



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 2020 – 30 JUNE 2021

National Treasury has released the local government revenue and expenditure report for the fourth quarter of the 2020/21 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 2021 and includes spending against conditional grant allocations for the same period.

Noteworthy, is that this is the second 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 prescribe the uniform recording and classification of the 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 the 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 but progressively moving in the right direction. 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 an excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data leads 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; and
- 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 2020/21 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 enables these reports to be management tools and early warning

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mechanisms for municipal councils, provincial legislatures and officials 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 91.9 per cent or R446.4 billion of the total adjusted expenditure budget of R485.6 billion as at 30 June 2021 (fourth quarter results for the 2020/21 financial year). In respect of revenue, aggregate billing and other revenue amounted to 95.6 per cent or R461.2 billion of the total adjusted revenue budget of R482.3 billion.
2. Of the adjusted operating expenditure budget amounting to R416.4 billion, R390.8 billion or 93.9 per cent was spent by 30 June 2021.
3. Municipalities have adjusted the budget for salaries and wages expenditure to R127.1 billion. This constitutes 31 per cent of their total adjusted operational expenditure budget of R416.4 billion. At 30 June 2021, the total spending was R125.8 billion or 99.0 per cent.
4. In the period under review, capital expenditure amounted to R55.6 billion, or 80.3 per cent, of the adjusted capital budget of R69.3 billion.
5. Aggregated year-to-date total expenditure for metros amounts to R255.3 billion or 93.9 per cent of their adjusted expenditure budget of R271.8 billion. The aggregated adjusted capital budget for metros in the 2020/21 financial year is R32.2 billion (R31.2 billion reported in the third quarter) of which R23.1 billion has been spent at the end of the fourth quarter.
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 2020/21 financial year. This does not take into account the collection rate:
 - Water revenue billed was R24.6 billion against an expenditure of R28.2 billion;
 - Energy sources revenue billed was R78.0 billion against an expenditure of R72.9 billion;
 - The revenue billed for waste water management was R7.3 billion against an expenditure of R7.2 billion, and
 - Levies for waste management billed were R10.2 billion against expenditure R9.2 billion.
7. As of 30 June 2021, aggregated revenue collected for secondary cities is 109.7 per cent or R74.8 billion of their total adjusted revenue budget of R68.2 billion for the 2020/21 financial year. The year-to-date operating expenditure level of the secondary cities is 105.1 per cent or R65.4 billion of the total adjusted operating budget of R62.3 billion for the 2020/21 financial year.
8. The performance against the adopted budget for the four core services for the secondary cities for the fourth quarter 2020/21 also shows surpluses against billed revenue without taking into account the collection rate:

- Water revenue billed was R10.8 billion against an expenditure of R10.0 billion;
 - Energy sources revenue billed was R26.1 billion against an expenditure of R24.8 billion;
 - The revenue billed for waste water management was R3.8 billion against an expenditure of R3.0 billion; and
 - Levies for waste management billed were R3.3 billion against expenditure of R2.5 billion.
9. Capital spending levels for secondary cities are reported at 90.7 per cent or R7.1 billion of the adjusted capital budget of R7.8 billion.
 10. Aggregate municipal consumer debts amounted to R232.8 billion (compared to R230.7 billion reported in the third quarter of 2020/21) as at 30 June 2021. The government agencies accounts for 7.2 per cent or R16.7 billion (R15.5 billion reported in the 2020/21 third quarter) of the total outstanding debtors. The largest component of this debt relates to households and represents 72.6 per cent or R168.9 billion (72.5 per cent or R167.3 billion in the third quarter).
 11. The outstanding debt is inclusive of debt older than 90 days which amount to R197.3 billion which has accumulated over an extended period, including interest on arrears and other recoveries.
 12. Metropolitan municipalities are owed R114.5 billion (R115.4 billion reported in the third quarter of 2020/21) in outstanding debt as of 30 June 2021. The largest contributors are the City of Johannesburg which is owed the largest amount at R36.6 billion, followed by the City of Ekurhuleni at R19.9 billion, the City of Tshwane at R16.3 billion and eThekweni at R15.9 billion.
 13. Households in metropolitan areas are reported to account for R84.0 billion or 73.4 per cent of outstanding debt, followed by businesses which account for R24.7 billion or 21.6 per cent. Debt owed by government agencies is approximately R5.2 billion or 4.5 per cent of the total outstanding debt owed to metros.
 14. For the secondary cities, R44.8 billion (R46.8 billion reported in the third quarter of 2020/21) in outstanding consumer debt. The majority of debt is owed by households amounting to R33.8 billion or 75.5 per cent of the total outstanding debt. An amount of R38.8 billion or 86.6 per cent has been outstanding for more than 90 days.
 15. Municipalities owed their creditors R73.7 billion as of 30 June 2021, an increase of R8.2 billion when compared to the R65.5 billion reported in the third quarter of 2020/21.
 16. Municipalities in the Free State have the highest outstanding creditors greater than 90 days at R19.9 billion, followed by Mpumalanga at R7.9 billion and Gauteng at R6.5 billion.
 17. The total balance on borrowing for all municipalities equates to R71.2 billion as at 30 June 2021. This includes long term loans of R51.6 billion, long term marketable bonds of R10.7 billion and long term non-marketable bonds of R5.8 billion. The balance represents other short- and long-term financing instruments.
 18. As of 30 June 2021, the total investments made by municipalities equates to R37.5 billion. This is R5.8 billion less than the R43.3 billion reported in the third quarter of



