



national treasury

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LOCAL GOVERNMENT REVENUE AND EXPENDITURE: FOURTH QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD: 01 JULY 2022 – 30 JUNE 2023 (PRELIMINARY RESULTS)

National Treasury has released the local government revenue and expenditure report for the fourth quarter as well as the cumulative results of the 2022/23 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 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 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.

As the *mSCOA* reform is maturing, the credibility of the information contained in the *mSCOA* data strings gradually improving although some municipalities are still not fully compliant. The following are the core of the problems:

- The incorrect use of the *mSCOA* and municipal accounting practices by municipalities;
- Many 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, fruitless, and wasteful (UIFW) expenditure;
- Municipalities are not locking their adjusted budgets or their financial systems at month-end to ensure prudent financial management;
- Some municipalities are also reporting incorrectly on conditional grants spending despite the National Treasury issuing guidance on how to account for grants using *mSCOA* in May 2022.



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The issuance of guidance was meant to address the reporting challenges and disparities to the National Treasury and National Transferring Officers; and

- Some municipalities did not submit all the required monthly in year monitoring, debtors and creditors data strings all together due to various reasons.

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 serve 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 87.4 per cent or R496 billion of the total adjusted expenditure budget of R567.3 billion as at 30 June 2023 which is the fourth quarter preliminary results for the 2022/23 financial year. In respect of revenue, aggregated billing and other revenue were 92.8 per cent or R522.8 billion of the total adjusted revenue budget of R563 billion.
2. Of the adjusted operating expenditure budget amounting to R495.5 billion, R444.2 billion or 89.6 per cent was spent by 30 June 2023.
3. Municipalities have adjusted the budget for salaries and wages (including remuneration of councillors) downwards to R145 billion, which is a decrease of R1.6 billion compared to the adopted budget of R146.6 for the 2022/23 financial year. The salaries and wages spending constitutes 27 per cent of the total adjusted operational expenditure budget of R495.5 billion. As at 30 June 2023, the expenditure on salaries and wages was R133.6 billion or 92.1 per cent.
4. In the period under review, capital spending was 72.1 per cent or R51.9 billion of an adjusted capital budget of R71.9 billion.
5. Aggregated year-to-date operating expenditure for metros amounts to R274.7 billion, or 94 per cent of the adjusted operating budget expenditure of R292.1 billion. The aggregated adjusted capital budget for metros in the 2022/23 financial year was R30.8 billion, of which 75.7 per cent, or R23.3 billion, was spent as at 30 June 2023.



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6. When billed revenue is measured against their adjusted budgets for the core services, the performance of metros reflects a surplus for the fourth quarter of the 2022/23 financial year. This comparison excludes secondary costs incurred or actual revenues collected:
 - Water revenue billed was R46 billion against expenditure of R43.2 billion;
 - Energy sources revenue billed was R89.3 billion against expenditure of R87.1 billion;
 - The revenue billed for wastewater management was R20 billion against expenditure of R9.9 billion, and
 - Levies for waste management billed were R12.2 billion against expenditure R10.9 billion.
7. As at 30 June 2023, the aggregated revenue for secondary cities was 87.1 per cent or R69.6 billion of their total adjusted revenue budget of R80 billion for the 2022/23 financial year. A year-on-year revenue comparison shows that the total revenue for secondary cities has increased by 5.7 per cent compared to the same period in 2021/22.
8. The year-to-date aggregated operating expenditure level of the secondary cities was 87 per cent or R62.8 billion of the total adjusted operating budget of R72.1 billion for the 2022/23 financial year.
9. When billed revenue is measured against their adjusted budgets for the core services, the performance of secondary cities reflects a surplus for the fourth quarter of the 2022/23 financial year for all services. This comparison excludes secondary costs incurred or actual revenues collected:
 - Water revenue billed was R9.5 billion against expenditure of R8.8 billion;
 - Energy sources revenue billed was R24.6 billion against expenditure of R23.7 billion;
 - The revenue billed for wastewater management was R3.8 billion against expenditure of R2.7 billion; and
 - Levies for waste management billed were R3.4 billion against expenditure of R2.4 billion.
10. Capital spending levels for secondary cities was at 72.5 per cent or R6.7 billion of the adjusted capital budget of R9.2 billion.
11. The aggregate municipal consumer debts amounted to R313.2 billion (compared to R255.4 billion reported in the fourth quarter of 2021/22). The government debt accounted for 5.6 per cent or R17.6 billion (R17.1 billion reported in the fourth quarter of 2021/22) of the total outstanding debtors). Comparable to the previous financial years, households still represent the largest component of debt owed to municipalities at 73.6 per cent or R230.5 billion (71.2 per cent or R181.8 billion in the fourth quarter of the previous financial year).



