



treasury

Department:

Treasury

PROVINCE OF KWAZULU-NATAL

Municipal Finance Management

2nd Quarter Review

2018/19

MFQR: 31 December 2018

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Data Source and Reliability

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All information in this report is based on the Section 71 MFMA reports that each Municipal Manager and Chief Financial Officer were required to verify, sign and submit to National Treasury. Therefore, any queries on the budget, revenue or expenditure figures reflected in the report must be referred to the relevant Municipal Manager or Chief Financial Officer.

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Methodology and Approach

The methodology and approach used for the compilation of this report included the following:

The data for the analysis used in this report was extracted from the 2018/19 Municipal Budget Information: Second Quarter Financial Results as at 31 December 2018. The non-delegated municipalities, namely, the eThekweni Metro, the Msunduzi and the uMhlathuze Local Municipalities are included in the report. By the time of publishing the second quarter information by National Treasury, some municipalities did not submit all the required monthly MFMA Section 71 performance returns. This has distorted the review of the budget performance as at the end of the second quarter for the respective municipalities, the district totals and the aggregated provincial total.

The mechanical straight line method of projection was used as the benchmark for expenditure and revenue as at the end of the second quarter. In terms of the straight line method of projection, all municipalities should have generated and spent approximately 50 percent of their Original Budgets as at the end of the second quarter.

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1. Introduction

This consolidated municipal budget performance review covers the financial performance of municipalities in KwaZulu-Natal as at the end of the second quarter of the 2018/19 financial year ending 31 December 2018.

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

Legislative Framework

In terms of Section 71(7) of the MFMA, *the Provincial Treasury must, within 30 days after the end of each quarter, make public as may be prescribed, a consolidated statement in the prescribed format on the state of municipalities' budgets per municipality and per municipal entity. The MEC for Finance must submit such consolidated statement to the provincial legislature no later than 45 days after the end of each quarter.*

2. Provincial and District Overview

2.1 Operating Revenue and Expenditure – Provincial Total

Table 1: Operating Revenue and Expenditure as at the end of Quarter 2 - 2018/19

	2018/19							2017/18		Q2 of 2017/18 to Q2 of 2018/19
	Budget	First Quarter		Second Quarter		Year to Date		Second Quarter		
	Main appropriation	Actual Expenditure	1st Q as % of Main appropriation	Actual Expenditure	2nd Q as % of Main appropriation	Actual Expenditure	Total Expenditure as % of main appropriation	Actual Expenditure	Total Expenditure as % of main appropriation	
R '000										
Operating Revenue and Expenditure										
Operating Revenue	62 172 519	17 710 223	28.5	16 774 946	27.0	34 485 168	55.5	13 860 718	52.4	21.0
Property rates	11 627 374	3 222 121	27.7	3 050 894	26.2	6 273 015	54.0	2 632 293	54.6	15.9
Property rates - penalties and collection charges	23 431	17 220	73.5	9 425	40.2	26 645	113.7	19 831	52.5	(52.5)
Service charges - electricity revenue	20 001 213	4 578 507	22.9	4 643 423	23.2	9 221 929	46.1	4 285 668	47.4	8.3
Service charges - water revenue	6 746 722	1 631 192	24.2	1 964 392	29.1	3 595 584	53.3	1 631 549	50.5	20.4
Service charges - sanitation revenue	1 684 326	346 427	20.6	551 804	32.8	898 231	53.3	427 251	51.4	29.2
Service charges - refuse revenue	1 315 994	332 736	25.3	337 038	25.6	669 774	50.9	285 918	51.1	17.9
Service charges - other	4 427	43 033	972.1	20 673	467.0	63 706	1439.2	184 816	167.3	(88.8)
Rental of facilities and equipment	1 048 818	239 403	22.8	252 803	24.1	492 206	46.9	306 449	76.6	(17.5)
Interest earned - external investments	848 532	209 298	24.7	261 508	30.8	470 806	55.5	233 821	26.3	11.8
Interest earned - outstanding debtors	691 182	786 815	113.8	267 496	38.7	1 054 311	152.5	135 743	41.9	97.1
Dividends received	-	-	-	49	-	49	-	2 402	-	(98.0)
Fines	448 131	(34 017)	(7.6)	(45 625)	(10.2)	(79 643)	(17.8)	30 842	25.8	(247.9)
Licences and permits	128 801	26 215	20.4	60 373	46.9	86 589	67.2	23 127	40.3	161.1
Agency services	57 106	14 796	25.9	16 777	29.4	31 573	55.3	12 705	18.6	32.0
Transfers recognised - operational	16 077 909	6 027 240	37.5	5 052 487	31.4	11 079 727	68.9	3 481 934	64.3	45.1
Other own revenue	1 433 036	266 939	18.6	329 156	23.0	596 095	41.6	157 398	45.3	109.1
Gains on disposal of PPE	35 516	2 297	6.5	2 275	6.4	4 572	12.9	8 971	23	(74.6)
Operating Expenditure	63 263 739	12 732 491	20.1	16 641 810	26.3	29 374 301	46.4	13 372 486	45.7	24.4
Employee related costs	19 121 423	4 235 844	22.2	5 113 555	26.7	9 349 400	48.9	4 428 601	47.8	15.5
Remuneration of councillors	804 119	179 090	22.3	193 569	24.1	372 658	46.3	168 199	45.8	15.1
Debt impairment	1 927 464	75 061	3.9	211 815	11.0	286 876	14.9	295 137	29.9	(28.2)
Depreciation and asset impairment	5 701 305	1 056 096	18.5	1 234 235	21.6	2 290 331	40.2	1 206 872	49	2.3
Finance charges	1 141 559	50 554	4.4	442 393	38.8	492 947	43.2	380 480	25.5	16.3
Bulk purchases	17 413 749	4 220 258	24.2	4 674 519	26.8	8 894 777	51.1	2 985 212	47.8	56.6
Other Materials	1 861 540	215 686	11.6	610 452	32.8	826 138	44.4	277 839	54.5	119.7
Contracted services	8 526 990	1 604 649	18.8	2 493 951	29.2	4 098 600	48.1	2 114 021	49.8	18.0
Transfers and grants	784 441	129 436	16.5	153 299	19.5	282 735	36.0	217 160	56.1	(29.4)
Other expenditure	5 980 210	964 160	16.1	1 512 024	25.3	2 476 184	41.4	1 297 029	35.4	16.6
Loss on disposal of PPE	939	1 657	176.5	1 998	212.7	3 655	389.2	1 936	109.4	3.2
Surplus/(Deficit)	(1 091 220)	4 977 732		133 136		5 110 867		488 232		
Transfers recognised - capital	8 586 580	675 171	7.9	1 507 921	17.6	2 183 092	25.4	1 488 742	32.2	1.3
Contributions recognised - capital	-	-	-	-	-	-	-	-	-	-
Contributed assets	30 348	2 126	7.0	1 431	4.7	3 557	11.7	6 042	4.9	(76.3)
Surplus/(Deficit) after capital transfers and contributions	7 525 708	5 655 029		1 642 488		7 297 517		1 983 017		

Source NT Igdatabase

- The municipalities in KwaZulu-Natal have generated Operating revenue amounting to R34.5 billion or 55.5 percent of the Approved Budget of R62.2 billion. The revenue generated is slightly above the expected straight line projection of 50 percent as at the end of the second quarter of the 2018/19 financial year.
- Sources of Operating revenue that generated more than 50 percent of their budgeted amounts include *Property rates* at R6.3 billion or 54 percent, *Property rates – penalties and collection charges* at R26.6 million or 113.7 percent, *Service charges – water revenue* at R3.6 billion or 53.3 percent, *Service charges – sanitation revenue* at R898.2 million or 53.3 percent, *Service charges – refuse revenue* at R669.8 million or 50.9 percent, *Service charges – other* at R63.7 million or 1439.2 percent, *Interest earned – external investments* at R470.8 million or 55.5 percent, *Interest earned – outstanding debtors* at R1.1 billion or 152.5 percent, *Licences and permits* at R86.6 million or 67.2 percent, *Agency services* at R31.6 million or 55.3 percent and *Transfers recognised – operational* at R11.1 billion or 68.9 percent,
- Municipalities in the province generated less than 50 percent against the Approved Budget for *Service charges – electricity revenue* at R9.2 billion or 46.1 percent, *Rental of facilities and equipment* at R492.2 million or 46.9 percent, *Other own revenue* at R596.1 million or 41.6 percent while revenue generated from *Gains on disposal of PPE* was R4.6 million or 12.9 percent.
- The Big Five Hlabisa Local Municipality reported revenue of R49 000 for *Dividends received* during Quarter 2, which was not budgeted for in the Approved Budget.
- The eThekweni Metro reported negative *Fines* of R161.1 million which resulted in the province reflecting a negative performance of R79.6 million for *Fines*. When the performance of the province is considered without the Metro, revenue of R81.4 million (21.7 percent) has been generated for *Fines* against the approved budget of R375.3 million.
- The municipalities in KwaZulu-Natal have incurred Operating expenditure amounting to R29.4 billion or 46.4 percent of the total budgeted expenditure of R63.3 billion. The overall spending is below the projected baseline of 50 percent.
- Significantly low expenditure was recorded for *Debt impairment* at R286.9 million or 14.9 percent against an Approved Budget of R1.9 billion. Low expenditure was also recorded for *Depreciation and asset impairment* of R2.3 billion or 40.2 percent, *Finance charges* at R492.9 million or 43.2 percent, *Other materials* at R826.1 million or 44.4 percent, *Transfers and grants* at R282.7 million or 36 percent and *Other expenditure* at R2.5 billion or 41.4 percent as at the end of December 2018 against their respective budgets.
- A number of municipalities did not account for *Debt impairment* and *Depreciation and asset impairment* on a monthly basis. This has contributed to the overall low expenditure against the budget as at the end of December 2018.
- Loss on disposal of PPE* at R3.7 million or 389.2 percent significantly exceeded the straight line projection of 50 percent as at the end of Quarter 2. This is mainly attributable to the Ugu District Municipality reporting R3.4 million as at the end of December 2018 against a nil budget.

