 284 484)		

Source: National Treasury Local Government Database and Reporting System

156. The main appropriation of the capital revenue was R68.9 billion for the 2021/22 financial year and during the adjusted budget process the budgets were decreased by R1.9 billion which resulted in the adjusted budget of R66.9 billion.
157. The provinces that significantly decreased their capital revenues were Gauteng by R2.2 billion and Western Cape by R2.0 billion.
158. The other provinces increased their capital revenues by between R49.5 million and R770.7 million. The performance as at 30 June 2022 was reported as R103.2 billion or 152.2 per cent against the adjusted budget of R66.9 billion.
159. The provinces which overperformed were Kwazulu-Natal and North West with R29.7 billion or 231.7 per cent or actual against the adjusted budget of R12.8 billion and R28.8 billion or 727.2 per cent actual against the adjusted budget of R4.0 billion.
160. The actual performance reported by Mpumalanga province is inaccurate and unreliable because of few municipalities. Bushbuckridge incorrectly reported capital revenue of 739.9 per cent against their total adjustments budget provision. On the other hand, Emakhazeni and Thembisile Hani reported negative amounts.
161. The worst underperformed province was Western Cape with 67.2 per cent or R6.4 billion against the adjusted budget of R9.6 billion. This implies that the province did not realise 32.8 per cent of the capital budget as adjusted.
162. The net overperformance on the capital revenue budget amounted to R36.3 billion, however the numbers provided may be incorrect based on the *m*SCOA data strings submitted by municipalities.

Table 9b: OVER AND UNDER COLLECTION OF CAPITAL BUDGET FOR THE 4th Quarter Ended 30 June 2022

Count	Code	(Over)			Target		Under			Insufficient Information
		More than -15%	Between -15% and -10%	Between -5% and -10%	Between 0% and -5%	Between 0% and 5%	Between 5% and 10%	Between 15% and 10%	More than 15%	
Summary per Province										
Eastern Cape	EC	7	1	0	0	1	0	1	29	0
Free State	FS	3	0	0	0	0	1	1	17	1
Gauteng	GT	1	0	0	0	1	3	0	6	0
Kwazulu-Natal	KZ	31	0	1	0	1	1	7	13	0
Limpopo	LP	4	1	0	1	0	1	2	18	0
Mpumalanga	MP	1	1	1	0	1	0	1	14	1
North West	NW	7	0	1	0	0	0	3	11	0
Northern Cape	NC	3	1	0	0	3	1	2	21	0
Western Cape	WC	2	0	1	0	1	6	1	19	0
Total		59	4	4	1	8	13	18	148	2

Source: National Treasury Local Government Database and Reporting System

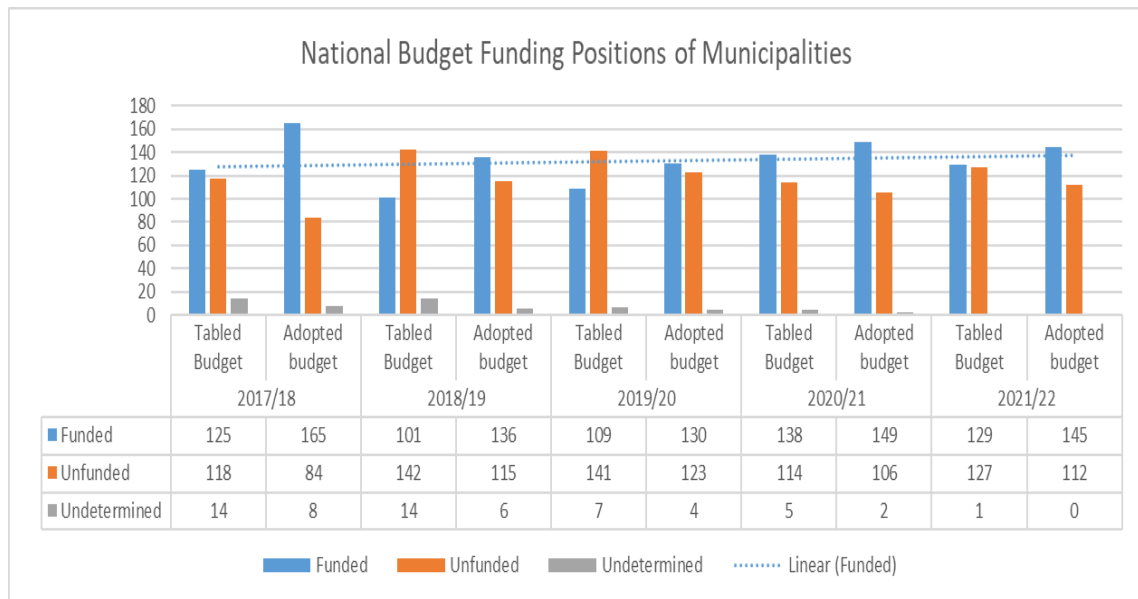
163. Only one municipality in Limpopo overperformed against the capital budget within the range of between 0 and 5 per cent while 8 municipalities underperformed within the same range.
164. It is disappointing that none of the municipalities in the other provinces achieved the capital revenue within the 5 per cent variance.
165. A total of 59 municipalities realised capital revenue of more than 15 per cent; 4 were between 10 and 15 per cent; and another 4 were between 5 and 10 per cent, respectively. The municipalities which realised a capital revenue above 15 per cent were in Kwazulu-Natal and North Wes with 7 municipalities each, and Eastern Cape with thirty-one.
166. The provinces which performed unsatisfactorily on capital revenue by more than 15 per cent are Eastern Cape with twenty-nine municipalities and Northern Cape with twenty-one municipalities.

