KwaZulu-Natal Provincial Treasury

Municipal Budget Performance 2019/2020 Third Quarter Review

Municipal Budget Performance 2019/20: Third Quarter Review Speech

Delivered by

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1. INTRODUCTION

Honourable Speaker, as mandated by Section 71(7) of the Municipal Financial Management Act (MFMA), I hereby table the third quarter of the Municipal Finance Quarterly Review report. This report covers the financial performance of municipalities in KwaZulu-Natal (KZN) as at the end of the third quarter of the 2019/20 financial year ended on 31 March 2020.

The consolidated statement provides the in-year financial performance of municipalities against their budgeted revenue and expenditure. It also includes the capital and operating budget performances as well as reports on debtors, creditors, conditional grants and compliance with the DoRA and MFMA reporting requirements.

Also contained in the review is a status report on the implementation of the Municipal Regulations on the Standard Chart of Accounts (mSCOA) and other municipal support and oversight.

Assessing the expenditure performance of municipalities assists in serving as a control and management tool and also serves as an early warning signal for the identification of financial risks. Later I will outline some of the challenges we have identified and how we plan to address those.

But before I get into the details of the report, Honourable members, please allow me to first to make the following points:

a. Let us be under no illusion. This report paints a grim picture of the state of municipal finances. This is due to both objective and subjective factors.

But as our Premier is wont to say, let us not just lament the state of affairs. The point is to change it.

I believe we have the political will and commitment to do this. It will not be achieved overnight but we can make significant progress and lay the foundations for sustained improvement.

b. I wish to call on all our public servants to stand up and be counted.

I especially call on our professional management from Municipal Managers to Chief Financial Officers and SCM practitioners to defeat the narrative that we are a corrupt and inept state. Refuse to do wrong. It does not matter who the instruction is from. The law protects you. The law provides space for you to record your reasons and raise your issues.

Our civil servants must be given the opportunity to move forward in their personal development. Civil servants must reflect an ethos that seeks to achieve excellence and best practice – that gets reflected in the institution you serve, in the organ of state that you serve. Ultimately you will determine whether we become the capable, ethical state.

c. This is not a time for petty party politics. Let us rise to the occasion. We require a united and collective effort at all levels – national, provincial, and local.

d. Covid-19 is exacting a heavy toll. What positive legacy can we create in return, so that we can say to those who have lost loved ones, become seriously ill, lost their jobs or face serious hunger – it was not in vain.

The legacy must be that we changed for the better. We begin to deal with fundamental problems. We remain true to the values of our founding fathers and all who sacrificed so much. We must reject crass materialism and conspicuous consumption. We must return to a life we can afford, that is sustainable. We must, at all times, be guided by what we are leaving for the next generation.

e. We have great talent and potential in our province. I call on eThekwini Municipality to regain its status as a leading municipality, teaching everyone else best practice, and cutting edge innovation. You have done it in the past. Restore order and good governance.

I also encourage Msunduzi Municipality to persevere with their efforts to build a united, critical mass for positive change. Msunduzi is the capital city of our province. We all have a duty to contribute to its revival and success.

f. The Covid-19 procurement regulations apply to municipalities as well. Municipal Covid-19 expenditure must also be disclosed and will be interrogated

We expect, very shortly, announcements from our Honourable Premier setting out directives, compelling detailed disclosure of Covid-19 spend by both the provincial and local spheres of government.

We also expect the Minister of Finance to gazette amendments to the emergency procurement regulations.

2. ECONOMIC REVIEW AND OUTLOOK IN SA AND KZN ECONOMIC GROWTH RATE

We table this report at a time when our country is riding the wave of Covid-19 infections. By the beginning of this week, our country had already recorded more than 500 000 confirmed cases and more than 8000 Covid-19 related deaths. Sadly, these numbers will continue to rise in the coming weeks.

The pandemic has not only posed a health crisis but has also worsened what was already a bleak economic outlook.

As per the data released by Stats SA, Mining and Manufacturing were the most significant contributors to this poor performance in the first quarter of 2020. Mining had recorded its biggest slump in six years as activity in the industry slowed by 21.5%, while activity in the manufacturing industry decreased by 8.5%.

Softer demand for electricity and water led to the electricity, gas and water supply industry going down by 5.6%. While Construction registered its 7th consecutive quarter of economic decline, slipping by 4.7%. With the exception of retail, all other activities in the trade industry (food and beverages, wholesale, motor trade, and accommodation) recorded a decline in economic activity. Overall, the trade industry shrank by 1.2% in the first quarter.