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12. The outstanding debt is inclusive of debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and other recoveries.
13. Metropolitan municipalities are owed R163.5 billion (R117.5 billion reported in the fourth quarter of 2021/22) in outstanding debt as of 30 June 2023. The largest contributors were the Cities of Johannesburg at 29.6 per cent, Ekurhuleni at 20 per cent and eThekweni at 15.4 per cent.
14. Households in metropolitan areas are reported to account for R127.5 billion or 77.9 per cent of outstanding debt, followed by businesses that account for R30 billion or 18.4 per cent. Debt owed by government was at R4.9 billion or 3 per cent of the total outstanding debt owed to metros.
15. Secondary cities were owed R62.8 billion (R55.9 billion reported in the fourth quarter of 2021/22) in outstanding consumer debt. Similarly, to the metros, most of the debt were owed by households, which amounted to R43.4 billion or 69.1 per cent, of the total outstanding debt. An analysis by customer group indicates an amount of R55.6 billion or 88.5 per cent, has been outstanding for more than 90 days.
16. Municipalities owed their creditors R100 billion as at 30 June 2023 and provinces with the highest percentage of outstanding municipal creditors in the category greater than 90 days include Free State at 89.8 per cent, Northern Cape at 87.3 per cent, Mpumalanga at 79.8 per cent and North West at 78.5 per cent. The increasing outstanding creditors could be an indication that municipalities are experiencing liquidity and cash flow challenges and consequently are delaying the settlement of outstanding debt owed.
17. The total balance on borrowing for all municipalities amounted to R61 billion as at 30 June 2023. This includes long term loans of R49.5 billion, long term marketable bonds of R5.1 billion, and other long term non-marketable bonds of R4.9 billion. The balance represents other short- and long-term financing instruments and other short-term loans.
18. As of 30 June 2023, the total investments made by municipalities amounted to R40 billion. This is R2.9 billion less than the R37.1 billion reported in the fourth quarter of the 2021/22. Investments include Bank Deposits of R37.7 billion, guaranteed endowment policies (sinking funds) of R1.9 billion, Listed Corporate Bonds of R256 million and other smaller investments.

Over- and underspending

19. A net under performance against the budgeted revenue was R40.3 billion in the 2022/23 financial year. This indicates that municipalities were not able to bill and generate the revenue that they budgeted for, therefore, resulting in less funding available to cover the budgeted



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expenditure. Subsequently, municipalities underperformed against the budgeted expenditure to align with the revenue generated and reduce the deficit.

20. A net total underspending of R71.3 billion or 13.7 per cent of municipalities' total adjusted expenditure budgets was reported. This net underspending represents an increase of R10.5 billion from the R60.8 billion underspending recorded in the fourth quarter of 2021/22. This increase might be distorted by municipalities that did not submit all the required data strings, while some submissions did not contain credible data. The over- and underspending can be summarised as follows:

Analysis of over and under expenditure for the period 2019/20 - 2022/23

R thousands	2019/20			2020/21			2021/22			2022/23		
	(Over)	Under	Nett	(Over)	Under	Nett	(Over)	Under	Nett	(Over)	Under	Nett
Total	(32 604 831)	94 638 186	62 033 355	(27 829 045)	70 771 434	42 942 390	(3 664 757)	64 500 874	60 836 116	(6 415 048)	77 748 298	71 333 250
Capital	(35 742 750)	37 469 188	1 726 438	(12 584 344)	27 072 179	14 487 835	(1 895 214)	23 246 245	21 351 031	(565 694)	20 601 734	20 036 040
Operating	(6 001 079)	66 307 996	60 306 917	(18 347 157)	46 801 712	28 454 555	(7 684 429)	47 169 514	39 485 085	(8 918 128)	60 215 338	51 297 209

Source: National Treasury Local Government Database

- Aggregate overspending of the adjusted operating budget – R9 billion or 1.8 per cent;
 - Aggregate underspending of the adjusted operating budget – R60.2 billion or 12.2 per cent;
 - Aggregate overspending of the adjusted capital budget – R565.7 million or 0.8 per cent;
 - Aggregate underspending of the adjusted capital budget – R20.6 billion or 28.7 per cent.
21. It is important to 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

22. The fourth quarter performance on conditional grants will consider, the cumulative performance on conditional grant spending in addition to the two adjustment gazettes that updated the original Division of Revenue Act of 2022.
23. Therefore, National Treasury published two national adjustment gazettes against the Division of Revenue allocations, namely Government Gazette No. 47987 and Government Gazette No. 48327 dated 3 February 2023 and 29 March 2023 respectively during the 2022/23 financial year.

Total Conditional Grants Expenditure as at 30 June 2023



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24. As at 30 June 2023, a total amount of R44.1 billion or 100 per cent has been transferred to municipalities against the adjusted direct conditional grant allocation of R44.1 billion.
25. This amount excludes the Equitable Share allocation, Urban Settlements Development Grant (USDG) (supplementary capital allocation to metropolitan municipalities), indirect grants and performance against 2021/22 roll-overs.
26. At the end of the municipal financial year, NTOs reported expenditure of 76.1 per cent against the total adjusted allocation for direct conditional grants, while municipalities reported expenditure of 54.6 per cent against the R44.1 billion transferred to municipalities.
27. The municipalities are continuing to report incorrectly despite the National Treasury issuing guidance on how to account for grants using *mSCOA* in May 2022. The issuance of guidance was meant to address the reporting challenges experienced since *mSCOA* implementation.
28. Incapacity in the Project Management Office (PMU) and SCM challenges such as interferences by business forums demanding local procurement for 30 per cent of all contracts are amongst factors attributed to the overall underspending of the conditional grants by municipalities in 2022/23 financial year. These factors also contributed to under performance of conditional grants in the second quarter and resulted in most municipalities having their allocations reduced during the adjustment budget process.
29. Metropolitan municipalities reported 64.9 per cent against the total revised allocation of R13.2 billion, just below the overall conditional grants performance of 76.1 per cent while, the overall performance of secondary cities has remained fairly the same when compared with the fourth quarter results of the previous financial year, where 78 per cent was reported by NTOs.

Summary: Secondary Cities and Metropolitan Municipalities

R thousands	Total Available 2022/23	Transferred to municipalities for direct grants	YTD Expenditure		% Changes for the 4th Q		% of 4th Q - 2021/22
			Actual expenditure National Department	Actual expenditure by municipalities	Exp as % of Allocation National Department	Exp as % of Allocation by municipalities	Exp as % of Allocation by National Department
Secondary Cities	7 192 249	5 898 613	4 628 975	3 853 207	78.3%	65.2%	78.0%
Metropolitan Municipalities	13 175 999	12 781 484	8 296 607	5 720 036	64.9%	44.8%	71.2%
Total	20 368 248	18 680 097	12 925 582	9 573 243	71.6%	55.0%	74.6%

Source: National Treasury Local Government Database

30. It should be noted that projects funded through indirect grants are implemented by the respective NTOs on behalf of municipalities. Performance monitoring of these grants are therefore not included as part of the Section 71 publications because municipalities do not



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receive these allocations directly (allocations in-kind). Reporting on these transfers should be included in the Section 40 reporting requirements for National Department as articulated in the Public Finance Management Act, 1999 (Act No. 1 of 1999).