2020/21. Investments include bank deposits of R32.9 billion, guaranteed endowment policies (sinking funds) of R3.5 billion, listed corporate bonds of R906.4 million, securities from the National government of R138.4 million and other smaller investments.

Over- and underspending

19. A net total underspending of R39.2 billion or 8.1 per cent of municipalities' total adjusted expenditure budgets was reported. Compared to the R96.9 billion recorded as net total underspending in 2019/20, there has been a decrease of R57.7 billion year-on-year but this decrease might be misrepresented by municipalities that do not submit their required 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 expenditure for the period 2017/18 - 2020/21

R thousands	2017/18			2018/19			2019/20			2020/21		
	(Over)	Under	Net	(Over)	Under	Net	(Over)	Under	Net	(Over)	Under	Net
Total	(22 627)	66 834	44 207	(3 844)	57 805	53 961	(8 349)	105 267	96 918	(26 656)	65 859	39 203
Capital	(8 187)	20 813	12 626	(836)	18 983	18 146	(7 609)	35 172	27 563	(10 707)	24 341	13 634
Operating	(15 108)	46 690	31 581	(4 872)	40 687	35 815	(2 767)	72 122	69 354	(19 715)	45 284	25 569

Source: National Treasury Local Government Database

- Aggregate overspending of the adjusted operating budget – R19.7 billion or 4.7 per cent;
 - Aggregate underspending of the adjusted operating budget – R45.3 billion or 10.9 per cent;
 - Aggregate overspending of the adjusted capital budget – R10.7 billion or 15.5 per cent;
 - Aggregate underspending of the adjusted capital budget – R24.3 billion or 35.1 per cent;
20. 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 of 30 June 2021

21. The 2020/21 fourth quarter publication in terms of section 71 of the 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 two national gazettes namely Government Gazette No. 44178 and Government Gazette No. 44349 dated 22 February 2021 and 29 March 2021 respectively during the 2020/21 financial year.
22. The Minister of Finance approved the additional allocations, stopping and re-allocations to municipalities made in terms of sections 19 and 20 and also the amendment to conditional grant frameworks in terms of the Division of Revenue Act, 2020 (Act No. 4 of 2020) (DoRA) as amended by the Division of Revenue Amendment Act, 2020 (Act No. 10 of 2020) and the Division of Revenue Second Amendment Act, 2020 (Act No. 20 of 2020).
23. A total amount of R9 billion which forms part of the R20 billion package for Local Government was re-purposed within the existing allocations in terms of the 2020 DoRA to address spending priorities in line with the COVID-19 declared disaster. An amount of



R6.6 billion is reprioritized to fund water and sanitation infrastructure and an amount of R2.4 billion will be reprioritized towards the sanitation of public transportation and related infrastructure.

24. National Treasury has for many years been publishing conditional grant expenditure as reported by municipalities but with the verifications of the respective municipalities through the sign-off process by the accounting officers. While this has improved both the coverage of reporting, it has also improved the quality of information being reported. However, there remains huge scope for improvement on the efficiency of spending between different municipalities.
25. The introduction of the Municipal Standard Chart of Accounts (mSCOA) reform as a reporting tool has placed very specific requirements on grant reporting from municipalities. Municipalities are struggling to grasp the accounting and reporting treatments they should adhere to. Therefore, the fourth quarter publication in terms of the MFMA section 71 would assess performance reporting from both reports by the municipalities and their respective transferring officers in ensuring the quality of data. As a result, notable differences are observed between verifications by municipalities on their own grants reports against what the transferring officers are reporting to NT directly.
26. In terms of the reported conditional grant numbers by municipalities, all schedule 7 (indirect conditional grants), Schedule 4 (supplementary grants), and the equitable share are excluded from the analysis because no expenditure is reported by municipalities on these grants. While supplementary grants are reported as part of the integrated operational and capital expenditure by municipalities, the indirect grants are never transferred to municipalities directly into their bank accounts. Expenditure of these types of conditional grants is done by the National Transferring officers (TNO) administering the particular conditional grant.