2.2 Operating Revenue – District Total

Table 2: Operating Revenue per source and per district as at the end of Quarter 2 - 2018/19

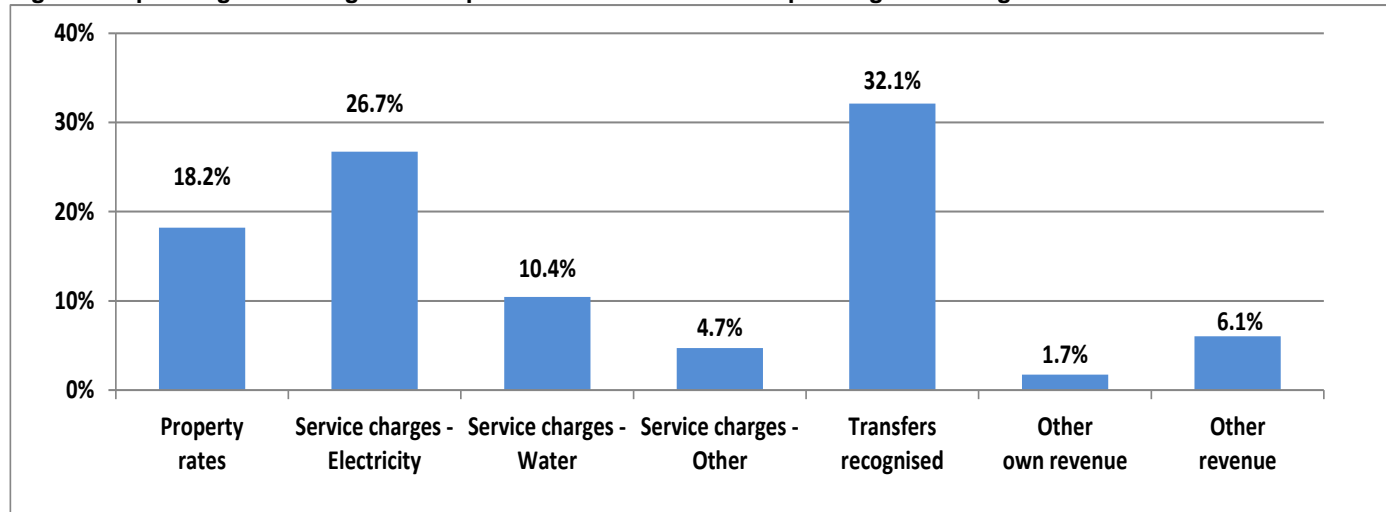
R000	Original Budget	Unaudited Actual	% Generated	Detail						
				Property rates	Service charges			Transfers recognised - operational	Other own revenue	Other revenue ²
					Electricity revenue	Water revenue	Other ¹			
eThekweni	35 175 463	18 541 535	52.7	3 720 780	5 975 390	2 414 190	932 898	3 816 893	344 830	1 336 554
Ugu	2 512 249	1 614 043	64.2	505 849	78 285	122 335	84 381	729 042	22 208	71 942
uMgungundlovu	6 801 668	3 803 849	55.9	687 720	1 122 230	430 359	153 484	1 060 969	99 251	249 828
uThukela	2 281 594	1 359 554	59.6	197 619	297 253	148 090	30 959	604 709	6 042	74 881
uMzinyathi	1 404 141	1 038 116	73.9	106 270	100 673	23 271	22 093	721 148	11 412	53 249
Amajuba	2 225 933	1 352 220	60.7	171 519	355 941	101 544	101 695	562 971	29 767	28 782
Zululand	1 913 673	1 104 607	57.7	125 271	108 968	34 358	85 526	706 880	13 585	30 020
uMkhanyakude	1 216 650	848 096	69.7	64 618	2 540	11 586	7 381	727 961	7 323	26 688
King Cetshwayo	4 525 678	2 461 549	54.4	302 620	782 867	233 039	133 526	870 460	22 249	116 788
iLembe	2 769 234	1 538 987	55.6	252 804	342 835	52 900	52 996	752 533	30 033	54 887
Harry Gwala	1 346 237	822 613	61.1	137 945	54 939	23 912	26 772	526 160	9 396	43 489
Total	62 172 519	34 485 168	55.5	6 273 015	9 221 929	3 595 584	1 631 711	11 079 727	596 085	2 087 108

Source: NT Igdatabase

¹ Includes Service charges revenue for Sanitation, Refuse and Other.

² Includes Rental of facilities and equipment, Interest earned on external investments & outstanding debtors, Dividends received, Fines, Licences and permits, Agency services and Gains on disposal of PPE

Figure 1: Operating Revenue generated per source as a % of Total Operating Revenue generated as at 31 December 2018



- The bulk of the Operating revenue as at the end of the second quarter was generated by the eThekweni Metro at R18.5 billion, followed by the uMgungundlovu District at R3.8 billion and the King Cetshwayo District at R2.5 billion.
- All districts exceeded the benchmark of 50 percent against their respective Approved Budgets for the second quarter. The uMzinyathi District recorded the highest percentage of 73.9 percent or R1 billion revenue generated against the Approved Budget of R1.4 billion.
- Transfers recognised – operational* at R11.1 billion or 32.1 percent contributed the most to total Operating revenue, followed by *Service charges – electricity revenue* at R9.2 billion or 26.7 percent and *Property rates* (which includes *Penalties and collection charges*) at R6.3 billion or 18.3 percent.
- Operating revenue generated as at the end of the second quarter is largely due to grants for the uMkhanyakude and uMzinyathi, Districts where grants accounted for 85.8 percent and 69.5 percent respectively of their Operating revenue. The Harry Gwala and Zululand Districts both recorded 64 percent grant dependency rate. The eThekweni Metro, the uMgungundlovu, and King Cetshwayo are the least dependent on grant funding with grant dependency rates of 20.6 percent, 27.9 percent and 35.4 percent respectively.
- With the exception of the eThekweni Metro (R3.7 billion), the uMgungundlovu (R687.7 million) and Ugu (R505.8 million) Districts generated the largest amounts for *Property rates revenue*. The uMkhanyakude District (R64.6 million) contributed the least to total *Property rates revenue*.
- Excluding eThekweni Metro (R6 billion), the uMgungundlovu (R1.1 billion) and King Cetshwayo (R782.9 million) Districts generated the bulk of the *Service charges-electricity revenue*. The uMkhanyakude District (R2.5 million) generated the least towards the revenue for *Service charges-electricity*.
- Similar to *Service charges-electricity*, the uMgungundlovu (R430.4 million) and King Cetshwayo (R233 million) Districts contributed the most towards *Services charges-water* (without considering the eThekweni Metro), whilst the uMkhanyakude District (R11.6 million) contributed the least.

2.3 Operating Expenditure – District Total

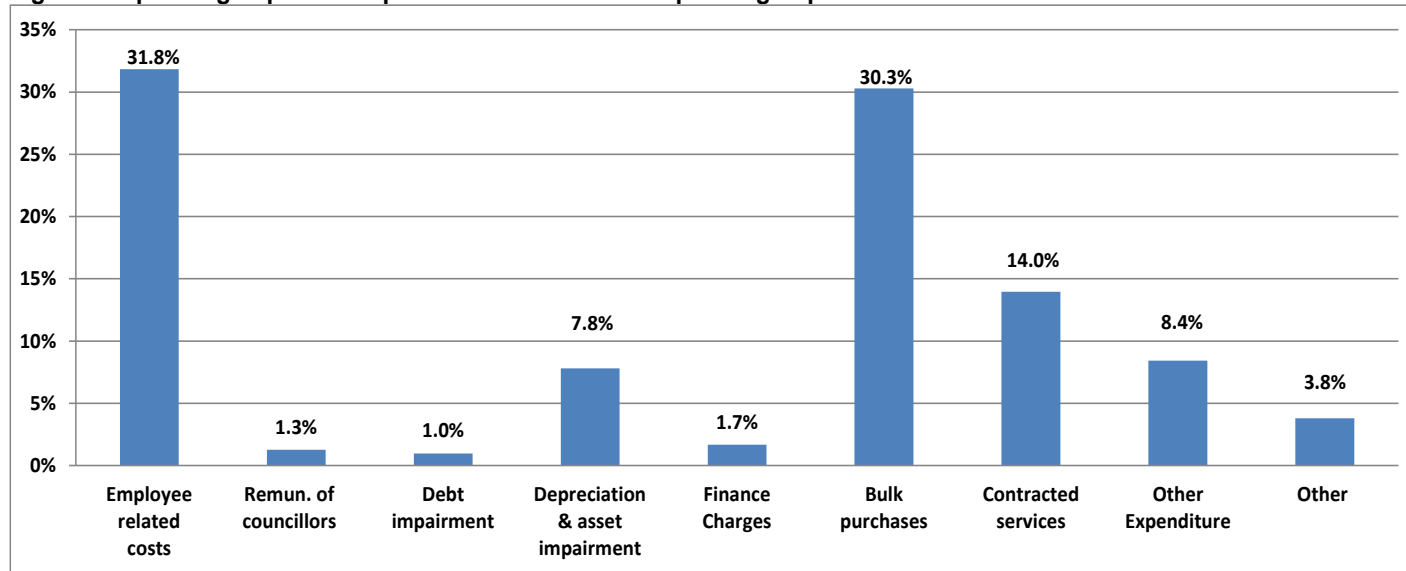
Table 3: Operating Expenditure per item and per district as at the end of Quarter 2 – 2018/19

R'000	Original Budget	Unaudited Actual	% Spent	Detail								
				Employee related costs	Remun. of councillors	Debt impairment	Depreciation and asset impairment	Finance charges	Bulk purchases	Contracted services	Other expenditure	Other ¹
eThekweni	35 227 111	16 423 968	46.6	5 206 840	61 344	2 461	1 274 969	349 065	5 761 800	2 087 208	950 039	730 242
Ugu	2 501 663	1 102 543	44.1	462 777	36 112	1 552	19 641	2 365	86 765	264 457	213 608	15 268
uMgungundlovu	6 751 660	3 480 525	51.6	899 892	43 901	49 535	274 737	52 466	1 295 386	524 421	233 703	106 484
uThukela	2 398 516	968 732	40.4	414 388	27 612	117 116	55 144	5 714	148 170	83 290	94 815	22 483
uMzinyathi	1 479 310	641 661	43.4	225 751	20 895	-	14 508	194	93 711	100 125	137 187	49 289
Amajuba	2 759 796	1 143 794	41.4	346 981	23 429	49 801	199 677	22 386	292 804	51 135	155 968	1 612
Zululand	2 059 806	924 689	44.9	324 569	26 460	1 276	37 470	3 746	158 990	201 954	145 723	24 499
uMkhanyakude	1 216 412	589 071	48.4	231 887	29 777	11 393	21 062	1 913	68 935	125 775	82 804	15 527
King Cetshwayo	4 666 531	2 288 892	49.0	621 834	43 271	38 695	251 060	36 748	571 513	425 534	208 725	91 512
iLembe	2 793 225	1 238 674	44.3	363 952	35 289	14 678	95 750	18 236	358 141	162 655	140 048	49 925
Harry Gwala	1 409 709	571 752	40.6	250 530	24 568	368	46 312	114	58 562	72 046	113 564	5 686
Total	63 263 739	29 374 301	46.4	9 349 400	372 658	286 876	2 290 331	492 947	8 894 777	4 098 600	2 476 184	1 112 528

Source: NT Igdatabase

¹ Includes Other Materials, Transfers and grants and Loss on disposal of PPE.

