

**REMARKS BY THE MEC FOR FINANCE, MS NELISWA PEGGY NKONYENI
BEFORE THE FULL SITTING OF THE HOUSE ON THE TABLING OF THE QUARTER
FOUR MUNICIPAL BUDGET PERFORMANCE REPORT FOR 2021/22,
KZN LEGISLATURE.
22 SEPTEMBER 2022**

Honourable Speaker, Ms N. Boyce

Honourable Deputy Speaker, Mr T. Mthembu

Honourable Acting Premier, Ms N. Simelane

Honourable Leader of Government Business, Mr S. Duma

Honourable Members of the Executive

Honourable Members of the Legislature

Provincial Treasury Management led by the Head of Department, Ms Carol Coetzee

Friends and Colleagues

Good Day

Honourable Speaker, it is a pleasure for me to appear before this reputable House today, not only because it is impartial and objective, but it also has a deep-seated understanding of the work that we do at the KwaZulu-Natal Provincial Treasury.

Before continuing with the business of the day, Honourable Speaker, please allow me to join the nation in sending our heartfelt condolences to the families of the 21 people, mainly young people, who perished in a horrific accident that occurred last week on the N2 near oPhongolo. We pray that the families receive strength and comfort during this difficult time.

Honourable Members, as we are meeting here today, it is just two days before we celebrate our Heritage Day. This is the day where we recognize and celebrate the cultural wealth of our nation. We celebrate the day by remembering the

cultural heritage of the many cultures that strengthen the rainbow nation, fortify social cohesion and unite the people of South Africa. We encourage everyone to celebrate their culture and the diversity of their beliefs and traditions, in the wider context of a nation that belongs to all its people

it is worrying that in a country with such a rich heritage we still experience incidents that undermines the notion of rainbow nation. Time and again as the nation we are called upon to respond to cases of racial discrimination that keeps on creeping up within our society.

Racial hatred should be eliminated, so as the gender-based violence which has seen many women and children suffer emotionally and physically, some losing their precious lives. There is still work to be done.

In addition to battling social ills, the Covid-19 pandemic, the July 2021 unrest as well as the recent April 2022 floods has further exacerbated the plight of our communities and has made the 2022 municipal financial year a very difficult one. The ongoing energy crises, high unemployment rate as well as geopolitics in Europe have also hampered economic growth. Municipalities have barely kept their heads above water, which brings me to the business for today.

Section 71(7) of the Municipal Finance Management Act requires me to table the Consolidated Municipal Budgets Performance Report which provides an overview of the state of municipalities and details the revenue and expenditure performance of municipalities at the end of the fourth quarter of the 2021/22 municipal financial year which ended on the 30th of June 2022.

The report was prepared using figures from the Municipal Standard Chart of Account Data Strings (mSCOA). The mSCOA Regulations 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 with effect from the 1st of July 2017.

The mSCOA Regulations require that municipalities upload their budget and financial information in a data string format to the National Treasury Local Government portal. The credibility of the information contained in the mSCOA data strings is a concern but it is improving as the reform is maturing.

Some of the technical challenges include the fact that a 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 excel spreadsheets and then import the excel spreadsheets into their financial systems.

Some municipalities are not locking their Approved Budgets annually on their financial systems. Furthermore, their financial systems are not being locked at month-end to ensure prudent financial management. KZN Provincial Treasury continues to work with National Treasury to assist municipalities to address these challenges by providing technical on the ground support.

Madam Speaker, the financial performance at a local government level is still not at a level where we want it to be. This is caused by a diverse of challenges that exist in the local government environment as well as the macro economic factors. The underlying issues being poor governance and ineffective administration.

MUNICIPAL BUDGET PERFORMANCE: 2021/22

Operating Revenue

The total upward adjusted operating revenue budget, which includes the eThekweni Metro and the ten districts in the province was 77.6 billion rand for the 2021/22 financial year. Municipalities generated a total amount of R82.1 billion. Notably, 10 municipalities out of a total of 54 generated operating revenue above their adjusted budgets.

As at the end of the fourth quarter, municipalities generated most of their revenue from Service charges at 38.9 billion rand, comprising of Electricity at 26 billion, Water at 9.2 billion, Sanitation at 2.1 billion and Refuse revenue at 1.6 billion respectively. Another significant contributor was operational Transfers totalling 18.5 billion rand (operational transfers include the following grants: equitable share; financial management grant; expanded public works programme integrated grants; provincial operating grant; some municipalities also include 5 % portion on the municipal infrastructure grant).

Of the 54 municipalities in KwaZulu-Natal, 40 municipalities reflected that they have a significant dependence on grants given that their own revenue generated is less than 50 percent of their total operating revenue adjusted budget for the 2021/22 financial year primarily due to the indigent communities they serve and their inability to pay for services and thereby increase the revenue base of the municipality.

