



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

LOCAL GOVERNMENT REVENUE AND EXPENDITURE: FOURTH QUARTER LOCAL GOVERNMENT SECTION 71 REPORT (PRELIMINARY RESULTS)

FOR THE PERIOD: 1 JULY 2019 – 30 JUNE 2020

National Treasury has released the local government revenue and expenditure report for the fourth quarter of the 2019/20 financial year. This report covers the performance against the adjusted budgets of local government for the fourth quarter of the municipal financial year ending on 30 June 2020 and includes spending against conditional grant allocations for the same period.

Noteworthy, is that this is the first municipal financial year that the report is prepared by using the figures from the Municipal Standard Chart of Account (*mSCOA*) data strings. The *mSCOA* Regulations were promulgated on 22 April 2014 and prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 01 July 2017. The *mSCOA* Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six *mSCOA* regulated segments.

The report is part of the *In-year Management, Monitoring and Reporting System for Local Government (IYM)*, which enables provincial and national government to exercise oversight over municipalities and identify possible problems in implementing municipal budgets and conditional grants.

The credibility of the information contained in the *mSCOA* data strings is still a concern. At the core of the problem is:

- The incorrect use of the *mSCOA* and municipal accounting practices by municipalities;
- A large number of municipalities are not budgeting, transacting and reporting directly in or from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data lead to unauthorised, irregular, fruitless and wasteful (UIFW) expenditure and fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions go through that should not;
- These Municipalities are not locking their adopted budgets and monthly reporting periods on their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2020/21, the Local Government Portal will be locked at the end of each quarter. System vendors were also requested to build this functionality into their municipal financial systems.

The actual COVID-19 expenditure reported by municipalities for the last three months of the 2019/20 municipal financial year is included as a separate Annexure to this publication.

The Section 71 report facilitates transparency, better in-year management as well as the oversight of budgets. This makes these reports management tools and early warning

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mechanisms for councils, provincial legislatures and officials in order to monitor and improve municipal performance. The improvement of the credibility of the data strings is therefore a priority for national and provincial treasuries.

KEY TRENDS:

Aggregate trends

1. In aggregate, municipalities spent 79.9 per cent or R384.3 billion of the total adjusted expenditure budget of R481.2 billion as at 30 June 2020 (fourth quarter results for the 2019/20 financial year). In respect of revenue, aggregate billing and other revenue amounted to 88.8 per cent or R427.5 billion of the total adjusted revenue budget of R481.4 billion.
2. Of the adjusted operating expenditure budget amounting to R412.4 billion, R343 billion or 83.2 per cent was spent by 30 June 2020.
3. Municipalities have adjusted downwards the budget for salaries and wages expenditure to R123.5 billion. This constitutes 30 per cent of their total adjusted operational expenditure budget of R412.4 billion. At 30 June 2020, spending is 88.5 per cent, or R109.4 billion.
4. In the period under review, capital expenditure amounted to R41.2 billion, or 59.9 per cent, of the adjusted capital budget of R68.8 billion.
5. Aggregated year-to-date total expenditure for metros amounts to R234 billion or 84.4 per cent, of their adjusted expenditure budget of R277.3 billion. The aggregated adjusted capital budget for metros in the 2019/20 financial year is R31 billion, of which 45.2 per cent, or R14 billion, has been spent as at 30 June 2020.
6. When billed revenue is measured against their adjusted budgets, the performance of metros reflects a shortfall across water services for the fourth quarter of the 2019/20 financial year. This does not take into account the collection rate:
 - Water revenue billed was R23.3 billion against expenditure of R27.1 billion;
 - Energy sources revenue billed was R76.2 billion against expenditure of R69.8 billion;
 - The revenue billed for waste water management was R7.1 billion against expenditure of R6.8 billion, and
 - Levies for waste management billed were R9.8 billion against expenditure R8.2 billion.
7. As at 30 June 2020, aggregated revenue for secondary cities is 81.9 per cent or R52.7 billion of their total adjusted revenue budget of R64.4 billion for the 2019/20 financial year. The year-to-date operating expenditure level of the secondary cities is 70.5 per cent or R48.7 billion of the total adjusted operating budget of R69.1 billion for the 2019/20 financial year.
8. The performance against the adopted budget for the four core services for the secondary cities for the fourth quarter 2019/20 also shows surpluses against billed revenue without taking into account the collection rate:
 - Water revenue billed was R7.1 billion against expenditure of R6.2 billion;