Figure 2: Operating Expenditure per item as a % of Total Operating Expenditure as at 31 December 2018



- Municipalities in KwaZulu-Natal spent R29.4 billion or 46.4 percent of the total budgeted expenditure of R63.3 billion which is below the straight line projection of 50 percent as at the end of the second quarter.
- With the exception of the uMgungundlovu District with 51.6 percent, all other districts in the province reported Operating expenditure of below 50 percent, including the eThekweni Metro with 46.6 percent. The districts that reported the lowest expenditure rate as at the end of the second quarter are the uThukela District with 40.4 percent, the Harry Gwala District with 40.6 percent and Amajuba District with 41.4 percent.
- Employee related costs* and *Bulk purchases* both contributed the most towards the total Operating expenditure at 31.8 percent or R9.3 billion and 30.3 percent or R8.9 billion respectively. It is expected that *Bulk purchases* will contribute significantly to Operating expenditure considering that revenue from Trading services, namely, *Service charges – electricity* also contributed significantly towards Operating revenue.
- The majority of the municipalities (34) in the province have not reported against *Debt impairment*, hence the expenditure contributed only 1 percent to the total Operating expenditure. Furthermore, no municipality within the uMzinyathi District reported any expenditure against *Debt impairment* whilst 87 percent of Debtors in the district are in the *over 90 Days* category as at the end of the second quarter.
- In addition to the above, it was noted that 23 municipalities within the province did not reflect expenditure against *Depreciation and asset impairment*. With the exception of the uMdoni Local Municipality within the Ugu District and the uMvoti Local Municipality within the uMzinyathi District, none of the other municipalities in these two districts reported any expenditure against *Depreciation and asset impairment* as at the end of the second quarter. These factors imply that the reported Operating expenditure is possibly understated as at 31 December 2018.
- The Dannhauser (23.7 percent), uPhongolo (29.1percent) uMzombe (31 percent), uMsinga (33.7 percent) and Alfred Duma (34.1 percent) Local Municipalities all reported significantly low Operating expenditure of less than 35 percent against their Approved Budgets at the end of the second quarter.
- The Richmond Local Municipality has reported over expenditure of 208.5 percent or R259.5 million against its Approved Budget of R124.5 million at the end of the second quarter. This is attributed to errors in the reported figures in the Section 71 report for *Contracted services*, *Other materials*, *Transfers grants* and *Other expenditure*.

2.4 Capital Revenue and Expenditure - Provincial Total

Table 4: Capital Revenue and Expenditure as at the end of Quarter 2 - 2018/19

	2018/19							2017/18		Q2 of 2017/18 to Q2 of 2018/19
	Budget	First Quarter		Second Quarter		Year to Date		Second Quarter		
	Main appropriation	Actual Expenditure	1st Q as % of Main appropriation	Actual Expenditure	2nd Q as % of Main appropriation	Actual Expenditure	Total Expenditure as % of main appropriation	Actual Expenditure	Total Expenditure as % of main appropriation	
R thousands										
Capital Revenue and Expenditure										
Source of Finance	14 164 647	1 702 354	12.0	2 787 734	19.7	4 490 088	31.7	2 581 103	30.4	8.0
National Government	7 781 448	946 650	12.2	1 469 613	18.9	2 416 263	31.1	1 632 878	33.6	(10.0)
Provincial Government	784 240	111 878	14.3	183 557	23.4	295 435	37.7	125 000	30.1	46.8
District Municipality	-	-	-	-	-	-	-	-	-	-
Other transfers and grants	13 541	358	2.6	555	4.1	913	6.7	2 490	149.9	(77.7)
Transfers recognised - capital	8 579 229	1 058 886	12.3	1 653 725	19.3	2 712 611	31.6	1 760 369	33.3	(6.1)
Borrowing	1 548 975	48 326	3.1	71 787	4.6	120 113	7.8	36 367	4.2	97.4
Internally generated funds	4 013 843	595 143	14.8	1 056 598	26.3	1 651 740	41.2	781 137	32.8	35.3
Public contributions and donations	22 600	-	-	5 624	24.9	5 624	24.9	3 231	6.2	74.0
Capital Expenditure Standard Classification	14 164 647	1 702 354	12.0	2 787 734	19.7	4 490 088	31.7	2 581 103	30.4	8.0
Governance and Administration	1 230 804	159 840	13.0	239 124	19.4	398 964	32.4	153 757	27.9	55.5
Executive & Council	551 203	32 612	5.9	14 663	2.7	47 275	8.6	37 525	86.5	(60.9)
Budget & Treasury Office	611 029	54 317	8.9	110 380	18.1	164 698	27.0	73 018	20.6	51.2
Corporate Services	68 573	72 911	106.3	114 081	166.4	186 992	272.7	43 213	30.4	164.0
Community and Public Safety	2 487 441	269 814	10.8	474 615	19.1	744 429	29.9	319 841	25.6	48.4
Community & Social Services	659 085	88 327	13.4	98 867	15.0	187 194	28.4	78 084	21.6	26.6
Sport And Recreation	444 786	13 659	3.1	36 858	8.3	50 517	11.4	23 199	16.0	58.9
Public Safety	107 145	10 353	9.7	21 956	20.5	32 309	30.2	4 835	16.8	354.1
Housing	1 252 221	155 774	12.4	314 474	25.1	470 247	37.6	209 206	29.7	50.3
Health	24 204	1 702	7.0	2 460	10.2	4 162	17.2	4 517	45.3	(45.5)
Economic and Environmental Services	4 091 676	447 035	10.9	757 285	18.5	1 204 319	29.4	686 753	26.0	10.3
Planning and Development	681 630	111 674	16.4	214 239	31.4	325 913	47.8	142 520	22.6	50.3
Road Transport	3 398 156	335 361	9.9	541 636	15.9	876 997	25.8	544 173	26.9	(0.5)
Environmental Protection	11 890	-	-	1 409	11.9	1 409	11.9	61	5.3	2208.5
Trading Services	6 172 636	823 030	13.3	1 313 478	21.3	2 136 508	34.6	1 417 032	36.5	(7.3)
Electricity	1 434 299	162 282	11.3	301 237	21.0	463 519	32.3	382 408	44.5	(21.2)
Water	3 511 316	400 297	11.4	598 478	17.0	998 775	28.4	737 397	32.7	(18.8)
Waste Water Management	1 094 256	246 014	22.5	391 144	35.7	637 158	58.2	278 351	43.9	40.5
Waste Management	132 765	14 438	10.9	22 619	17.0	37 057	27.9	18 875	14.6	19.8
Other	182 090	2 635	1.4	3 232	1.8	5 867	3.2	3 721	5.4	(13.1)

Source NT Igdatabase

- The total Capital revenue recognised as at 31 December 2018 for the Province was R4.5 billion (31.7 percent).
- The highest contributor towards the total Capital sources of finance as at the end of Quarter two of the 2018/19 financial year was *National Government* transfers at R2.4 billion followed by *Internally generated funds* at R1.7 billion and *Provincial Government* transfers at R295.4 million. *Other transfers and grants, Borrowing and Public contributions and donations* with a total amount of R126.7 million made up the remaining Capital sources of finance.
- The Capital expenditure as at 31 December 2018 was R4.5 billion (31.7 percent) and it was below the expected benchmark of 50 percent at the end of the second quarter. However, this constitutes a slight increase in the spending rate as compared to the same period in the previous financial year which amounted to 30.4 percent.
- The bulk of the Capital expenditure spent as at the end of the second Quarter was on *Trading services* (R2.1 billion or 47.6 percent) of which R998.8 million was spent on *Water*, followed by R637.2 million spent on *Waste Water Management*, R463.5 million spent on *Electricity* and R37.1 million spent on *Waste Management*.
- *Economic and Environmental Services* (R1.2 billion or 26.8 percent) was the second largest contributor to total Capital expenditure, with *Road Transport* contributing R877 million and *Planning and Development* contributing R325.9 million in this expenditure category. *Environmental protection* contributed the least towards the expenditure category with R1.4 million.
- *Community and Public Safety* (R744.4 million or 16.6 percent) was the third largest contributor towards total Capital expenditure. This was mainly attributable to *Housing* of R470.2 million and *Community and Social Services* of R187.2 million.
- *Governance and Administration* contributed the second least towards total Capital expenditure (R399 million or 8.9 percent). The highest spending in this category was *Corporate Services* with R187 million.
- *Other* contributed the least towards total Capital expenditure with R5.9 million or 3.2 percent.