Failures by municipalities which contribute to underperformance of both operational and capital budget

167. Most municipalities in the country continue to table and adopt the unfunded budgets, this practice is against section 18 of the MFMA. This approach has serious financial consequences for municipalities and poses a risk of financial sustainability.
168. A further consequence of unfunded budgets is the inability to pay creditors within the allocated timeframe of 30 days as per the MFMA. There are municipalities that delay payments of creditors, especially Eskom and Water Boards to report favorable cash positions at the end of the financial year to comply with section 65 of the MFMA.
169. Municipalities that adopted unfunded budgets in the 2021/22 financial year, failed to adequately implement cost containment measures to improve the adjusted budget position. Additionally, in some cases, certain municipalities increased their operating expenditures in the adjustment budgets without improving in the revenue to cover these additional spending responsibilities.
170. There is a reluctance by the municipal councils to implement National and Provincial Treasuries recommendations provided at the budget benchmark engagements. Furthermore, these municipalities fail to develop funding plans outlining how the budget shortfalls will be addressed over the financial year.
171. Coalition governments in many councils make it difficult to achieve a stable governance at the municipalities. In most cases there is lack of interface between the administrative leadership and the executive councils, resulting in the erosion of fiscal discipline, breakdown in processes, and the circumvention of procedures in many municipalities.
172. The governance breakdown between the council and administration, results in the failure of municipalities to render services to communities. This causes a vicious cycle of service delivery uprisings and vandalism of municipal infrastructure. Consequentially, this infrastructure must be replaced in the future at higher costs borne by rate payers and consumers.

National Treasury's responses to improve municipal performance

173. The National Treasury in collaboration with provincial treasuries and sector departments have introduced various reforms to address the financial sustainability challenges in local government.
174. The Budget Council in 2017 acknowledged that there was a need for provincial treasuries to report quarterly on the implementation of the province specific strategies and progress made against each of the identified game changers viz. funded budgets, revenue management, supply chain management, asset management, *m*SCOA and audit outcomes. There has been an improvement since the adoption of the six game changers in the performance of most municipalities.
175. **Revenue Management** – the actual performance indicates that the debt owed to Eskom contributes R27.9 billion of 10.9 per cent of the total debtors' book. National Treasury introduced the debt relief programme in March 2023 to assist the municipalities with the Eskom arrear debt. Furthermore, this programme is intended to improve the Eskom's balance sheet and facilitates the proposal that Eskom writes off the municipal debt under strict conditions. This will bring about critical changes in the energy sector and simultaneously address a behavioural change in the municipal defaulters by requiring them to meet certain conditions and in return (as an incentive) relieve their gridlocked financial crisis of historic arrear Eskom debt.
176. **Funded budget** – to address the issues related to unfunded budgets, National Treasury issued MFMA budget Circulars No. 74 and 89 which continued to highlight the importance of tabling funded budgets. The NT institutionalised a comprehensive analysis on the tabled budgets of municipalities which happens from April each year. This assessment aims to identify possible financial risks and to provide guidance to municipalities on how to address specific challenges.
177. In addition to the annual budget circulars, every year the National Treasury enhanced the Budget Assessment Methodology and Funding Assessment Tool to provide a consistent and reliable assessment methodology across national and provincial treasuries to determine whether municipal budgets are credible and sustainable in terms of Section 18 of the MFMA.
178. Municipalities that are failing to produce funded budgets in a particular financial year are advised to submit a plan of action on how to improve from unfunded to a funded position.
179. Even though there are tools in place to assist municipalities, the graph (figure 1 below) shows that municipalities adopting funded budgets have increased from 130 in 2019/20 to 145 in 2021/22 financial year.
180. Of a concern is that municipalities adopt numbers that reflects a funded budget, however the reality at year end depicts an unfunded budget as flagged by audited operation deficits, accrued creditors and high level of commitments.