- Energy sources revenue billed was R18.4 billion against expenditure of R16.6 billion;
 - The revenue billed for waste water management was R2.9 billion against expenditure of R1.6 billion; and
 - Levies for waste management billed were R2.3 billion against expenditure of R2 billion.
9. Capital spending levels for secondary cities are reported at 53.6 per cent or R5.1 billion of the adjusted capital budget of R9.5 billion.
 10. Aggregate municipal consumer debts amounted to R191.5 billion (compared to R181.3 billion reported in the third quarter of 2019/20) as at 30 June 2020. The government agencies accounts for 7.7 per cent or R14.8 billion (R18.1 billion reported in the 2019/20 third quarter) of the total outstanding debtors. The largest component of this debt relates to households and represents 69.9 per cent or R133.9 billion (70.5 per cent or R127.7 billion in the third quarter).
 11. It needs to be acknowledged that not all the outstanding debt of R191.5 billion is realistically collectable, as these amounts are inclusive of debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and other recoveries. This should not be interpreted that the National Treasury by implication suggests that the balance must be written-off by municipalities.
 12. If consumer debt is limited to below 90 days, then the actual realistically collectable amount is estimated at R33.4 billion.
 13. Metropolitan municipalities are owed R102.3 billion (R88.1 billion reported in the third quarter of 2019/20) in outstanding debt as at 30 June 2020. The largest contributors are the City of Johannesburg which is owed the largest amount at R31.1 billion, followed by City of Ekurhuleni at R16.4 billion, City of Tshwane at R16.2 billion and eThekweni at R13.5 billion.
 14. Households in metropolitan areas are reported to account for R71.1 billion or 69.5 per cent of outstanding debt, followed by businesses which account for R24 billion or 23.5 per cent. Debt owed by government agencies is approximately R4.5 billion or 4.4 per cent of the total outstanding debt owed to metros.
 15. For the secondary cities, R35.8 billion (R39.9 billion reported in the third quarter of 2019/20) in outstanding consumer debt. The majority of debt is owed by households amounting to R27.5 billion or 76.8 per cent of the total outstanding debt. An amount of R31.5 billion or 88.2 per cent has been outstanding for more than 90 days.
 16. Municipalities owed their creditors R60 billion as at 30 June 2020, an increase of R10.7 billion when compared to the R49.3 billion reported in the third quarter of 2019/20.
 17. Municipalities in the Free State have the highest outstanding creditors greater than 90 days at R10.4 billion, followed by Mpumalanga at R6.7 billion and Gauteng at R4.6 billion.
 18. The total balance on borrowing for all municipalities equates to R69.8 billion as at 30 June 2020. This includes long term loans of R50.1 billion, long term marketable bonds of R11.7 billion and other long term non-marketable bonds of R7.8 billion. The balance represents other short- and long-term financing instruments.



19. As at 30 June 2020, the total investments made by municipalities equates to R32.4 billion. This is R6.7 billion less than the R39.1 billion reported in the third quarter of 2019/20. Investments includes bank deposits of R27.3 billion, guaranteed endowment policies (sinking funds) of R5 billion, securities from National government of R65 million and other smaller investments.

Over- and underspending

20. A net total underspending of R96.9 billion or 20.1 per cent of municipalities' total adjusted expenditure budgets was reported. Compared to the R54 billion recorded as net total underspending in 2018/19, there has been an increase of R42.9 billion year-on-year but this increase is misrepresented by municipalities that do not submit their required *mSCOA* data strings on time and the fact that many of the submissions do not contain credible data. The over- and underspending can be summarised as follows:

Analysis of Over and Under spending of expenditure for 2016/17 - 2019/20

R thousands	2016/17			2017/18			2018/19			2019/20		
	(Over)	Under	Nett	(Over)	Under	Nett	(Over)	Under	Nett	(Over)	Under	Nett
Total	(1 766 257)	53 093 175	51 326 919	(22 626 540)	66 833 502	44 206 962	(3 843 598)	57 804 639	53 961 040	(8 349 198)	105 267 016	96 917 819
Capital	(1 389 980)	15 828 308	14 438 328	(8 186 799)	20 812 583	12 625 783	(836 236)	18 982 576	18 146 340	(7 608 805)	35 172 148	27 563 343
Operating	(1 482 741)	38 371 331	36 888 591	(15 108 441)	46 689 620	31 581 179	(4 871 939)	40 686 639	35 814 700	(2 767 351)	72 121 826	69 354 475