2.5 Capital Revenue - District Total

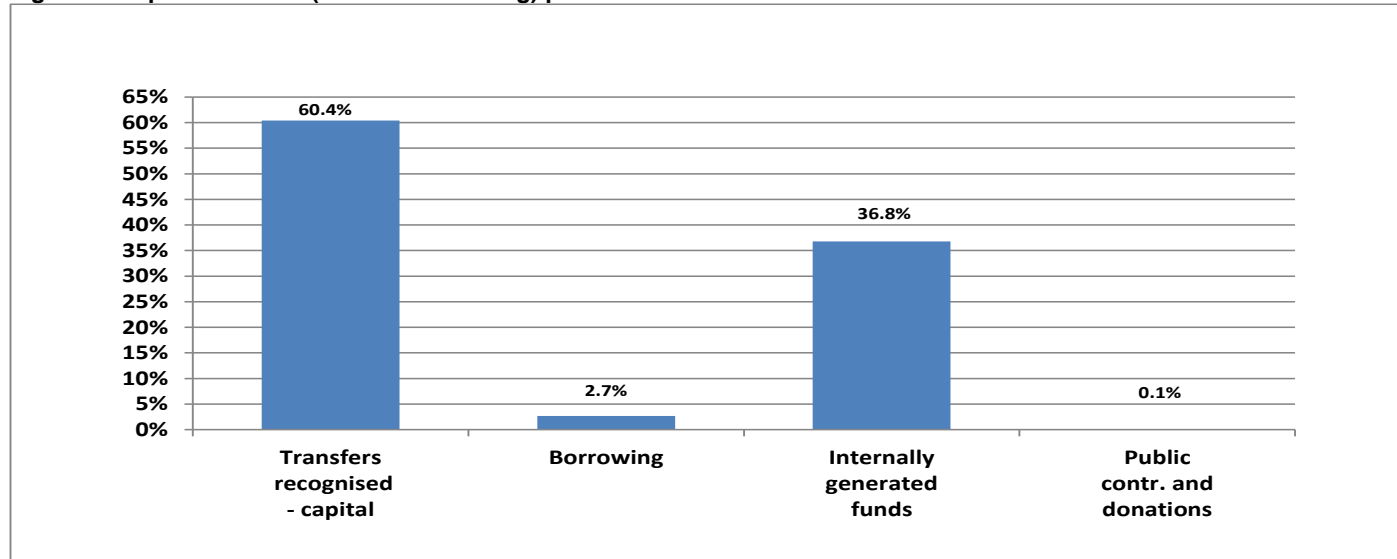
Table 5: Capital Revenue (Source of Finance) per district as at the end of Quarter 2 – 2018/19

R'000	Original Budget	Unaudited Actual	% Generated	Detail			
				Transfers recognised - capital ¹	Borrowing	Internally generated funds	Public contr. and donations
eThekwini	7 110 162	2 073 221	29.2	652 730	-	1 420 491	-
Ugu	725 523	280 027	38.6	264 671	-	9 733	5 624
uMgungundlovu	920 069	347 764	37.8	303 609	18 290	25 866	-
uThukela	624 802	193 738	31.0	179 720	-	14 017	-
uMzinyathi	682 174	224 096	32.9	207 338	-	16 758	-
Amajuba	426 061	181 721	42.7	135 250	7 360	39 112	-
Zululand	661 824	245 862	37.1	245 731	-	131	-
uMkhanyakude	426 037	161 484	37.9	159 803	-	1 680	-
King Cetshwayo	1 044 990	348 801	33.4	199 567	93 700	55 534	-
iLembe	870 824	207 050	23.8	167 903	763	38 384	-
Harry Gwala	672 183	226 324	33.7	196 288	-	30 036	-
Total	14 164 647	4 490 088	31.7	2 712 611	120 113	1 651 740	5 624

Source: NT Igdatabase

¹ Includes National Government, Provincial Government, District Municipality and Other transfers and grants.

Figure 3: Capital Revenue (Source of Funding) per source as % of Total 'Source of Finance' as at 31 December 2018



- All districts in the province including the eThekwini Metro have recognised Capital revenue below the 50 percent straight line projection expected at the end of the second quarter.
- An overview of the Capital source of funding by district shows that municipalities in the province are dependent on grants to fund their Capital expenditure as *Transfers recognised – capital* contributes 60.4 percent or R2.7 billion of the R4.5 billion of the total Capital source of funding as at the end of the second quarter of the 2018/19 financial year.
- The second largest source of funding was *Internally generated funds* at 36.8 percent or R1.7 billion, followed by *Borrowing* at 2.7 percent or R120.1 million.
- The eThekwini Metro contributed R2.1 billion or 46.2 percent to total Capital revenue of R4.5 billion. The eThekwini Metro financed their Capital expenditure with *Internally generated funds* of R1.4 billion and *Transfers recognised – capital* of R652.7 million.
- Four districts utilised *Borrowings* amounting to R120.1 million in total as at the end of the second quarter. The King Cetshwayo District utilised the highest *Borrowings* with an amount of R93.7 million followed by the uMgungundlovu District with an amount of R18.3 million, the Amajuba District with an amount of R7.4 million and the iLembe District with an amount of R763 000.
- The Ugu District was the only district to receive funding from the *Public contributions and donations* funding source with R5.6 million. This was mainly due to the Ray Nkonyeni Local Municipality which contributed R5.6 million of the total funding source. The uMuziwabantu Local Municipality has reported a negative amount of R31 000 against *Public contributions and donations* funding source.

2.6 Capital Expenditure - District Total

Table 6: Capital Expenditure per item and per district as at the end of Quarter 2 – 2018/19

R'000	Original Budget	Unaudited Actual	% Spent	Detail									
				Governance and Admin. ¹	Community and Public Safety			Economic and Environmental Services		Trading Services			Other
					Housing	Health	Other ²	Road Transport	Other ³	Electricity	Water and Waste Water Mgt.	Waste Mgt	
eThekweni	7 110 162	2 073 221	29.2	166 218	434 792	4 162	127 242	332 768	140 410	289 667	548 343	27 504	2 115
Budget per category	-	-	-	628 057	1 107 235	23 604	656 318	1 838 413	326 606	802 601	1 518 954	99 474	108 900
Ugu	725 523	280 027	38.6	39 827	28 253	-	10 153	33 229	6 875	5 085	156 396	210	-
Budget per category	-	-	-	31 500	128 320	-	81 199	136 695	34 476	32 273	276 389	1 620	3 051
uMgungundlovu	920 069	347 764	37.8	(1 736)	3 839	-	43 685	95 190	25 506	25 956	146 026	5 546	3 752
Budget per category	-	-	-	73 136	11 666	-	90 040	317 615	54 766	54 041	309 311	3 850	5 643
uThukela	624 802	193 738	31.0	12 210	-	-	790	23 669	33 665	7 967	115 415	22	-
Budget per category	-	-	-	6 498	500	-	39 350	79 190	33 095	24 560	407 804	3 805	30 000
uMzinyathi	682 174	224 096	32.9	7 602	-	-	8 624	37 379	1 277	35 804	132 673	738	-
Budget per category	-	-	-	205 486	-	-	48 836	95 522	30 995	23 994	272 541	4 800	-
Amajuba	426 061	181 721	42.7	2 452	15	-	1 715	31 612	49 041	1 573	95 313	-	-
Budget per category	-	-	-	3 250	-	-	3 170	131 683	75 600	126 858	85 500	-	-
Zululand	661 824	245 862	37.1	129 011	2 250	-	17 702	61 889	387	34 355	268	-	-
Budget per category	-	-	-	19 027	-	-	10 369	153 144	26 830	44 050	408 363	40	-
uMkhanyakude	426 037	161 484	37.9	1 622	-	-	6 781	42 595	20 837	13 223	76 426	-	-
Budget per category	-	-	-	25 919	-	-	29 629	93 230	3 300	18 000	254 859	1 100	-
King Cetshwayo	1 044 990	348 801	33.4	30 301	-	-	34 903	78 044	25 886	42 758	135 378	1 531	-
Budget per category	-	-	-	113 850	-	-	142 753	219 763	5 153	121 182	436 804	4 885	600
iLembe	870 824	207 050	23.8	6 827	1 099	-	11 652	80 399	2 428	5 776	98 261	608	-
Budget per category	-	-	-	95 684	4 500	600	69 535	204 931	14 919	153 376	292 564	4 342	30 374
Harry Gwala	672 183	226 324	33.7	4 629	-	-	6 772	60 224	21 010	1 357	131 435	897	-
Budget per category	-	-	-	28 397	-	-	39 816	127 971	87 781	33 364	342 482	8 850	3 522
Total	14 164 647	4 490 088	31.7	398 964	470 247	4 162	270 020	876 997	327 322	463 519	1 635 932	37 057	5 867

Source: NT Igdatabase

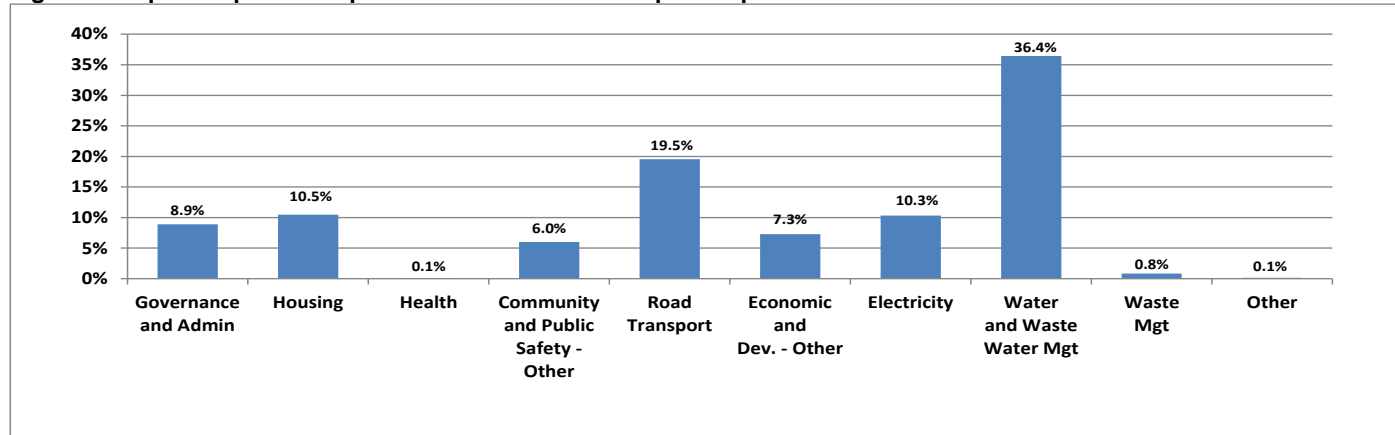
1 Includes Executive & Council, Budget & Treasury Office and Corporate Services.

2 Includes Community & Social Services, Sports And Recreation and Public Safety.

3 Includes Planning and Development and Environmental Protection.

Below straight line projection of 50 percent

Figure 4: Capital Expenditure per item as a % of Total Capital Expenditure as at 31 December 2018



- As at the end of the second quarter of the 2018/19 financial year, municipalities in the province spent R4.5 billion or 31.7 percent of their Capital Budgets of R14.2 billion which is below the 50 percent straight line projection expected at the end of the second quarter. The district with the largest percentage of Capital expenditure against their budget was the Amajuba District with 42.7 percent. The main contributor to the Capital expenditure was the Dannhauser Local Municipality with R50.8 million or 65.8 percent spent against the budget of R77.1 million.