During this period, five industries made a positive contribution to GDP growth. These include personal services and transport and communications, which grew by 0.5%. Government activity also edged up by 1.0%, while the finance industry expanded by 3.7%.

The agriculture industry recorded a particularly good quarter as a rise in the production of field crops, horticultural products, and animal products boosted activity by 27.8%. This was underpinned by favourable weather conditions and a rise in agricultural exports.

Meanwhile, the 2020 Economic Survey of South Africa report by the Organisation for Economic Co-operation and Development projects that government deficit will reach 15% of GDP in 2020. It further notes that public debt has been increasing in the last decade and is projected to exceed 80% of GDP by 2020 and that therefore in the absence of consolidation, the debt level will exceed 100% of GDP in 2022, raising sustainability risks in a context of low growth and high government borrowing rates.

We agree with the observation in the report that the fiscal strategy has to sequentially cope, in the short-run, with the impact of the coronavirus and, in the medium term, implement a bold consolidation to restore debt in a sustainable path while spurring potential growth.

3. MUNICIPAL BUDGET PERFORMANCE 2019/2020 THIRD QUARTER REVIEW

Honourable members, it is within the highlighted context of the economic landscape that I table the consolidated budget performance review, which covers the financial performance of municipalities in KZN as at the end of the third quarter of the 2019/2020 financial year.

3.1 Provincial Total Municipalities' Operating Revenue

By 31 March 2020, municipalities in KwaZulu-Natal reported having generated operating revenue amounting to R48.8 billion (70.7%) of the Adjusted Budget of R69 billion.

The revenue generated was, however, below the expected straight-line projection of 75%. The percentage is also lower in comparison to the operating revenue of 72.5% generated in the third quarter of the previous financial year.

3.2 Provincial total Municipalities' Operating Expenditure

Municipalities in KwaZulu-Natal had incurred operating expenditure amounting to R41.9 billion or 60% of the Adjusted Budget of R69.8 billion. This was also below the projected baseline of 75%. Therefore, municipalities in KwaZulu-Natal reported an Operating Surplus of R6.9 billion at the end of quarter three of the 2019/20 financial year.

3.3 Capital expenditure

During this reporting period, the municipalities in the Province were expected to have spent 75% of the R16.1 billion Adjusted Budget for Capital expenditure. However, the municipalities had spent R25.2 billion or 155.9%, which significantly exceeded the available budget.

Therefore, when compared to the total expenditure of R6.6 billion (45.9%) that municipalities had spent at the end of quarter three of the 2018/19 financial year, this means that capital expenditure increased by R18.6 billion.

Honourable members I must caution that the current reported figures appear to be incorrect due to significant reporting errors made by several municipalities.

The bulk of the Capital expenditure by the end of the third quarter was spent on Municipal governance and administration at R10.8 billion (43%).

3.4 Repairs and Maintenance Expenditure

All KwaZulu-Natal Districts, including eThekwini Metro, had by 31 March 2020 spent a total of R3.1 billion (61.2%) on repairs and maintenance.

The reported expenditure for Repairs and maintenance may be understated as the uMuziwabantu, and uPhongolo Local Municipalities did not report on repairs and maintenance.

Except for the Zululand District with 95.2%, all districts in the Province, including the eThekwini Metro (63.3%), reported Repairs and maintenance expenditure of below the projected 75%.

UMkhanyakude (20.9%), uMgungundlovu (38.4%), Harry Gwala (48.2%) and iLembe (48.8%) districts reported the lowest expenditure for repairs and maintenance.

Underspending on repairs and maintenance could harm service delivery, and this issue is one that has been flagged by the Auditor General in the latest audit outcomes report.

For municipalities supplying water and electricity, the consequence of low expenditure on repairs and maintenance is evident in their reported annual electricity and water losses.

Low expenditure on Repairs and maintenance may also be an indication that the municipalities lack asset repair and maintenance plans or are experiencing cash flow challenges and are therefore unable to spend at appropriate levels on this item.

3.5 Debt and debtor age analysis

At the end of the third quarter of 2019/2020, a total of R22.6 billion was owed to municipalities in the Province. Of this, a total of R18.1 billion (80.1%) of the debt was in the over 90 days category. Of the total debt owed to municipalities, eThekwini Metro reported the highest amount of R13 billion (57.5%) followed by the uThukela District at R1.9 billion (8.4%), Amajuba District at R1.7 billion (7.4%) and the uMgungundlovu District at R1.3 billion (5.8%).