- Aggregate overspending of the adjusted operating budget – R2.8 billion or 0.7 per cent;
- Aggregate underspending of the adjusted operating budget – R72.1 billion or 17.5 per cent;
- Aggregate overspending of the adjusted capital budget – R7.6 billion or 11.1 per cent;
- Aggregate underspending of the adjusted capital budget – R35.2 billion or 51.1 per cent;

21. Note that the aggregation of the capital and operating budgets into the total budget will result in a different outcome compared to analysing them separately.

Conditional Grants

Conditional Grants Expenditure as at 30 June 2020

22. The fourth quarter publication in terms of section 71 of MFMA provides for the cumulative and aggregate performance spending from the beginning of the financial year against total adjusted allocations in terms of the Division of Revenue Act (DoRA). National Treasury published three national gazettes namely Government Gazette No. 42097, Government Gazette No. 43039 and Government Gazette No.43180 dated 13 December 2019, 21 February 2020 and 30 March 2020 respectively during 2019/20 financial year.

23. At the end of the financial year, National Treasury, in consultation with the national departments administering conditional grants approved CoVID-19 related projects to the value of approximately R3.9 billion between various conditional grants, that is the Neighbourhood Development Partnership Grant, Municipal Infrastructure Grant, Integrated Urban Settlement Development Grant, Public Transport Infrastructure Grant, and Municipal Disaster Relief Fund.

24. With regards to the reprioritized CoVID-19 approved projects of R3.9 billion, various national departments responsible for administering the conditional grants are taking the



lead in monitoring expenditure against the approved projects. Therefore, total expenditure reflected under those conditional grants will include the CoVID-19 related projects.

25. The Transferring Officer's (TO) report expenditure of 68.2 per cent against the total allocation for the period under review, while municipalities reported expenditure of 97.8 per cent against the R32.2 billion transferred to municipalities in the fourth quarter.

Capacity Building and Other Conditional Grants Expenditure as at 30 June 2020

26. At the end of the fourth quarter, a total amount of R1.8 billion was transferred by the TNO's for capacity grants and reported expenditure of 69.4 per cent against the total allocation of R1.9 billion as reported by the TNO. These grants are intended to assist municipalities in the development of their management, planning, technical, budgeting and financial management capabilities in the 2019/20 financial year.
27. The highest performing conditional grant under this category during the fourth quarter remains the Expanded Public Works Programme (EPWP) at 86.1 per cent, followed by the Integrated Skills Development Grant (ISDG) with reported performance of 79.0 per cent as reported by the TNO.
28. The Energy Efficiency and Demand Side Management (EEDSM) reflects an expenditure of less than 50 per cent against the allocation of R227.1 million due to the low expenditure reported on the grant. This is as a result of most of the projects being in the procurement stage and the late appointment of service providers.

Infrastructure Conditional Grants Expenditure as at 30 June 2020

29. Direct conditional grants allocated for Infrastructure allocation amounts to R31.1 billion in the 2019/20 financial year and this allocation includes additional allocation of R86.2 million allocated during the national adjusted budget. This amount excludes indirect or in-kind allocations to transferring officers executing specific projects on behalf of municipalities in the municipal area.
30. From the amount of R31.1 billion allocations, R30.5 billion has been transferred to municipalities by TNOs which constitutes 98.0 per cent. The fourth quarter expenditure report on Infrastructure conditional grants reflected an expenditure of 93.9 per cent.
31. The Municipal Infrastructure Grant (MIG) has lost their first place as the best performing grant over the past few years. MIG surprisingly shows a dismally reduced expenditure performance of 73.5 per cent against the total allocation of R14.9 billion. MIG has been the best performing Infrastructure grant for the past five years at an average expenditure performance level of above 90 per cent.
32. Indirect infrastructure grants allocated to municipalities amounts to R6.9 billion in the 2019/20 financial year. Performance monitoring for these grants are not included as part of the Section 71 publications because municipalities do not receive these allocations directly (allocations in-kind). Reporting on these transfers should be included in the Section 40 reporting requirements for National Departments as articulated in the Public Finance Management Act, 1999 (Act No. 1 of 1999).

