



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Enquiries: Communications Unit • Email: media@treasury.gov.za • Tel: (012) 315 5046 • 40 Church Square, PRETORIA, 0002 • www.treasury.gov.za

MEDIA STATEMENT

LOCAL GOVERNMENT REVENUE AND EXPENDITURE: FIRST QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD: 1 JULY 2022 – 30 SEPTEMBER 2022

National Treasury has released the local government revenue and expenditure report for the first quarter of the 2022/23 financial year. This report covers the performance against the adopted budgets of local government for the first quarter of the municipal financial year ending on 30 September 2022 and includes spending against conditional grant allocations for the same period.

The report was prepared by using 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 challenges in implementing municipal budgets and conditional grants.

The credibility of the information contained in the *mSCOA* data strings is a concern but is improving as the reform is maturing. 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 and 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, fruitful 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; and
- Municipalities are not locking their adopted budgets or 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 2022/23, 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.



MEDIA STATEMENT

The Section 71 report facilitates transparency in reporting, better in-year management as well as the oversight of the financial performance of municipalities against their adopted budgets. This report is therefore a management tool that serves as an early warning mechanism for councils, provincial legislatures and municipal management to monitor and improve municipal performance timeously. The improvement of the credibility of the data strings is a priority for national and provincial treasuries and the submitted data strings are analysed monthly and errors are communicated to municipalities for correction.

KEY TRENDS:

Aggregate trends

1. On aggregate, municipalities spent 21.0 per cent, or R117.1 billion, of the total adopted expenditure budget of R557.8 billion as at 30 September 2022 (first quarter results for the 2022/23 financial year). In respect of revenue, aggregate billing and other revenue amounted to 27.4 per cent, or R153.0 billion, of the total adopted revenue budget of R557.5 billion.
2. Of the adopted operating expenditure budget amounting to R488.0 billion, R109.4 billion or 22.4 per cent was spent by 30 September 2022.
3. Municipalities have adopted the budget for salaries and wages expenditure at R146.6 billion, representing a 30 per cent of the operating budget of R488.0 billion for the 2022/23 municipal financial year. As at 30 September 2022, spending on salaries and wages is 6.9 per cent, or R33.5 billion.
4. In the period under review, capital expenditure amounted to R7.7 billion, or 11.1 per cent, of the adopted capital budget of R69.8 billion.
5. Aggregated year-to-date operating expenditure for metros amounts to R70.5 billion, or 24.1 per cent, of their adopted budget expenditure of R292.1 billion. The aggregated adopted capital budget for metros in the 2022/23 financial year is R31.9 billion, of which 10.6 per cent, or R3.4 billion, has been spent as at 30 September 2022.
6. When billed revenue is measured against their adopted budgets, the performance of metros reflects a marginal surplus on energy sources for the first quarter of the 2022/23 financial year. This does not take into account the collection rate:
 - Billed water revenue billed was R12.8 billion against expenditure of R7.9 billion;
 - Energy sources revenue billed was R27.62 billion against expenditure of R27.61 billion;
 - The revenue billed for waste water management was R3.9 billion against expenditure of R1.9 billion, and



MEDIA STATEMENT

- Levies for waste management billed were R3.6 billion against expenditure R2.2 billion.
7. As at 30 September 2022, aggregated revenue for secondary cities is 22.1 per cent or R17.7 billion of their total adopted revenue budget of R79.9 billion for the 2022/23 financial year. The year-to-date aggregated operating expenditure level of the secondary cities is 19.9 per cent or R15.8 billion of the total adopted operating budget of R79.5 billion for the 2022/23 financial year.
 8. The performance against the adopted budget for the four core services for the secondary cities for the first quarter 2022/23 also shows deficit position against billed revenue without taking into account the collection rate:
 - Water revenue billed was R2.3 billion against expenditure of R1.9 billion;
 - Energy sources revenue billed was R7.2 billion against expenditure of R6.9 billion;
 - The revenue billed for waste water management was R976 million against expenditure of R471 billion; and
 - Levies for waste management billed were R999 million against expenditure of R497 million.
 9. Capital spending levels are low at an average of 11.0 per cent or R936.2 million of the adopted capital budget of R8.5 billion.
 10. Aggregate municipal consumer debts amounted to R290 billion (compared to R264.7 billion reported in the first quarter of 2021/22) as at 30 September 2022. Government debt accounts for 8.0 per cent, or R23.3 billion (R19.6 billion reported in the first quarter of 2021/22). The largest component of this debt relates to households which account for 70 per cent or R202.4 billion (70.5 per cent or R186.6 billion in the first quarter of 2021/22).
 11. If consumer debt is limited to below 90 days, then the actual realistically collectable amount is estimated at R48.8 billion. This should not be interpreted that the National Treasury by implication suggests that the balance must be written-off by municipalities.
 12. Metropolitan municipalities are owed R147.5 billion (R125.6 billion reported in the first quarter of 2021/22) in outstanding debt as at 30 September 2022. The largest contributors were the Cities of Johannesburg at R43.9 billion, Ekurhuleni at R27.8 billion, eThekweni at R21.7 billion and Tshwane at R17.7 billion.
 13. Households in metropolitan areas are reported to account for R107.4 billion or 72.8 per cent of outstanding debt to metros, followed by businesses which account for R30.9 billion or 20.9 per cent. Debt owed by government agencies is at R8.4 billion or 5.7 per cent of the total outstanding debt owed to metros.
 14. Secondary cities are owed R55.8 billion (R50.6 billion reported in the first quarter of 2021/22) in outstanding consumer debt. The majority of debt is owed by households, which amount to R38 billion, or 68 per cent, of the total outstanding debt. An analysis by customer group