The debtors' age analysis by income source shows that R7.5 billion or 33.3% of the debt owed relates to water followed by property rates at R6.3 billion or 27.7% and electricity at R2.6 billion or 11.5%. Analysis by customer group indicates that households owed 68.1% or R15.4 billion of the total debt followed by commercial debtors at 21.2% or R4.8 billion and organs of state at 8.1% or R1.8 billion. Compared to the R20.2 billion owed to municipalities at the end of the third quarter of 2018/2019 financial year, the R22.6 billion owed to municipalities at the end of the third quarter of the 2019/20 represents an increase of 11.9% or R2.4 billion.

It should be noted however that this debtors figure is understated due to the fact that the Msunduzi, Mkhambathini and uPhongolo Local Municipalities, as well as the iLembe District Municipality, did not report any Debtors for the period under review.

All districts reported high amounts of outstanding debt categorised as over 90 days. The uMkhanyakude District reported the highest percentage of outstanding Debtors in this category at 94%, followed by the Amajuba District at 92.5%. The uMgungundlovu, Zululand, uMzinyathi, Harry Gwala, uThukela and Ugu Districts reported over 80% of their outstanding debtors to be in the over 90 days category. Debt collection efforts must be prioritised on the long outstanding debts while some of these debtors may need to be written off as they may have arisen as a result of incorrect billing of indigents, amongst others.

3.6 Creditors' Age Analysis

By 31 March 2020, outstanding creditors for municipalities in the Province amounted to R4.3 billion. This represents an increase of R202.1 million (5%)

compared to the R4.1 billion reported at the end of quarter three of the previous financial year.

Outstanding Creditors payable within the 0-30 Days category amounted to R1.8 billion or 42.6%. Creditors not paid within 30 days accounted for R2.4 billion or 57.4% of total creditors. This is in contravention of Section 65(2)(e) of the MFMA which requires that the Accounting Officer of a municipality must take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement.

The majority of the outstanding creditors related mainly to Trade creditors at R1.4 billion (33.3%) followed by bulk electricity at R1.1 billion or (25.3%) and Loan repayments of R807.3 million or (19%.) Of the bulk electricity outstanding balance of R1.1billion, R273.7 million had been owing for more than 90 days and this was mainly due to Mpofana and the Ulundi Local Municipalities owing Eskom R158.6 million and R111.7 million for unpaid electricity, respectively.

Non-payment of creditors within 30 Days remains a serious concern to KZN Provincial Treasury as it exposes municipalities to avoidable penalties and interest. Incurring p tantamount to penalties and interest under such circumstances is tantamount to fruitless and wasteful expenditure.

3.7 National Conditional Grants

In terms of the Division of Revenue Act (DoRA) of 2019, direct allocations to all 54 KwaZulu-Natal municipalities amounted to R6.9 billion, while allocations in-kind amounted to R840.3 million bringing the total to R7.8 billion.

Of the direct allocations of R6.9 billion, a total of R5.6 billion or 81.6% had been transferred to municipalities by the end of quarter three. Municipalities reported having spent R12.4 billion or 219.4% against this transferred amount.

The main contributors to this over-expenditure was the R10.1 billion spent against the Municipal Infrastructure Grant (MIG) and the R1.1 billion spent against the Water Services and Infrastructure Grant (WSIG).

Municipalities, however, attributed the over-expenditure in the main to the data string figures being incorrect, which is something they committed to fixing.

3.8 Non-compliance with the DoRA and MFMA reporting requirements

Honourable members during this reporting period we have noted with concern that some municipalities failed to comply with the DoRA and MFMA requirements.

In quarter two of the 2019/2020 financial year, I, as the MEC for Finance, issued a non-compliance circular requesting all the delegated municipalities to submit all outstanding documents and mSCOA data strings to the National and Provincial Treasuries. Despite these efforts and regular reminders, some municipalities have still not submitted all their documents and returns as at 22 June 2020.

The report we are tabling today shows that three municipalities did not table their 2020/21 Draft Budgets to Council as required by Section 16(2) of the MFMA. Furthermore, four municipalities did not submit their 2020/21 Tabled Budgets to Provincial Treasury. As a result, Provincial Treasury could not provide views on the 2020/21 Tabled Budget as required by Section 23(1)(b) of the MFMA.