Outcome of the 2018/19 Rollover process

33. The fourth quarter publication includes the 2018/19 rollover approvals for municipalities. During the 2018/19 financial year only R1.8 billion was approved against an amount of R4.4 billion in rollover request and R2.6 billion was rejected.

34. A trend has been observed with regards to the rollover performance that municipalities continue to include rollover spending as part of the current year's performance on conditional grants.
35. The general observation of the municipal performance is that conditional grant spending are lagging behind all forms of expenditure items on municipal budgets, i.e. capital and operational programmes.

A summary of key aggregated information is included in the tables in **Annexure A**.

Further details on this report can be accessed on the National Treasury's website: www.treasury.gov.za.

NOTE TO EDITORS:

- This information is published in terms of Sections 71 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and 31(3) of the 2019 Division of Revenue Act. The budgeted figures shown are based on the 2019/20 adjusted budgets approved by municipal councils.
- In terms of the process, Municipal Managers and Chief Financial Officers are required to sign and submit data to the National Treasury by 30 July 2020. Any queries on the figures in these statements should be referred to the relevant Municipal Manager or Chief Financial Officer. Queries on conditional grants may be referred to the national department responsible for administering the grant.
- A municipal budget must be funded in terms of Section 18 of the MFMA before a Municipal Council can adopt that budget for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year, and cash backed surpluses of previous years. It is a common practice amongst most municipalities, when preparing their annual budgets, to overstate or inflate revenue projections, either to reflect a surplus, or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Therefore, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue, and as a result finding themselves in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.
- This fourth quarter publication covers 257 municipalities on financial information and conditional grant information.

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STRUCTURE OF INFORMATION RELEASED:

Other information released on National Treasury's website (www.treasury.gov.za) as part of this process includes the following:

- Municipal Budget Statements:
 - a. Cash Flow closing balances as at 30 June 2020;
 - b. CoVID-19 related expenditure
 - c. Over- and under collection of revenue against the adjusted revenue budget 2019/20 for the following dimensions:
 - i. Total municipal budgets;
 - ii. Operating budgets;
 - iii. Capital budgets;
 - d. Over- and underspending of adjusted expenditure budget 2019/20 for the following dimensions:
 - i. Total municipal budgets;
 - ii. Operating budgets;
 - iii. Capital budgets;
 - e. High-level summary of revenue for 257 municipalities; and
 - f. High-level summary of expenditure for 257 municipalities.
- Summary of revenue and expenditure per function (electricity, water, etc):
 - a. High level summary of revenue per function; and
 - b. High level summary of expenditure per function.
- Consolidation of revenue and expenditure numbers for each municipality in one file.
- Detail per province per municipality.
- Summary of Conditional Grant (CG) Information for all municipalities and per grant.
- CG - Detail per province per Municipality.
- Summary of Conditional Grant (CG) information per programme.
- Section 71 summary information for the fourth quarter:
 - a. Summary of total monthly operating expenditure – 257 municipalities;
 - b. Summary of total monthly operating revenue – 257 municipalities;
 - c. Summary of total monthly capital expenditure – 257 municipalities;
 - d. Summary of total monthly capital revenue – 257 municipalities;
 - e. Summary – Metros;
 - f. Conditional Grant summary – Metros;
 - g. Summary – Secondary cities municipalities;
 - h. Conditional Grant summary – Secondary cities municipalities;
 - i. Summary – Provinces;
 - j. Conditional Grant summary – Provinces;
 - k. Analysis of Sources of Revenue – 257 municipalities;
 - l. Listing of borrowing instruments – 204 municipalities;
 - m. Listing of investment instruments – 188 municipalities;
 - n. Monthly repairs and maintenance expenditure – 257 municipalities.
- Service delivery information (non-financial performance) for all municipalities.
- Non Compliance:
 - a. List municipalities not complying with Section 71 of the MFMA.

The section 71 information reported by municipalities to National Treasury is also published on the National Treasury website in the format of Schedule C, which is the format for monthly and quarterly municipal financial statements as prescribed by the Municipal Budget and Reporting Regulations.