Operating expenditure

The total upward adjusted operating expenditure budget, which includes the eThekweni Metro and the ten districts in the province was 79.2 billion rand for the 2021/22 financial year. The municipalities in KZN incurred actual operating expenditure amounting to 80.9 billion rand as at the end of the fourth quarter.

Of all the municipalities in the province, 45 municipalities which equates to 83.3 percent, under-spent their adjusted budgets for operating expenditure. It must be noted with grave concern that the uThukela and uMkhanyakude Districts spent the lowest in terms of their adjusted budgets. It is also concerning to note, that seven local municipalities overspent on their adjusted budgets, in particular the Msunduzi Local Municipality and the uMzinyathi District Municipality (this is due to incorrect reporting.)

As at the end of the fourth quarter of 2021/22, the key contributors to the municipalities spend was on Employee related costs followed by Bulk purchases.

Remuneration of councillors was the lowest contributor towards the total operating expenditure.

Capital revenue

The total upward adjusted capital revenue budget, which includes the eThekweni Metro and the ten districts in the province was 12.9 billion rands for the 2021/22 financial year. Municipalities in KZN recognised capital revenue amounting to 14.7 billion rands of the adjusted budget to fund their capital expenditure. (capital revenue recognised refers to sources of funding utilised to finance capital expenditure).

Similar to most municipalities across the country, the main source of capital funding in the province is grants. As a result, capital transfers recognised contributed 79.6 per cent to the total capital source of funding. It should be noted that the high Transfers recognised was influenced by the Msunduzi Local Municipality incorrectly reporting R5.2 billion against an Adjusted Budget of R429.7 million.

The balance of source of funding for capital revenue was made up of internally generated funds made up 1.8 billion of total capital revenue, whilst Borrowings comprised of 1.2 billion of the total capital revenue as at the end of the 2021/22 financial year.

Capital expenditure

The aggregated municipal adjusted capital budget for the municipalities in KZN was 12.9 billion rand. The combined actual capital expenditure against the total adjusted capital budget amounted to 15.2 billion (representing 117.9 % at year-end). The high Capital expenditure reported, was mainly attributed to the Msunduzi Local Municipality incorrectly reporting R6.7 billion against their adjusted budget of R 655.2 million (note that Msunduzi local municipality is non-delegated and is supported by National Treasury). The error has also distorted the provincial average as at the end of quarter four of the 2021/22

financial year (this information was presented to National Treasury on 20 July 2022).

Disappointingly, except for the uMgungundlovu District, all the districts within the province, including the eThekweni Metro, reported capital expenditure below the 90 percent level against their respective adjusted budgets.

As you may be aware, capital expenditure is directly linked to the delivery of essential services, such as water, electricity, roads, housing and others. Capital expenditure is also critical for the renewal of municipal infrastructure to ensure reliability and quality of municipal services to support economic growth within their jurisdictions. Therefore, under-spending on capital expenditure inherently impacts negatively on these critical service delivery programmes. It further delays the delivery of infrastructure for the very same basic services while exacerbating the current backlogs

Madam Speaker, it must also be noted, that municipalities are currently in the process of finalising their 2021/22 Annual Financial Statements which must be submitted to the Auditor-General by 31 August 2022. This process includes the updating and balancing of their asset registers with the latest available financial information and factoring in accounting journal entries and therefore the number we have presented are preliminary unaudited figures.

Debt management

The total debt owed to municipalities at the end of the fourth quarter of the 2021/22 financial year was 35.4 billion rand which represented an increase of 13.6 percent from the preceding financial year. It is of concern that, out of the entire amount owed to municipalities, a substantial debt totalling R29.9 billion has been outstanding for over 90 days, representing an increase of R4.3 billion compared to R25.6 billion in the 2020/21 financial year.

All of the districts had more than 70 percent of their outstanding debt in the over 90 days' category except for the King Cetshwayo District, that had 60.2

percent in this ageing category. It should be noted that several factors influence the high level of debt across the districts. These factors include the socio-economic conditions such as the high level of indigents, state social grants dependency and the unemployment rate, KZN riots, service delivery protests and the recent floods.

The total amount owed by the household customer group stood at R24.7 billion or 69.7 percent of the total debt as at the end of June this year. The commercial category owed 20.6 percent while organs of the state represented 7.8 percent of the total debt. COGTA working with Provincial Treasury are supporting municipalities in clearing the debt owed by government departments.

Despite the socio-economic challenges facing the country, municipalities need to implement effective debt collection strategies and policies to improve their collection rates and to ensure that debt owed to them does not become irrecoverable. This would also include enhancing the credibility of their invoices to consumers to improve recoverability.

Creditors management

The total debt owed by municipalities as at the end of the 2021/22 financial year was 7.8 billion rand.

While 61.1 percent of the debt owed by municipalities was within the zero to thirty days' category, a substantial amount of debt totalling 2.1 billion rand was outstanding for Over 90 Days. It is concerning that 38.9 percent of the debt owed by municipalities, was outstanding for longer than 30 days which is in contravention of Section 65(2)(e) of the MFMA.