MEDIA STATEMENT

indicates an amount of R49.3 billion or 88.4 per cent, has been outstanding for more than 90 days.

15. Municipalities owed their creditors R86.2 billion as at 30 September 2022 and provinces with the highest percentage of outstanding municipal creditors in the category greater than 90 days include Free State at 90.2 per cent, Mpumalanga at 89.9 per cent, Northern Cape at 88.7 per cent and North West at 77.2 per cent. An increase in outstanding creditors could be an indication that municipalities are experiencing liquidity and cash challenges and consequently are delaying the settlement of outstanding debt owed.
16. The total balance on borrowing for all municipalities equates to R60.6 billion as at 30 September 2022. This includes long term loans of R45.6 billion, long term marketable bonds of R8.4 billion, and other long term non-marketable bonds of R1.0 billion. The balance represents other short- and long-term financing instruments.
17. As at 30 September 2022, the total investments made by municipalities equates to R44.7 billion. Investments includes Bank Deposits of R40.2 billion, guaranteed endowment policies (sinking funds) of R3.9 billion, Listed Corporate Bonds of R332 million and other smaller investments.

Conditional Grants

Conditional Grants Expenditure as at 30 September 2022

18. The Division of Revenue Act, 2022 (Act No. 5 of 2022) (DoRA) gazetted on 15 June 2022 provides for the equitable division of nationally raised revenue between the three spheres of government (National, Provincial and Local Government). DoRA further provides that all conditional grants allocated to municipalities must be spent subject to the legislated conditions as articulated in the respective conditional grant frameworks.
19. Section 11 and 12 of the 2022 DoRA requires municipalities to report information on conditional grants received, withheld or stopped and their performance on their allocations in accordance with sections 71 and 74 of the MFMA, 2003 (Act No. 56 of 2003) on a monthly and quarterly basis.
20. The DoRA allocated a total amount of R150.6 billion to local government for the 2022/23 financial year. This allocation includes unconditional transfers in the form of the Equitable Share (R87.3 billion), direct conditional grants allocated for capacity grants (R2.4 billion), direct conditional grants for infrastructure projects (R45.5 billion, including of the Urban Settlements Development Grant (USDG) of R7.3 billion) and indirect conditional grants (R8 billion – a slight increase from the R7.7 billion allocated in 2021/22). Transfers to local government continue to grow above inflation over the medium term, particularly the Equitable Share allocations to



MEDIA STATEMENT

accommodate the rising cost of providing Free Basic Services to poor households. These allocations exclude the General fuel levy to metropolitan municipalities to the amount of R15.3 billion (R14.6 billion was allocated in the previous year).

21. As at the 30 September 2022, of the R40.6 billion (excluding USDG) allocated to municipalities in direct conditional grants for 2022/23, R11.5 billion or 29.1 per cent was transferred to municipalities. The reported expenditure as at the end of September 2022 by the transferring officers was a mere R5.2 billion or 13.7 per cent. However, the reported expenditure by municipalities is significantly low at six per cent.
22. The eight metropolitan municipalities are the largest contributors to the economy in the country and are therefore allocated the lion's share of transfers from national government to municipalities of R11.2 billion in direct conditional grants. From this allocation R3.3 billion or 30.1 per cent was transferred as at 30 September 2022 and R1.0 billion or 29.6 per cent of the transferred amount was reported as spent. This excludes supplementary grants such as the Urban Settlements Development Grant (USDG) as the grant is reported as part of the overall capital budget of the receiving metropolitan municipalities.
23. The highest performing metro was City of Cape Town Metropolitan Municipality having reported expenditure of R249.8 million or 11.5 per cent of the R2.1 billion allocation in direct conditional grants. The eThekweni metro followed with reported overall expenditure of R254.9 million or 11.3 per cent of the allocated amount. This expenditure is mainly informed by the performance of capital grants.
24. The lowest performing metropolitan municipality (similar to the same period last year) was the Nelson Mandela Bay Metropolitan municipality which reported an overall expenditure of R28.7 million which equates to 3.9 per cent of the allocated amount or 16.4 per cent of the transferred amount.