- All the Districts in the province achieved capital expenditure of less than 50 percent as projected in the second quarter of the financial year. The iLembe District contributed the least to Capital expenditure followed by the eThekweni Metro with spending rates of 23.8 percent and 29.2 percent respectively.

- The bulk of the Capital expenditure was reported on *Water and Waste Water Management* of R1.6 billion or 36.4 percent with the eThekweni Metro recording the highest expenditure of R548.3 million against this category while the Zululand District recorded the least expenditure of R268 000.

- The second largest Capital expenditure was reported against *Road Transport* at R877 million or 19.5 percent. The eThekweni Metro recorded the largest spending against this category with R332.8 million followed by the uMgungundlovu District with an amount of R95.2 million and the iLembe District with R80.4 million. The uThukela District spent the least on *Road Transport* with R23.7 million.

- The least *Capital expenditure* of 0.1 percent was reported on both the *Other* and *Health* votes with R5.9 million and R4.2 million respectively. The only spending on the *Health* vote was the eThekweni Metro with R4.2 million and spending on *Other* was reported under the eThekweni Metro and the uMgungundlovu District with R2.1 million and R3.8 million respectively.

2.7 Comparatives: Capital vs Operating Expenditure

Figure 5: Comparatives: Capital vs Operating – as at the end of 31 December 2018

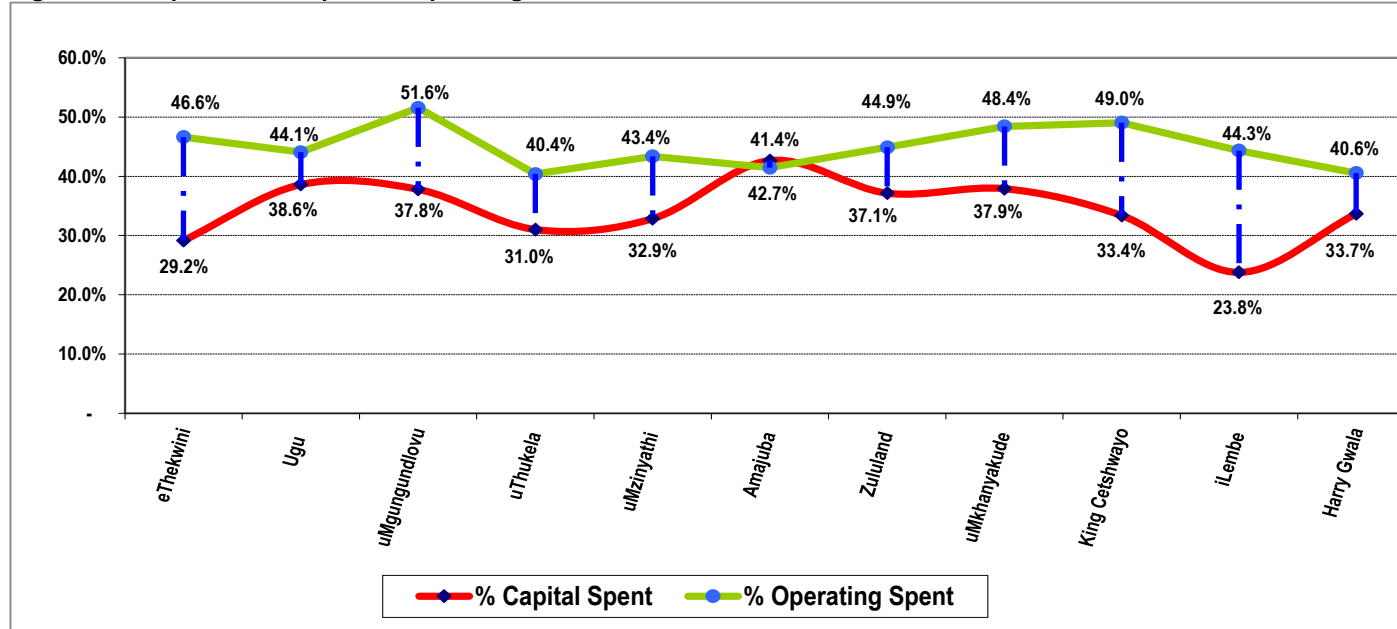
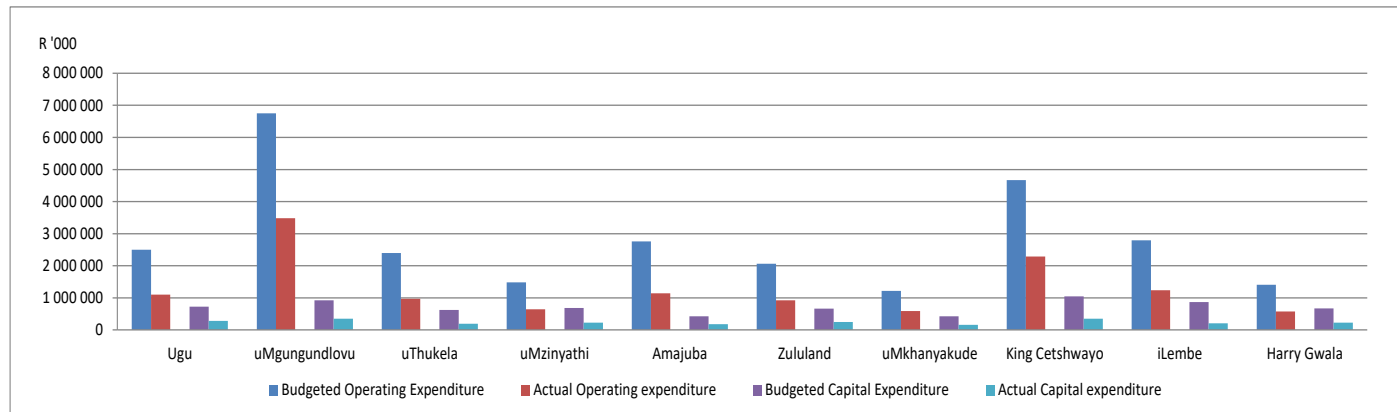


Figure 6: Budgeted/Actual Operating expenditure vs Budgeted/Actual Capital expenditure as at the end of 31 December 2018



- Figure 5 (including the 3 non-delegated municipalities) shows the comparatives of the Capital expenditure as a percentage of the Capital expenditure budget together with Operating expenditure as a percentage of the Operating expenditure budget as at the end of the second quarter of the 2018/19 financial year.
- With the exception of the Amajuba District, the comparatives between the average Capital expenditure and average Operating expenditure indicate that all other districts (including the eThekweni Metro) have spent less of their Capital expenditure budgets as compared to their Operating expenditure budgets. A significant gap of 20.6 percent between these categories of expenditure was noted for the iLembe District.
- Except for the uMgungundlovu District, no other district managed to spend 50 percent or more of their Operating expenditure budget for the period under review. The uThukela and Harry Gwala Districts reported the lowest Operating expenditure of 40.4 percent and 40.6 percent respectively against their budgets.
- The iLembe District reported the lowest Capital expenditure of 23.8 percent against their budget as at 31 December 2018.
- Figure 6 shows an overview of actual Operating expenditure against the Operating budget and the actual Capital Expenditure against the Capital budget.
- Excluding the eThekweni Metro, the uMgungundlovu District (R7.7 billion) and the King Cetshwayo District (R5.7 billion) had the largest total *Operating expenditure* budget and *Capital expenditure* consolidated budgets. The uMkhanyakude District (R1.6 billion), the Harry Gwala District (R2.1 billion) and the uMzinyathi District (R2.2 million) had the least consolidated *Operating expenditure* budgets and *Capital expenditure* budgets.

2.8 Debtors Age Analysis – Provincial Total

Table 7: Debtors Age Analysis as at the end of Quarter 2 - 2018/19

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total		Actual Bad Debts Written Off to Debtors		Impairment -Bad Debts to Council Policy	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Debtors Age Analysis By Income Source														
Trade and Other Receivables from Exchange Transactions - Water	993 804	11.8	475 474	5.6	391 035	4.6	6 556 764	77.9	8 417 077	35.2	18 661	0.2	2 493 070	29.6
Trade and Other Receivables from Exchange Transactions - Electricity	1 206 504	43.4	400 735	14.4	126 458	4.5	1 046 941	37.7	2 780 638	11.6	1 517	0.1	915 385	32.9
Receivables from Non-exchange Transactions - Property Rates	708 561	11.0	394 609	6.1	195 773	3.0	5 137 997	79.8	6 436 940	27.0	18 477	0.3	1 974 579	30.7
Receivables from Exchange Transactions - Waste Water Management	206 062	14.4	90 233	6.3	70 061	4.9	1 066 542	74.4	1 432 898	6.0	10 477	0.7	423 261	29.5
Receivables from Exchange Transactions - Waste Management	98 441	11.1	44 970	5.1	28 061	3.2	713 872	80.6	885 344	3.7	4 510	0.5	188 664	21.3
Receivables from Exchange Transactions - Property Rental Debtors	16 163	4.7	9 183	2.7	8 881	2.6	309 014	90.0	343 241	1.4	639	0.2	144 202	42.0
Interest on Arrear Debtor Accounts	53 301	3.0	52 680	3.0	42 023	2.4	1 606 341	91.6	1 754 345	7.3	840	-	433 965	24.7
Recoverable unauthorised, irregular or fruitless and wasteful Expenditure	2	0.3	-	-	0	0.1	654	99.6	656	-	-	-	-	-
Other	4 397	0.2	24 985	1.4	65 830	3.6	1 734 915	94.8	1 830 127	7.7	2 474	0.1	690 696	37.7
Total By Income Source	3 287 235	13.8	1 492 868	6.3	928 123	3.9	18 173 040	76.1	23 881 267	100.0%	57 594	0.2	7 263 824	30.4

Source NT Igdatabase

Table 8: Debtors Age analysis by Customer Group as at the end of Quarter 2 - 2018/19