We have also noted with concern that fourteen municipalities did not place their 2020/21 Tabled Budgets on their municipal websites as required by Section75 of the MFMA. Also of concern was that by 02 March 2020, two municipalities had not submitted their mSCOA data strings for their 2019/20 Mid - Year Budget and Performance Assessment Reports (MFMA Section 72 Reports). The MFMA Section 72 reports were due for submission to National and Provincial Treasury on 25 January 2020.

By 22 June 2020, five municipalities had not submitted either their in-year monthly report, debtors' monthly report, creditor's monthly report or a combination thereof in the form of the mSCOA data strings.

Honourable Speaker, we wish to remind municipalities that Section 71 of the MFMA requires that the Accounting Officer of a municipality must submit within ten working days after the end of each month, to the Mayor and Provincial Treasury, a statement in the prescribed format on the state of the municipality's budget.

3.9 Implementation of the Municipal Regulations on Standard Chart of Accounts (mSCOA)

Honourable Members, as you will recall, the Municipal Regulations on Standard Chart of Accounts (mSCOA) was promulgated by the then Minister of Finance on 22 April 2014.

This effectively meant that from 01 July 2017, all municipalities and related municipal entities were required to transact in compliance with the mSCOA Regulations. Provincial Treasury continued with the implementation of mSCOA in the Province during the third quarter of the municipal financial year.

It should be noted Madam Speaker that for the first time in South Africa's history, the reports for the 2019/20 financial year are prepared using the figures from the mSCOA data strings.

The implementation of mSCOA in the Province has, however, not been without any challenges. Some of the challenges we have identified are that there seems to be a poor understanding of the mSCOA chart the use thereof. We have also noted that budgetary constraints are preventing municipalities from implementing new modules or upgrading their systems;

Madam Speaker let me assure you that our mSCOA team is already hard at work providing support to municipalities as we want to improve the situation. The support we provide includes on-site assessments through which errors were identified and the corrective measures required are discussed.

4. CONCLUSION AND WAY FORWARD

Madam Speaker, as I alluded to earlier, even pre-pandemic we were not in the best economic and fiscal position as a country. Therefore, we are mindful that while this report paints a grim picture in terms of the financial performance of municipalities in the third quarter of the municipal year, by now the situation has been aggravated by Covid-19.

Like all of us, municipalities find themselves with added financial pressures but with revenue sources that are drying up. But we are not helpless spectators, and we must also guard against blaming everything on the pandemic or the on the economic crisis we face.

Looking for scapegoats in instead of finding solutions to the challenges that confront us is never an option. I think members of this House will agree with me that some of the issues that have been raised in the report are not new challenges.

Some of the challenges that continue to plague our municipalities include:

- The lack of resources due to the high levels of vacancies
- The resignation of key officials, such as the Chief Financial Officer, during key periods
- Non-filling of vacancies being
- Significant reliance on Provincial Treasury support, consultants or interns to perform the work of municipal officials
- Poor record-keeping and maintenance of adequate supporting documentation

The Office of the Auditor General has, over the years, constantly warned us about the financial reporting lapses, weak accountability, collapse of governance and exposure to abuse of the public purse in local government. Some of the challenges I mentioned above can be directly linked to some of the shortcomings identified by the Auditor General.

In his latest audit outcomes report for local government (2018-19) which he titled “Not much to go around, yet not the right hands at the till”, Auditor-General Kimi Makwetu notes that funds amounting to billions of rand allocated to are managed “in ways that are contrary to the prescripts and recognised accounting disciplines”.

Concerning KwaZulu-Natal municipalities, the AG noted that “accountability was not adequately practised and enforced by leadership, and the failure of key controls continued. Most district municipalities continued to struggle with basic financial and performance management processes, displayed a lack of responsiveness to implement and monitor action plans, and had weak governance structures that did not enable effective accountability.”

The AG then says, “Leadership did not always influence robust systems of internal control to drive good governance and discipline – more focus must be placed on exercising political oversight and addressing the aspirations of citizens.”

This is an indictment on all of us as elected public representatives to strengthen our oversight role, and as the AG says, place more focus on addressing the aspirations of our communities.

In tabling this report, I hereby commit, as the political head of the Provincial Treasury, that despite all the limitations that exist, the Provincial Treasury will intensify its support to municipalities to improve the financial management accounting and reporting processes at the delegated municipalities and assist them in addressing their audit findings.

I thank you.