181. The unfunded budgets have decreased from 118 in 2017/18 financial year to 112 in the 2021/22 financial year, however most municipalities are classified as dysfunctional and are assessed to be in a financial crisis.
182. It is acknowledged that provincial and national interventions implemented in the previous financial years in terms of section 139 of the Constitution have not necessarily yielded the desired outcomes. This is an area that the National/Provincial Treasury as well as the National and Provincial CoGTA are actively collaborating to improve.
183. In 2021, the National Treasury undertook an assessment which revealed that 43 municipalities are in a financial and service delivery distress. These identified municipalities continued to receive the support and attention from the provincial and national government to improve the financial situation.
184. On the other hand, the Municipal Financial Recovery Services Unit at the National Treasury assists municipalities placed under intervention by preparing the financial recovery plans and overseeing the implementation thereof.
185. Key issues emerging from all these municipalities manifest themselves as financial failure, however, the observations reflect that there is interlinkages between the four pillars and the associated evident financial failures.
186. The National Treasury conducted councilor induction session for thirty-one of the forty-three municipalities identified to be in financial and service delivery crisis.
 - The Minister of finance recommended the specific mode of interventions in line with relevant provision of Section 139 of the Constitution.

Municipal Standard Charts of Accounts (mSCOA)

187. Since the implementation of the reform in 2017, there has been varying degree of credibility and accuracy of data from municipalities. Although mSCOA was introduced to improve accountability, transparency, and financial governance in local government, certain municipalities have not fully institutionalised the reform due to various reasons".

188. The mSCOA reform brought a standard classification system into operation to link the planning (IDP) and budget implementation process. The purpose is to protect the planning of service delivery outputs against the budget allocated for that purpose and prevent leakage out of the system.
189. The implementation faced various challenges across municipalities. Some of these challenges included capacity constraints, financial limitations, information communication technology (ICT) systems limitations, which prevented the full implementation of all the mSCOA modules.
190. By now, all municipalities must upload their annual MTREF tabled budget (TABB), adopted budget (ORGB), as well as the monthly actual data strings to the database in line with the mSCOA regulation.
191. The status of the segment validation of financial data uploaded for the 2022 financial year indicates that not all provinces achieved a 100 per cent of successfully uploaded data strings to the database portal. The average achieved was an improvement from previous financial years at 95.7 per cent as shown below.

MSCOA - Summary - Invalid use of segments for Adjusted Budget

		SUBMISSIONCODE							
		ADJB							
Financial Year	Province	Province Code	Phase 2 Segment Correct	Phase 2 Segment Errors	Phase 1 Submission Errors	Phase 1 Outstanding	N/A	Total	Segment Correct %
2022	EASTERN CAPE	EC	39	0	0	0	0	39	100,00%
	FREE STATE	FS	23	0	0	0	0	23	100,00%
	GAUTENG	GT	9	2	0	0	0	11	81,82%
	KWAZULU-NATAL	KZ	53	1	0	0	0	54	98,15%
	LIMPOPO	LP	27	0	0	0	0	27	100,00%
	MPUMALANGA	MP	20	0	0	0	0	20	100,00%
	NORTH WEST	NW	21	1	0	0	0	22	95,45%
	NORTHERN CAPE	NC	28	1	0	0	0	29	96,55%
	WESTERN CAPE	WC	24	6	0	0	0	30	80,00%
Total 2022			244	11	0	0	0	255	95,69%

MSCOA - Summary - Invalid use of segments for Adjusted Budget

Green = correct (Phase 2), Yellow = Segment errors (Phase 2), Orange = Submitted with Error (Phase 1), Red = Outstanding, Blank = N/A

Projected months on the budget forms are temporarily not validated on (Charges and Recoveries Balance) and (Trial Balance) errors

192. There are still challenges experienced with the inconsistent information between the mSCOA data strings, the tabled budget, and the adopted budget. Some municipalities resort to manual generation of data strings in Excel spreadsheets and upload these schedules onto the financial system, further exacerbating these discrepancies.
193. The National Treasury convene National mSCOA meetings with various stakeholders to address these challenges to better support all 257 municipalities by ensuring proper and accurate reporting.

CONCLUSION:

194. In view of the contents of this report, it is apparent that municipalities are still performing inadequately in line with the budget projections on both expenditures and revenues as evident by the fact that most municipalities variance between the actual and the adjusted budget is more than 15 per cent of the budget allocations.
195. The performance of the adjusted capital budget is a concern in that 141 out of the 257 municipalities in aggregate underspent their capital budget by more than 15 per cent. This means 54.9 per cent of municipalities were unable to meet their capital investments targets, and consequently negatively impacted service delivery.

196. The key concern is that poor performance on revenue impacts on the already committed operational and capital expenditure. Failure to realise revenue results in deficits that are carried over to the next financial year and consequently depletes the resources of the subsequent financial year. For example, accrued expenditure from the financial year 2021/22 will have to be financed by the revenue of 2022/23. However, this approach is not conducive to sustaining a funded budget in the long term.
197. The continuing increase of consumer debtors accounts in the category of over 90 days is a concern as the bulk of the outstanding amounts might not be collectable over time. Various municipalities provide different reasons for the under-collection of revenue, but it could stem from municipal failures in the implementation of creditors and debtors control policies and the prevailing culture of non-payment in communities.
198. The prevailing recessionary economic conditions increased the number of consumers that are financially distressed and failing to pay the full municipal accounts regularly.
199. The number of municipalities under provincial and national intervention is concerning. The national government needs to explore alternative strategies and approaches to effectively aid and support the recovery of these municipalities.