R thousands	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total		Actual Bad Debts Written Off to Debtors		Impairment -Bad Debts to Council Policy	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Debtors Age Analysis By Customer Group														
Organs of State	512 878	22.8	168 618	7.5	75 214	3.3	1 489 278	66.3	2 245 988	9.4	(2 046)	(0.1)	536 186	23.9
Commercial	1 278 463	28.4	564 878	12.5	226 460	5.0	2 434 223	54.0	4 504 024	18.9	10 413	0.2	1 414 939	31.4
Households	1 358 736	8.8	703 582	4.6	578 439	3.8	12 748 684	82.8	15 389 441	64.4	36 231	0.2	4 888 823	31.8
Other	137 158	7.9	55 790	3.2	48 011	2.8	1 500 855	86.2	1 741 814	7.3	12 996	0.7	423 875	24.3
Total By Customer Group	3 287 235	13.8	1 492 868	6.3	928 123	3.9	18 173 040	76.1	23 881 267	100.0	57 594	0.2	7 263 824	30.4

Source NT Igdatabase

- The Debtors Age Analysis in Table 7 shows that the total amount of debt owed to all municipalities in the KwaZulu-Natal Province was R23.9 billion as at 31 December 2018.
- The Debtors Age Analysis by Income Source shows that a significant amount of R8.4 billion or 35.2 percent of the debt owed relates to *Water* followed by *Property rates* at R6.4 billion or 27 percent, *Electricity* at R2.8 billion or 11.6 percent and *Other* at R1.8 billion or 7.7 percent.
- The Debtors Age Analysis by Customer Group in Table 8 shows an amount of R15.4 billion or 64.4 percent of the total debt was owed by *Households*, followed by *Commercial* with an amount of R4.5 billion or 18.9 percent. The lowest portion was reported against *Other* at R1.7 billion or 7.3 percent.
- The high level of debt owed to municipalities, which is continually increasing, is noted with concern by Provincial Treasury as the municipalities should be implementing effective debt management and credit control measures in order to improve their debtors' collection rates, which in turn will have a positive impact on their cash flows.
- Municipalities are urged to ensure that they submit all their returns for the MFMA Section 71 reports. Information presented therein should also be credible to prevent distorted reporting at provincial and national levels. MFMA Section 71 reporting is critical in presenting the monthly performance against the budget, therefore all municipalities should strive to also ensure timely and accurate reporting.
- Of the total debt amount owed to municipalities, *Organs of state* contributed R2.2 billion or 9.4 percent. Besides the eThekweni Metro (R1 billion), the uMgungundlovu District (R271 million) was the district with the largest amount owed by *Organs of states*. This was attributed to Msunduzi Local Municipality which is owed a significant amount of R196.7 million by *Organs of states*. Furthermore, Jozini Local Municipality in uMkhanyakude District is owed R102.4 million by *Organs of states*.
- Provincial Treasury has noted with a concern that the greater portion of amount owed by *Organs of states* (R1.5 billion or 66.3 percent) was Over 90 Days.

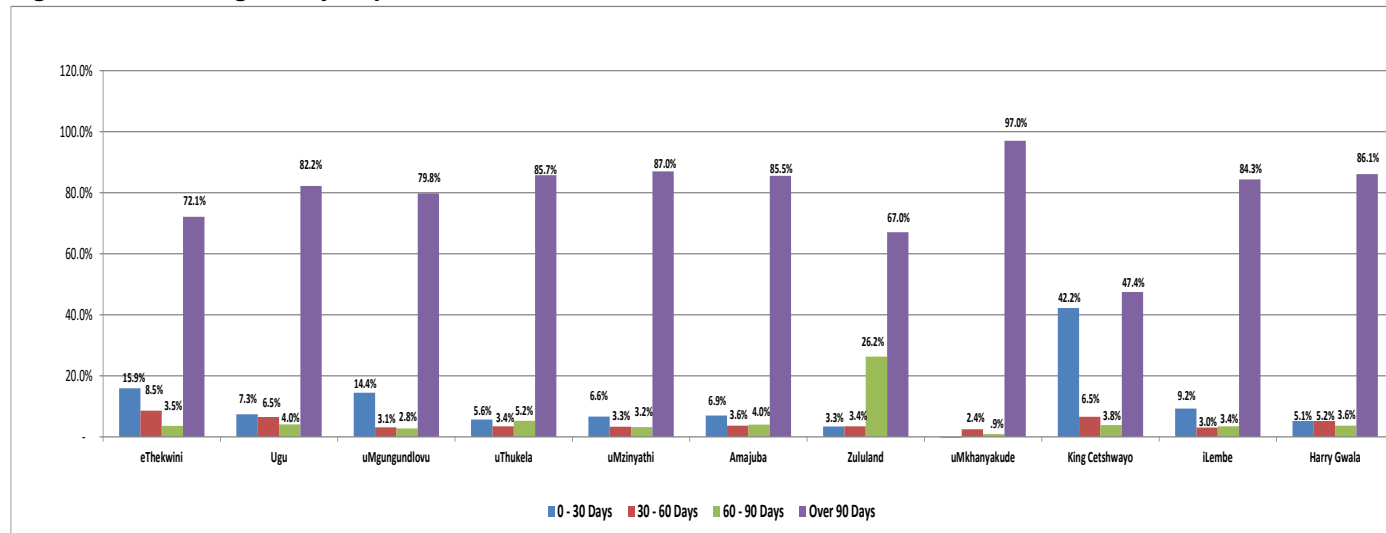
2.9 Debtors Age Analysis – District Total

Table 9: Debtors Age Analysis per district (Total) as at the end of Quarter 2 - 2018/19

R'000	0 - 30 Days		30 - 60 Days		60- 90 Days		Over 90 Days		Total
	Total	%	Total	%	Total	%	Total	%	
eThekwini	1 973 677	15.9	1 064 368	8.5	441 588	3.5	8 971 022	72.1	12 450 655
Ugu	67 980	7.3	59 817	6.5	37 267	4.0	761 068	82.2	926 132
uMgungundlovu	599 127	14.4	127 398	3.1	114 707	2.8	3 314 217	79.8	4 155 448
uThukela	94 271	5.6	57 556	3.4	87 503	5.2	1 434 459	85.7	1 673 788
uMzinyathi	33 655	6.6	16 722	3.3	16 274	3.2	444 548	87.0	511 200
Amajuba	95 580	6.9	49 723	3.6	54 733	4.0	1 179 020	85.5	1 379 056
Zululand	12 993	3.3	13 282	3.4	102 302	26.2	261 350	67.0	389 927
uMkhanyakude	(1 315)	(0.3)	11 710	2.4	4 076	0.9	463 946	97.0	478 416
King Cetshwayo	319 598	42.2	49 476	6.5	29 111	3.8	359 323	47.4	757 508
iLembe	72 453	9.2	23 525	3.0	27 078	3.4	662 677	84.3	785 732
Harry Gwala	19 217	5.1	19 291	5.2	13 486	3.6	321 411	86.1	373 405
Total	3 287 235	13.8	1 492 868	6.3	928 123	3.9	18 173 040	76.1	23 881 267

Source NT Igdatabase

Figure 7: Debtors Age Analysis per district as at the end of 31 December 2018



- Of the total amount of R23.9 billion owed among all the Districts and the eThekwini Metro in the KZN Province, it was reported that the eThekwini Metro recorded the highest outstanding debtors amount of R12.5 billion or 52.1 percent which is followed by the uMgungundlovu District at R4.2 billion or 17.4 percent, the uThukela District at R1.7 billion or 7 percent and the Amajuba District at R1.4 billion or 5.8 percent.
- The Harry Gwala District recorded the least Debtors of R373.4 million or 1.6 percent of total Debtors.
- Excluding the eThekwini Metro, the uMgungundlovu District Municipality recorded the highest outstanding Debtors of R599.1 million or 18.2 percent in the *0-30 Days* category, followed by the King Cetshwayo District Municipality which recorded R319.6 million or 9.7 percent
- It should be noted that the uMuziwabantu, Dannhauser, Mpofana, uPhongolo and Abaqulusi Local Municipalities did not report any debtors for the period under review.
- The uMkhanyakude District recorded debtors of negative R1.3 million in the 0-30 Days category which was mainly as a result of the uMhlabuyalingana Local Municipality showing negative R9.5 million thus rendering the reported figure questionable.
- As shown in Figure 7 all the districts in the province, including the eThekwini Metro, recorded their highest outstanding debtors in the Over 90 Days category. The uMkhanyakude District recorded 97 percent of their outstanding debtors in the Over 90 Days category. The uMzinyathi, Harry Gwala, uThukela, Amajuba, iLembe and Ugu Districts recorded over 80 percent of their outstanding debtors in the Over 90 Days category at 87 percent, 86.1 percent, 85.7 percent, 85.5 percent, 84.3 and 82.2 percent respectively. The King Cetshwayo District reflected the least debtors of 47.4 percent in the Over 90 category.
- A substantial amount of the total Debtors of R18.2 billion or 76.1 percent has been outstanding for *Over 90 Days*. Debt collection efforts must focus on these long outstanding debts, however, some of these debtors may still need to be written off as they may have arisen as a result of incorrect billing of indigent customers.