Capacity Building and Other Conditional Grants Expenditure as at 30 September 2022

25. A total of R2.4 billion was allocated to capacity building and other grants (including the unallocated Municipal Disaster Grant and the Municipal Emergency Housing Grant). These grants are intended to assist municipalities in the development of their management, planning, technical, budgeting and financial management capabilities in the 2022/23 financial year. This included the Municipal Disaster Grant which assists municipalities in alleviating the impact of a disaster, such as the floods that occurred in KwaZulu-Natal and Eastern Cape in April this year, which resulted in damage to infrastructure, housing, displacement of people, as well as



MEDIA STATEMENT

loss of lives. Funding has again in 2022/23 been allocated to affected municipalities to continue with efforts to alleviate the impact of the floods.

26. The highest performing conditional grant under this category during the first quarter was the Expanded Public Works Programme (EPWP) with reported performance of 26.2 per cent, followed by the Infrastructure Skills Development Grant (ISDG) at 23.2 per cent and the Financial Management Grant (FMG) at 18.9 per cent.
27. The lowest performing grant in the first quarter ended 30 September 2022 is the Programme and Project Preparation Support Grant (PPPSG) introduced in the 2021/22 financial year, which reported zero expenditure as at the end of the first quarter. This is due to no funds being transferred to municipalities for the period under review, which may be due to non-compliance on municipalities' part to be eligible for the first tranche of their PPPSG allocations. The grant is fairly new, and the Transferring Officer (TO) of the grant needs to develop measures to address the challenges associated with the poor performance of the grant, and also provide support municipalities to enable them to perform better and thus improve the performance of the grant.

Infrastructure Conditional Grants Expenditure as at 30 September 2022

28. National transfers for infrastructure, excluding indirect or in-kind allocations to Transferring Officers executing specific projects on behalf of municipalities in the municipal area, amounts to R38.2 billion in the 2022/23 financial year.
29. The highest performing direct infrastructure grant to municipalities during the first quarter was the Neighbourhood Development Partnership Grant (NDPG) which reported performance of 17.7 per cent, followed by the Municipal Infrastructure Grant (MIG) at 14.2 per cent, then the Integrated Urban Development Grant (IUDG) which reported performance of 12.7 per cent. The Rural Roads Assets Management Systems Grant and the Informal Settlements Upgrading Partnership Grant (ISUPG) reported performance was 10.8 per cent and 10.4 per cent respectively, while all other infrastructure grants reported expenditure of less than 10 per cent of their allocations.
30. The lowest spending grant under the infrastructure grants during the first quarter was this time the Integrated National Electrification Programme (INEP) grant, which reported no expenditure, followed by the Public Transport Network Grant (PTNG) with expenditure of R359.5 million or 6 per cent from the R6 billion allocation. The low levels of expenditure on the infrastructure grants are a concern, given the economic growth of the country depends on



MEDIA STATEMENT

the much-needed infrastructure development, which also creates employment opportunities, given the high unemployment rate in the country.

31. Indirect grants (Infrastructure and capacity) allocated to municipalities increased from R7 billion in the 2021/22 financial year to R8 billion in the 2022/23 financial year. Indirect grants are allocations whereby the National Transferring Officers are responsible for the implementation and administration of the grants on behalf of and for the benefit of municipalities. Performance monitoring for these grants is not included as part of the Section 71 publications because municipalities do not receive these allocations directly (allocations in-kind).

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.



MEDIA STATEMENT

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 30(3) of the Division of Revenue Act, 2022 (Act No. 5 of 2022) (DoRA). The budgeted figures shown are based on the 2022/23 adopted budgets approved by municipal councils.
- In terms of the process, Municipal Managers and Chief Financial Officers were required to sign and submit data to the National Treasury by 02 November 2022. 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 first quarter publication covers 257 municipalities on financial information and conditional grant information.

Issued by National Treasury

DATE: 09 December 2022



MEDIA STATEMENT

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 September 2022;
 - b. Covid-19 related expenditure;
 - c. High-level summary of revenue for 257 municipalities;
 - d. 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 first 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 – Top 19 municipalities;
 - h. Conditional Grant summary – Top 19 municipalities;
 - i. Summary – Provinces;
 - j. Conditional Grant summary – Provinces;



MEDIA STATEMENT

- k. Analysis of Sources of Revenue – 257 municipalities;
 - l. Listing of borrowing instruments – 726 municipalities;
 - m. Listing of investment instruments – 2402 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