Capacity Building and Other Conditional Grants Expenditure as of 30 June 2021

27. At the end of the fourth quarter, a total amount of R1.8 billion was transferred by the TNOs for capacity grants and reported expenditure of 80 per cent against the total allocation of R1.8 billion as reported by the TNOs, while municipalities reported expenditure of 82.9 per cent against the total allocation. These grants are intended to assist municipalities in the development of their management, planning, technical, budgeting and financial management capabilities in the 2020/21 financial year.
28. The expenditure performance as reported by the TNOs and municipalities under this category are not far off as opposed to infrastructure grants. This is what National Treasury strives for, i.e., for both expenditure figures from TNOs and municipalities to align because these figures inform policy decisions and future allocations.
29. The highest performing conditional grant under this category during the fourth quarter remains the Expanded Public Works Programme (EPWP) at 90.2 per cent, followed by the Local Government Financial Management Grant with a reported performance of 87.8 per cent as reported by the TNOs of both grants. These two grants have maintained their strong performance throughout the financial year.
30. The Municipal, Disaster Relief Funding shows a dismal performance spending of 17 per cent against the total allocation of R150 million even though the expectation is always that this type of grant must always reflect high expenditure due to its emergency nature.

Infrastructure Conditional Grants Expenditure as of 30 June 2021



31. Direct conditional grants allocated for Infrastructure allocation amounts to R27.6 billion in the 2020/21 financial year and this is a revised allocation from the original R30.4 billion allocation. This amount excludes indirect or in-kind allocations to transferring officers executing specific projects on behalf of municipalities in the municipal area.
32. From the amount of R27.6 billion allocation, R27.4 billion has been transferred to municipalities by TNOs which constitutes 99 per cent. The fourth quarter expenditure report on infrastructure conditional grants reflected an expenditure of 84.3 per cent as reported by TNOs and 98.3 per cent by municipalities.
33. The Integrated Urban Development Grant (IUDG) is allocated to selected urban local municipalities. These cities previously received their infrastructure funding as part of the MIG programme. The grant recognises that municipalities differ in terms of their context and introduces a differentiated approach to encourage integrated development in cities. During the fourth quarter, the IUDG is reflected as the best performing infrastructure grant at a performance level of 98.8 per cent against the total allocation of R936.4 million. This is followed by MIG with expenditure performance of 90.4 per cent against the total allocation of R14.5 billion. For the past five financial years, MIG has been reporting at an average expenditure performance level of 90 per cent. This analysis on Infrastructure spending is based on the information reported by the TNOs responsible for administering the various infrastructure grants due to the overstating in performance in the reporting observed by the municipalities during this quarter.
34. The lowest performing Infrastructure grants are the Regional Bulk Infrastructure Grant and the Rural Roads Assets Management Systems Grant, both of which are reflecting an expenditure of less than 70 per cent as of the end of the 2020/21 financial year. The low expenditure under this category can be attributed to the mainly late appointment of service providers, which has been amongst other reasons the need to municipalities to apply for rollovers.

Outcome of the 2019/20 Rollover process

35. The fourth quarter publication includes the 2019/20 rollover approved amounts for municipalities and the expenditure thereof. During the 2020/21 financial year, R4 billion was approved against an amount of R6.5 billion in rollover requests and R2.2 billion was rejected. The R4.4 billion includes the USDG because cities are expected to apply for any unspent USDG funds.
36. The total rollover request amount for the 2019/20 financial year was significantly higher than the amount requested for the 2017/18 and 2018/19 financial years of R3.3 billion and R4.4 billion respectively, this can be mainly attributed to the Covid-19 restrictions put in place which prevented a lot of municipalities from implementing projects.
37. 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. The 111.9 per cent expenditure against the MIG for instance is concerning because when applying for rollovers, municipalities indicate that most projects have been implemented and invoices have been issued and are only waiting to recognize expenditure pending the approval of rollovers. Therefore, the analysis of rollovers must be strengthened by every stakeholder involved in the rollover process before the approvals are granted.

38. The general observation of the municipal performance is that conditional grants 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 2020 Division of Revenue Act. The budgeted figures shown are based on the 2020/21 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 2021. 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 of 30 June 2021;
 - b. CoVID-19 related expenditure
 - c. Over- and under collection of revenue against the adjusted revenue budget 2020/21 for the following dimensions:
 - i. Total municipal budgets;
 - ii. Operating budgets;
 - iii. Capital budgets;
 - d. Over- and underspending of adjusted expenditure budget 2020/21 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 – 229 municipalities;
 - m. Listing of investment instruments – 232 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.