2.10 Debtors by Customer Group – District Total

Table 10: Debtors by Customer Group (Total) as at the end of Quarter 2- 2018/19

R'000	Organs of State		Commercial		Household		Other		Total
	Total	%	Total	%	Total	%	Total	%	
eThekweni	1 045 519	8.4	2 785 072	22.4	7 976 183	64.1	643 881	5.2	12 450 655
Ugu	99 942	10.8	151 387	16.3	637 544	68.8	37 260	4.0	926 132
uMgungundlovu	271 026	6.5	591 760	14.2	3 010 924	72.5	281 738	6.8	4 155 448
uThukela	179 908	10.7	99 166	5.9	851 116	50.8	543 598	32.5	1 673 788
uMzinyathi	100 167	19.6	51 004	10.0	345 901	67.7	14 128	2.8	511 200
Amajuba	67 592	4.9	144 022	10.4	1 138 416	82.6	29 027	2.1	1 379 056
Zululand	99 359	25.5	44 148	11.3	201 791	51.8	44 628	11.4	389 927
uMkhanyakude	146 149	30.5	99 386	20.8	210 706	44.0	22 174	4.6	478 416
King Cetshwayo	127 786	16.9	349 195	46.1	258 375	34.1	22 152	2.9	757 508
iLembe	68 482	8.7	138 319	17.6	507 872	64.6	71 059	9.0	785 732
Harry Gwala	40 058	10.7	50 564	13.5	250 612	67.1	32 170	8.6	373 405
Total	2 245 988	9.4	4 504 024	18.9	15 389 441	64.4	1 741 814	7.3	23 881 267

Source NT Igdatabase

Figure 8: Debtors Age Analysis as at 31 December 2018

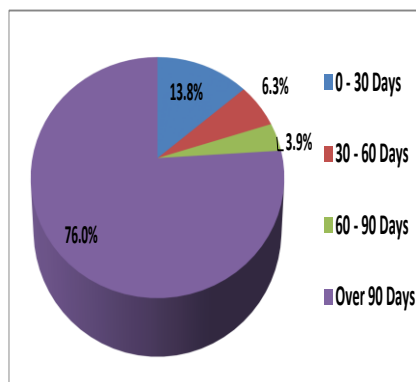


Figure 9: Debtors by Customer Group as at 31 December 2018

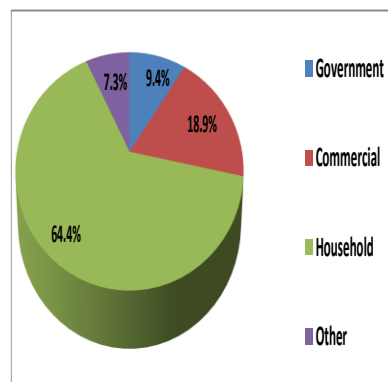
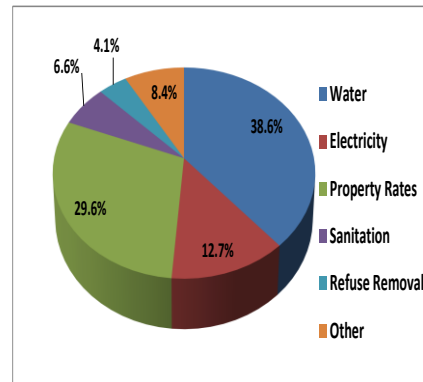


Figure 10: Debtors by Income Source as at 31 December 2018



- Table 10 shows that of the R23.9 billion that is owed to municipalities, R15.4 billion or 64.4 percent which is the largest portion, was owed by *Household* debtors. Municipalities in the province need to ensure that the indigent households are correctly accounted for in order to avoid the *Household* category being inflated with debt that may not be recoverable. Indigent registers must be updated and maintained accordingly by the municipalities.
- The eThekweni Metro, the uMgungundlovu and the Amajuba Districts contributed the most towards *Household* debtors with amounts of R8 billion, R3 billion and R1.1 billion, respectively.
- As at the end of the second quarter of the 2018/19 financial year, municipalities were owed a total of R4.5 billion or 18.9 percent by *Commercial* debtors. The eThekweni Metro, the uMgungundlovu and King Cetshwayo Districts contributed the most towards total debt owed by *Commercial* debtors at R2.8 billion, R591.8 million and R349.2 million respectively.
- Municipalities were owed a total of R2.2 billion or 9.4 percent by *Organs of State*. The eThekweni Metro, the uMgungundlovu and the uThukela Districts had significant debt owed by *Organs of State* which amounted to R1 billion, R271 million and R179.9 million respectively.
- Other* debtors amounted to R1.7 billion or 7.3 percent, constituting the lowest customer category with outstanding debt.
- The Alfred Duma Local Municipality has not categorised their Debtors by Customer group, instead, they have reported all their Debtors under the *Other* category.
- The uMlalazi Local Municipality has reported a total amount of R69.6 million of their Debtors as *Organs of State* and no amounts were reported on *Commercial*, *Household* and *Other* customers. This indicates that the uMlalazi Local Municipality has not correctly categorised their customer groups.
- Municipalities are urged to ensure that their Debtors records are correctly reflected according to Customer Groups in order to implement proper strategies for collecting the debts from targeted groups.

2.11 Creditors Age Analysis – Provincial Total

Table 11: Creditors Age Analysis by Expenditure type as at the end of Quarter 2 - 2018/19

R'000	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Creditor Age Analysis										
Bulk Electricity	1 029 454	68.9	33 947	2.3	90 869	6.1	339 127	22.7	1 493 396	30.4
Bulk Water	323 401	79.2	10 291	2.5	10 371	2.5	64 293	15.7	408 355	8.3
PAYE deductions	157 510	100.0	-	-	-	-	-	-	157 510	3.2
VAT (output less input)	139 323	100.0	4	-	-	-	(15)	-	139 311	2.8
Pensions / Retirement	158 698	100.0	-	-	1	-	-	-	158 699	3.2
Loan repayments	27 436	3.4	-	-	43 110	5.4	732 147	91.2	802 694	16.4
Trade Creditors	755 952	65.3	50 214	4.3	54 617	4.7	296 983	25.7	1 157 766	23.6
Auditor-General	5 250	69.9	821	10.9	(347)	-4.6	1 789	23.8	7 512	0.2
Other	514 839	88.9	7 823	1.4	3 466	0.6	53 173	9.2	579 302	11.8
Total	3 111 862	63.4	103 099	2.1	202 087	4.1	1 487 496	30.3	4 904 545	100.0

Source NT Igdatabase

Figure 11: Creditors Age Analysis as at 31 December 2018

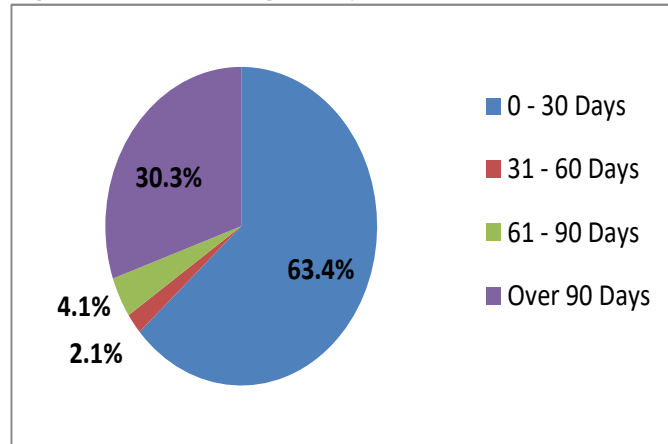
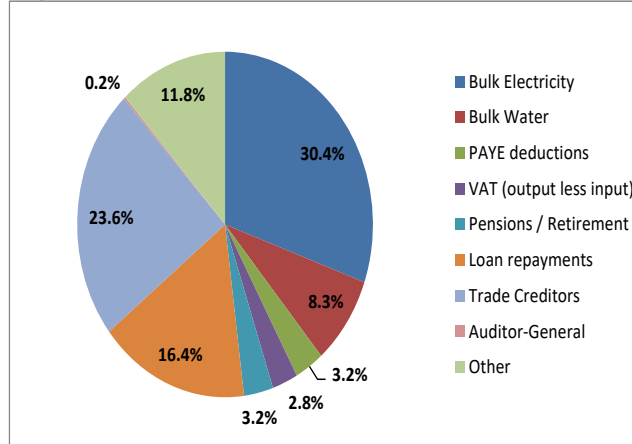


Figure 12: Creditors as at 31 December 2018



- As at the end of the second quarter performance review for the 2018/19 financial year, the outstanding Creditors balance for the KwaZulu-Natal municipalities amounted to R4.9 billion, with an outstanding balance of R3.1 billion or 63.4 percent outstanding within the 0-30 Days period.
- Creditors amounting to R1.8 billion or 36.6 percent were in arrears for longer than 30 Days. This is in contravention of Section 65(2)(e) of the MFMA which requires that outstanding debt be paid within 30 days of receipt of the invoice. The Accounting Officers of municipalities must take all reasonable steps to ensure that all creditors due, are paid within 30 days.
- In some cases unpaid invoices and Creditors in the over 30 Days period are due to disputes with suppliers. However, in other cases it could be an indication of cash flow challenges being experienced by municipalities. Failure to pay creditors within 30 Days raises a serious concern for the KZN Provincial Treasury as municipalities may be liable for penalties and interest charges as a result thereof which is tantamount to fruitless and wasteful expenditure.
- The majority of the outstanding Creditors is within the *Bulk Electricity* category amounting to R1.5 billion or 30.4 percent. This is mainly due to the fact that the Mpfana Local Municipality owed Eskom R98.8 million as at 31 December 2018 and is currently negotiating a payment arrangement with Eskom. The Ulundi Local Municipality owes Eskom R91.3 million over a number of years for unpaid Electricity which is attributable to challenges with ageing infrastructure, inaccurate billing, high seasonal tariffs charged by Eskom and poor collection of outstanding debt by the municipality. Ulundi Local Municipality has entered into a 36 months payment arrangement with Eskom.
- The Newcastle Local Municipality owed Eskom R187.7 million as at 31 December 2018. The Department of Cooperative Governance and Traditional Affairs in KwaZulu Natal is currently assessing the municipality's budget and the sustainability of the proposed payment arrangement with Eskom.
- The iNkosi Langalibalele Local Municipality owed Eskom a further R82.2 million as at 31 December 2018 and the municipality has entered into a payment arrangement with Eskom.
- The second largest contributor to the Creditors was *Trade Creditors* category amounting to R1.2 billion.

