



national treasury

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National Treasury
REPUBLIC OF SOUTH AFRICA

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LOCAL GOVERNMENT REVENUE AND EXPENDITURE: THIRD QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD: 1 JULY 2022 – 31 MARCH 2023

National Treasury has released the local government revenue and expenditure report for the third quarter of the 2022/23 financial year. This report covers the performance against the adjusted budgets of local government for the third quarter of the municipal financial year ending on 31 March 2023 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 prescribe 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 1 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 an 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;
- Municipalities are not locking their adjusted 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 month/ quarter. System vendors were also requested to build this functionality into their municipal financial systems; and
- Some municipalities are not submitting the monthly *In-Year-Monitoring* data string reports.



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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 adjusted 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 61.8 per cent or R350 billion of the total adjusted expenditure budget of R566 billion as of 31 March 2023. In terms of revenue, aggregate billing and other revenue amount to 72.5 per cent or R407.4 billion of the total adjusted revenue budget of R562 billion.
2. Of the adjusted operating expenditure budget amounting to R494.7 billion, R319.7 billion or 64.6 per cent was spent by 31 March 2023.
3. Municipalities have adjusted the budget for salaries and wages (including remuneration of councillors) downwards to R145.1 billion, which is a decrease of R1.5 billion compared to the adopted budget figures at the beginning of the 2022/23 financial year. The salaries and wages spending constitutes 20.2 per cent of the total adjusted operational expenditure budget of R494.7 billion. On 31 March 2023, the level of spending on salaries and wages was R99.9 billion or 68.8 per cent.
4. Capital spending amounted to 43.6 per cent or R30.3 billion of an adjusted capital budget of R71.3 billion in the period under review.
5. Aggregated year-to-date operating expenditure for metros amounts to R198.4 billion, or 69.9 per cent, of their adjusted operating budget expenditure of R291.9 billion. The aggregated adjusted capital budget for metros in the 2022/23 financial year is R30.7 billion, of which 44.2 per cent, or R13.6 billion, was spent as of 31 March 2023.
6. In terms of billed revenue for the core services, the performance of metros reflects a surplus for the third quarter of the 2022/23 financial year, and the following does not take into account the collection rate:



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- Water revenue billed was R35.2 billion against expenditure of R28.7 billion;
 - Energy sources revenue billed was R67.7 billion against expenditure of R64.2 billion;
 - The revenue billed for wastewater management was R15.3 billion against expenditure of R6.2 billion; and
 - Levies for waste management billed were R9.6 billion against expenditure of R7.7 billion.
7. The aggregated revenue for secondary cities is 65.9 per cent or R52.6 billion of the total adjusted revenue budget of R79.9 billion for the 2022/23 financial year. A year-on-year comparison shows that the total revenue on average has decreased by 8.2 per cent when compared to the same period in 2022/23.
8. The year-to-date operating expenditure of secondary cities is R44.5 billion or 61.6 per cent of the total adjusted operating budget of R72.1 billion for the 2022/23 financial year.
9. In terms of billed revenue for the core services, the performance of secondary cities reflects a surplus for the third quarter of the 2022/23 financial year, and the following does not take into account the collection rate:
- Water revenue billed was R7.1 billion against expenditure of R5.7 billion;
 - Energy sources revenue billed was R18.7 billion against expenditure of R17.8 billion;
 - The revenue billed for wastewater management was R3.0 billion against expenditure of R1.7 billion; and
 - Levies for waste management billed were R2.6 billion against the expenditure of R1.7 billion.
10. Capital spending levels for secondary cities amounted to R3.9 billion or 43.3 per cent against the adjusted capital budget of R9.1 billion.
11. The aggregate municipal consumer debts were R294.7 billion (compared to R255.2 billion reported in the third quarter of 2021/22). The government debt accounted for 6.3 per cent or R18.7 billion of the total outstanding debtors. The households remain the highest component of debt owed to municipalities at 72.8 per cent or R214.4 billion (68 per cent or R173.6 billion in the third quarter of the previous financial year). The highest component of aggregate consumer debts is owed to municipalities in Gauteng at R95.2 billion or 32.3 per cent.
12. Included in the outstanding debt is an amount of R252.8 billion, which is debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and other recoveries which may not be realistically collectable by municipalities.