Capacity and Other Conditional Grants Expenditure as at 30 June 2023

31. At the end of the fourth quarter, a total adjustment amount of R2.6 billion was transferred for capacity grants and expenditure of R2.1 billion or 78.7 per cent against the allocation was reported by NTOs. This expenditure includes the unallocated conditional grant, i.e., the Municipal Disaster Grant (MDG) where a portion was allocated during the financial year to respond to the flood disasters that occurred in the KwaZulu-Natal and the Eastern Cape.
32. Municipalities reported expenditure of 61.1 per cent for the period under review. This is a significant variance between what municipalities have reported and what NTOs are saying during the same period.
33. Capacity 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, whilst the disaster grants are meant to assist municipalities in responding to a declared disaster and mitigating its impact.

Infrastructure Conditional Grants Expenditure as at 30 June 2023

34. Direct conditional grants allocated for the 2022/23 financial year against the infrastructure grants were adjusted to an amount of R41.4 billion following an increase of R3.5 billion during the adjustment budget process from the original allocation of R37.9 billion. This was predominantly due to the R3.3 billion that was added to the Municipal Disaster Recovery Grant for the reconstruction and rehabilitation of municipal infrastructure damaged by flash floods in the Western Cape, Eastern Cape, and KwaZulu-Natal provinces.
35. Of the R41.4 billion adjusted allocated, 100 per cent has been transferred to municipalities and 75.9 per cent or R31.4 billion was reported as expenditure as at 30 June 2023 against the revised total infrastructure allocation by NTOs.
36. Municipalities reported an expenditure of 54.2 per cent against the revised allocation. Again, this is a significant variance between what municipalities have reported and what NTOs are saying during the same period.
37. For the same quarter in the previous financial year, infrastructure grants reflect an expenditure of 80.8 per cent which is a slight decline compared to the fourth quarter of the 2022/23 financial year.



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2021/22 expenditure on rollover of conditional grants

38. During the 2021/22 roll-over process, R1 billion was approved into the 2022/23 financial year against an amount of R4.2 billion in rollover requests. Capital grants account for 89.2 per cent or R909 million of the total rollover approved amount of R1 billion, and only R91 million was reported as the overall expenditure against the 2021/22 rollover approved amount.
39. The rollover requests of most municipalities were rejected because of failure to comply with the MFMA Budget Circular No. 115 issued by National Treasury. Furthermore, National Treasury observed that most municipalities are still struggling to spend both the approved rollover amounts and the current year allocations as municipalities reported significantly low expenditure as at the end of the fourth quarter. Municipalities across the various categories continue to neglect the reporting of rollovers approvals against unspent conditional grants.
40. The overall performance is not satisfactory, while municipalities indicated that most of the roll-over projects have already been implemented, contractors are on site and expenditure will occur once the rollover applications has been approved and this has not been the case.

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.



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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 2022 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 not later than 14 July 2023 and the signoff verification by 31 July 2023.
- 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 grants 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 of 30 June 2023;
 - b. Over- and under collection of revenue against the adjusted revenue budget 2022/23 for the following dimensions:
 - i. Total municipal budgets;
 - ii. Operating budgets;
 - iii. Capital budgets;
 - c. Over- and underspending of adjusted expenditure budget 2022/23 for the following dimensions:
 - i. Total municipal budgets;
 - ii. Operating budgets;
 - iii. Capital budgets;
 - d. High-level summary of revenue for 257 municipalities; and
 - e. 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;



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- 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 – 232 municipalities;
 - m. Listing of investment instruments – 230 municipalities;
 - n. Monthly repairs and maintenance expenditure – 257 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.