The majority of the outstanding Creditors relate mainly to Bulk electricity and Trade creditors. R479.7 million of the Bulk Electricity Creditors balance was outstanding for Over 90 Days. This was mainly due to the fact that the Mpofana, Ulundi and Msunduzi Local Municipalities collectively reported 478.6 million

rands outstanding to Eskom for a period exceeding 90 Days. Due to the poor collection of outstanding Debtors, the municipalities experienced cash flow challenges and were therefore unable to make full payment on invoices owed to Eskom.

R919.6 million of the Bulk Water Creditors balance was outstanding for over 90 Days. This was mainly due to the fact that the King Cetshwayo District Municipality, the Ugu District Municipality and the Msunduzi Local Municipality collectively reported 895.1 million rand owing to the Umgeni Water Board for unpaid Bulk water for a period exceeding 90 Days.

Cogta is currently facilitating discussions to resolve the overdue debt and contractual disputes between UMngeni Water and King Cetshwayo District Municipality. UMngeni Water has also entered into payment plans with Ugu District Municipality as well as Msunduzi Local Municipality.

National conditional grants

In terms of the Division of Revenue Act, Act No. 4 of 2021, municipalities received 8.7 billion rand in the form of conditional grants. Direct allocations to all 54 municipalities in KwaZulu-Natal amounted to R7.99 billion, while allocations in-kind amounted to R715.5 million. Municipalities have reflected spending of R4.9 billion against the total direct allocation of R7.99 billion.

A total of 15 municipalities reported expenditure less than 90 percent against their MIG allocations for the 2021/22 financial year. Seven municipalities reported no expenditure against their MIG allocations due to challenges experienced with their financial systems and one municipality incorrectly reported negative expenditure against their MIG allocation (these municipalities incurred expenditure, however due to challenges with their grant module, they were unable to report expenditure as at the end of the quarter. These municipalities indicated that they are currently engaging their service provider to assist with the functionality of this module)

The total Water Services Infrastructure Grant allocation to the municipalities within the province was R932.1 million. As at the end of the fourth quarter, 64.5 percent was spent when compared to the allocations to municipalities.

Criteria for determining serious financial problems

On a quarterly basis, National and Provincial Treasuries utilise the criteria as per Sections 138 and 140 of the MFMA to identify and monitor municipalities that display one or more of the indicators of serious financial challenges, based on the MFMA Section 71 reports.

15 municipalities have been identified as meeting the criteria for having serious financial problems. Letters were sent to all delegated municipalities that display one or more of the indicators of serious financial problems as at the end of fourth quarter, requesting municipalities to investigate the reported performance and take the necessary steps to rectify the situation.

Madam Speaker, our role as KZN Provincial Treasury is also to provide assistance and support to municipalities in distress, however, successful implementation of the support initiatives hinges on commitment by the leadership and staff of our municipalities in embracing the improvements and implementing the processes introduced by Provincial Treasury.

Provincial Treasury will continue to support municipalities with budget processes, mSCOA, supply chain management, infrastructure management, banking, cash management and investments, internal audit, risk and advisory services, municipal debt recovery project as well as municipal accounting and reporting.

Non-compliance with DoRA and MFMA reporting requirements

In terms of Section 71(1) of the MFMA, the Accounting Officer of a municipality must by no later than ten working days after the end of each month submit to

the Mayor of the municipality and the relevant Provincial Treasury a statement in the prescribed format on the state of the municipality's budget. However, the monthly reports are not always submitted to the local government database before the legislated deadline. Non-compliance letters are issued to those municipalities that do not comply and Provincial Treasury follows up with the respective municipalities until submission.

Conclusion

Whilst Provincial Treasuries must monitor and assist municipalities, Section 62 of the MFMA states that “the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality” and prescribes specific responsibilities for the key role players in the municipality.

Further, Section 135 of the MFMA specifically states that, “The primary responsibility to avoid, identify and resolve financial problems in a municipality rests with the municipality itself.” It goes on to state that, “If a municipality encounters a serious financial problem or anticipates problems in meeting its financial commitments, it must immediately seek solutions for the problem.”

Good governance is the foundation for improvements to financial management processes. There appears to be a direct correlation between poor governance and poor financial management. Therefore, the success of Provincial Treasury initiatives at municipalities is dependent on functional effective oversight structures as well as competent and capacitated leadership.

Given that challenges facing the municipal environment, the KZN Provincial Treasury will continue to focus on enhancing the technical support to delegated municipalities on the preparation of multi-year budgets (ensuring adequate funding), promoting optimal implementation of budgets as well as reporting on related compliance.

Madam Speaker, as mandated by Section 71(7) of the MFMA, I now would like to table the Municipal Budget Performance Report for the fourth quarter of the 2021/22 municipal financial year.

I thank you.