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13. If consumer debt is limited to below 90 days, then the actual realistically collectable amount is estimated at R41.9 billion. This should not be interpreted that the National Treasury by implication suggests that the balance must be written-off by municipalities but, the municipality must consistently implement is credit control and debt collection policies.
14. Metropolitan municipalities are owed R139.3 billion (R114.7 billion reported in the third quarter of 2021/22) in outstanding debt as of 31 March 2023. The largest contributors were the Cities of Johannesburg at 32.2 per cent, Ekurhuleni at 22.4 per cent and the City of Tshwane did not provide information on their debtors for this quarter. The City of Tshwane did not report on the debtors during this period in the 2021/22 financial year.
15. Households in metropolitan areas are reported to account for R107.8 billion or 77.4 per cent of outstanding debt, followed by businesses that account for R25.8 billion or 18.6 per cent. Debt owed by government departments was R4.7 billion or 3.3 per cent of the total outstanding debt owed to metros.
16. Secondary cities are owed R61.2 billion (R54.8 billion reported in the third quarter of 2021/22) in outstanding consumer debt. Most of the debt is owed by households, which amount to R42.1 billion or 68.8 per cent, of the total outstanding debt. An analysis by the customer group indicates an amount of R54.2 billion or 88.6 per cent, has been outstanding for more than 90 days.
17. Municipalities owed their creditors R85.7 billion as of 31 March 2023 and provinces with the highest percentage of outstanding municipal creditors in the category greater than 90 days include Free State at 93.9 per cent, Mpumalanga at 91.2 per cent, Northern Cape at 90.8 per cent and Northwest at 83.9 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.
18. The total balance on borrowing for all municipalities amounted to R58.8 billion as of 31 March 2023. This included long-term loans of R44.1 billion, long-term marketable bonds of R8.4 billion, other long-term non-marketable bonds of R5.1 billion and a bank overdraft of R7.5 million. The balance represents other short- and long-term financing instruments.
19. The closing balance for investments made by municipalities amounted to R53.3 billion. A year-on-year comparison reveals that this is R7.1 billion more than the R46.2 billion reported in the third quarter of the previous financial year. Investments include bank deposits of R48 billion, guaranteed endowment policies (sinking funds) of R4.5 billion, listed Corporate Bonds of



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R375.1 million, Securities – National Government of R282.5 million, Negotiable Certificates of Deposit – Banks of R31 million, Deposit – Public Investment Commissioners of R58.8 million and Banker Acceptance Certificates of R1.2 million.

Conditional Grants

20. The third quarter publication in terms of section 71 of the MFMA provides the performance of conditional grant funding and various adjustments to the baseline allocations approved during the 2022/23 financial year. The publication also includes the expenditure reported by the Transferring Officers responsible for the administration of different grant programmes, and the verifications by the municipal managers for the period under review.

Conditional Grants Expenditure as of 31 March 2023

21. As of 31 March 2023, a total amount of R43.7 billion or 99.1 per cent has been transferred to municipalities against the adjusted direct conditional grant allocation of R44.1 billion. This amount excluded the Equitable Share allocation, USDG (supplementary capital allocation to metropolitan municipalities) and the 2021/22 approved rollover amounts.
22. The Transferring Officers reported expenditure of 45.6 per cent against the total allocation for the period under review, while municipalities reported expenditure of 32.3 per cent against the R43.7 billion transferred to municipalities in the third quarter.

Infrastructure Conditional Grants Expenditure as at 31 March 2023

23. Only 54.4 per cent expenditure was reported against MIG in the third quarter from the allocation of R16.8 billion. This is the largest conditional allocation benefiting over 200 municipalities across the country and yet it is one of the poor performing programmes reporting expenditure of less than 60 per cent in the third quarter. The grant experience similar challenges that affect other capital grants, however one of the prevalent reasons for poor performance is because of the interference by business forums demanding local procurement for 30 per cent of all contracts amongst others and the high rate of vacancies in the Project Management Unit (PMU).
24. Direct conditional grants allocated for 2022/23 financial year against the infrastructure grants were adjusted to an amount of R41.5 billion following the increase in the baseline of R3.5 billion during the adjustment budget process from the original allocation of R37.9 billion and excludes the USDG.



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25. The amount of R3.3 billion or 91.4 per cent of the additional amount of R3.5 billion was allocated against the baseline allocation of Municipal Disaster Recovery Grant (MDRG) and the reason for this addition was to fund the reconstruction and rehabilitation of municipal infrastructure damaged by flash floods in the Western Cape, Eastern Cape and KwaZulu-Natal provinces. Some of the funds to the recipient municipalities may be subjected to the 2022/23 rollover process since the allocation was transferred at end of the third quarter of the municipal financial year.
26. The metropolitan municipalities have reported the expenditure of 13.9 per cent or R2.7 billion against the USDG allocation of R7.4 billion. Some metropolitan municipalities are still not reporting, and this affects the overall grant performance of USDG.

Capacity Building and Other Conditional Grants Expenditure as at 31 March 2023

27. At the end of the third quarter, a total adjustment amount of R2.3 billion was transferred for capacity building grants and expenditure of 34.9 per cent was reported by municipalities. This expenditure includes the unallocated conditional grants such as the Municipal Disaster Relief Grant (MDRG) and the Municipal Emergency Housing Grant (MEHG), whose portions were allocated during the financial year to assist with immediate relief to the affected as disasters were declared.
28. The lowest performing grant in the third quarter ending 31 March 2023 is the newly introduced grant, namely the Programme and Project Preparation Support Grant (PPPSG) with a reported expenditure performance of 10 per cent against their allocation. A concerted effort is still required from the Transferring Officer to support municipalities that receive this grant to improve performance against this programme.

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.

For inquiries email media@treasury.gov.za

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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 2021 Division of Revenue Act. The budgeted figures shown are based on the 2022/23 adjusted 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 18 April 2023. 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 third 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 31 March 2023;
 - b. High-level summary of revenue for 257 municipalities; and
 - c. 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 third 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;
 - k. Analysis of Sources of Revenue – 257 municipalities;



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- I. Listing of borrowing instruments – 238 municipalities;
 - m. Listing of investment instruments – 235 municipalities; and
 - n. Monthly repairs and maintenance expenditure – 257 municipalities.
- Service delivery information (non-financial performance) for all municipalities.
 - Non-Compliance:
 - 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.