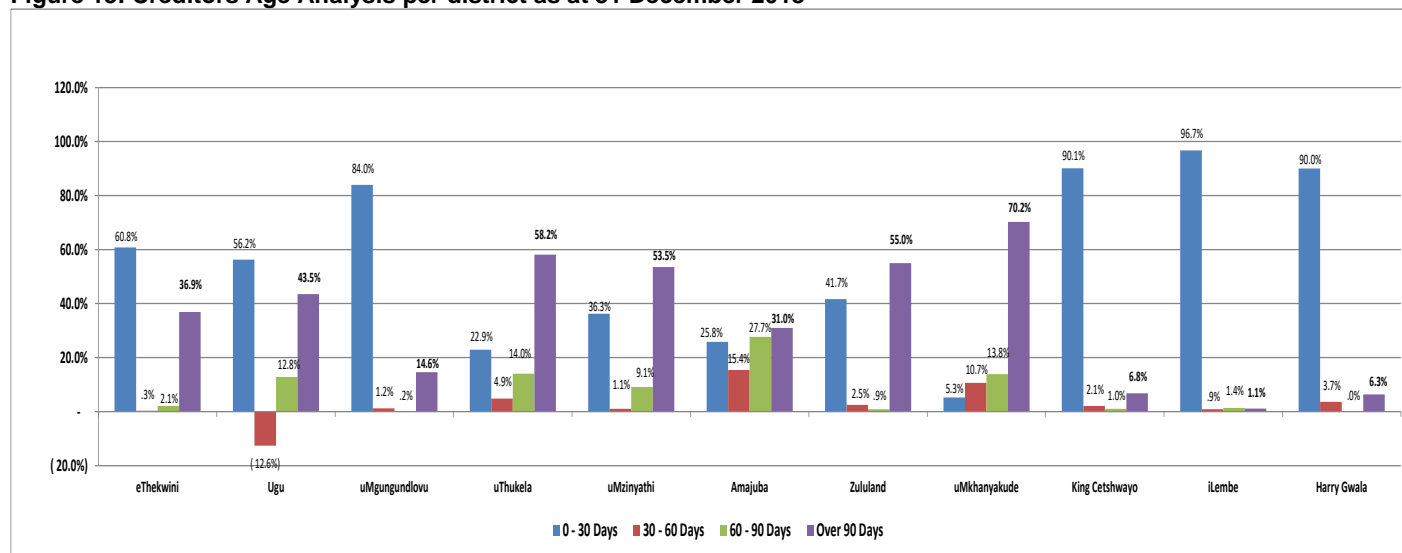
2.12 Creditors Age Analysis – District Total

Table 12: Creditors Age Analysis per district (Total) as at the end of Quarter 2 - 2018/19

R'000	0 - 30 Days		30 - 60 Days		60 - 90 Days		Over 90 Days		Total
	Total	%	Total	%	Total	%	Total	%	
eThekwini	1 358 151	60.8	6 599	0.3	46 530	2.1	824 258	36.9	2 235 538
Ugu	20 935	56.2	(4 683)	(12.6)	4 769	12.8	16 208	43.5	37 229
uMgungundlovu	750 509	84.0	10 728	1.2	2 146	0.2	130 163	14.6	893 546
uThukela	54 013	22.9	11 470	4.9	33 055	14.0	136 980	58.2	235 518
uMzinyathi	39 464	36.3	1 159	1.1	9 930	9.1	58 231	53.5	108 784
Amajuba	74 019	25.8	44 244	15.4	79 285	27.7	88 842	31.0	286 391
Zululand	75 870	41.7	4 566	2.5	1 564	0.9	100 088	55.0	182 088
uMkhanyakude	6 278	5.3	12 752	10.7	16 517	13.8	83 783	70.2	119 330
King Cetshwayo	609 450	90.1	14 271	2.1	6 959	1.0	45 883	6.8	676 564
iLembe	94 978	96.7	849	0.9	1 328	1.4	1 075	1.1	98 230
Harry Gwala	28 195	90.0	1 145	3.7	3	0.0	1 985	6.3	31 328
Total	3 111 862	63.4	103 099	2.1	202 087	4.1	1 487 496	30.3	4 904 545

Source NT Igdatabase

Figure 13: Creditors Age Analysis per district as at 31 December 2018



- As at the end of the second quarter, the eThekwini Metro reported the majority of the total outstanding Creditors balance at R2.2 billion or 45.6 percent of the total outstanding Creditors balance of R4.9 billion.
- Amongst the districts, the uMgungundlovu District reported the largest portion of the total outstanding Creditors of R893.5 million (18.2 percent). The Msunduzi Local Municipality contributed R759.4 million or 85 percent to the total outstanding debt of the uMgungundlovu District. The Harry Gwala District reported the least of Creditors amount with R31.3 million or 0.6 percent.
- Zululand (41.7 percent), uMzinyathi (36.3 percent), Amajuba (25.8 percent), uThukela (22.9 percent) and uMkhanyakude (5.3 percent) Districts, all other districts reported more than 50 per cent of their outstanding creditors in the *0-30 Days* period.
- As shown in Table 12, the uMkhanyakude (70.2 percent), the uThukela (58.2 percent), the Zululand (55 percent) and the uMzinyathi (53.5 percent) Districts recorded their highest outstanding creditors in the *Over 90 Days* category.
- Creditors were not reflected for the uMuziwabantu, uMshwathi, iMpindle, Richmond and Nquthu Local Municipalities and as a result, Creditors are understated.
- It should be indicated that uMzombe and Nkandla local Municipalities reported a negative amounts of R10 000 and R2.6 million respectively and this has distorted the correct value of Creditors amounts owed by these municipalities.
- It is recommended that municipalities pay all their outstanding debts within *30 Days* of receipt of invoices or statements as required by Section 65(2)(e) of the MFMA in order to avoid possible interest and penalties charges.

2.13 National Conditional Grants – Provincial Total (Summary)

Table 13: National Conditional Grants – Summary as at the end of Quarter 2 - 2018/19

R'000	DoRA 2018 Total Avail.	Approved payment schedule	Transferred to municipalities for direct grants	Unaudited Actual		Unaudited Actual	
				Expenditure Nat. Deprt.	% Spent of Allocation	Expenditure Munis.	% Spent of Allocation
Direct Allocations							
Local Government Financial Management Grant	107 885	107 885	107 885	48 051	44.5	48 407	44.9
Infrastructure Skills Development Grant	37 300	16 700	16 700	11 569	31.0	5 169	13.9
Integrated City Development Grant	45 596	-	-	-	-	35 040	76.8
Neighbourhood Development Partnership (Schedule 5B)	50 787	40 210	20 755	7 193	14.2	7 968	15.7
Public Transport Network Grant	1 082 991	418 062	492 726	154 610	14.3	219 270	20.2
Rural Road Assets Management Systems Grant	24 180	16 928	16 928	6 360	26.3	8 622	35.7
Expanded Public Works Programme Integrated Grant (Municipality)	204 011	142 826	139 452	145 798	71.5	159 565	78.2
Integrated National Electrification Programme (Municipal) Grant	488 500	464 500	427 580	61 934	12.7	196 434	40.2
Energy Efficiency and Demand Side Management (Municipal) Grant	38 000	27 000	25 000	6 149	16.2	9 565	25.2
Regional Bulk Infrastructure Grant (Schedule 5B)	579 227	493 765	303 765	133 636	23.1	130 771	22.6
Municipal Water Infrastructure Grant (Schedule 5B)	900 000	459 496	302 800	151 075	16.8	-	-
Water Services Infrastructure Grant (Schedule 5B)	900 000	459 496	110 900	24 393	2.7	294 496	32.7
Municipal Infrastructure Grant	3 313 053	2 468 246	2 226 999	1 418 281	42.8	1 650 442	49.8
Sub-Total Vote	7 771 530	5 115 114	4 191 490	2 169 049	27.9	2 765 751	35.6
Allocation in kind							
Neighbourhood Development Partnership (Schedule 6B)	4 484	4 284	-	-	-	-	-
Municipal Systems Improvement Grant (Schedule 6B)	18 530	14 826	-	-	-	-	-
Integrated National Electrification Programme (Allocation in-kind) Grant	885 288	676 639	-	-	-	-	-
Regional Bulk Infrastructure Grant (Schedule 6B)	30 000	15 844	-	-	-	-	-
Sub-Total	938 302	711 593	-	-	-	-	-
Total	8 709 832	5 826 707	4 191 490	2 169 049	27.9	2 765 751	35.6

Source NT Igdatabase

- In terms of the Division of Revenue Act (DoRA) of 2018, direct allocations to all 54 KwaZulu-Natal municipalities amounted to R7.8 billion, while allocations in-kind amounted to R938.3 million, totaling R8.7 billion.
- The grants expenditure figures reported in Table 13 are based on submissions by the municipalities. Despite this, there are differences in the figures reflected as *Expenditure National Departments* and *Expenditure Municipalities*. The analysis below looks at the expenditure by municipality column (*Expenditure Munis.*).
- Municipalities have reflected spending of R2.8 billion or 66 percent against the total amount transferred to date. However, when compared to the total DoRA allocation of R7.8 billion, only 35.6 percent has been spent.
- The Municipal Infrastructure Grant (MIG) DoRA allocation of R3.3 billion is the largest grant allocation. The Public Transport Network Grant (PTNG) of R1.1 billion is the second largest allocation.
- Expenditure reported by municipalities against MIG amounts to R1.7 billion and represents spending of 49.8 percent against the total DoRA allocation of R3.3 billion made to municipalities.
- There has been no transfer of funds for the Integrated City Development Grant (ICDG), however, total expenditure of R35 million has been recorded by the eThekweni Metro which is the only municipality in KwaZulu-Natal which receives this grant.
- The least expenditure was reported against the Infrastructure Skills Development Grant. Municipalities reported expenditure of R5.2 million which amounts to 13.9 percent in comparison to the allocation of R37.3 million for the Infrastructure Skills Development Grant for the 2018/19 financial year. There was no expenditure reported against Municipal Water Infrastructure Grant.
- The Rural Roads Assets Management Grant was allocated to all 10 district municipalities in the province. Only the uThukela District Municipality has not recorded any expenditure against this grant as at the end of quarter two.
- Of the 13 direct allocations to municipalities, only two conditional grants reflected expenditure of 50 percent or more against the total available DoRA allocations for the 2018/19 financial year. These two grants were the Expanded public works programme integrated grant (EPWP) of 78.2 percent and the Integrated city development grant (ICDG) of 76.8 percent. The remainder of the conditional grants reflected expenditure of less than the expected benchmark of 50 percent as at the end of the second quarter with the MWIG grant reflecting no expenditure.

2.14 National Conditional Grants – District Total

Table 14(a): National Conditional Grants as at the end of Quarter 2 - 2018/19

R'000	Financial Management Grant			Regional Bulk Infrastructure Grant			Municipal Infrastructure Grant		
	DoRA 2018 Total Avail.	Unaudited Actual		DoRA 2018 Total Avail.	Unaudited Actual		DoRA 2018 Total Avail.	Unaudited Actual	
		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent
eThekweni	1 000	1 000	100.0	-	-	-	-	-	-
Ugu	13 580	5 929	43.7	-	-	-	382 705	195 546	51.1
uMgungundlovu	14 180	5 705	40.2	-	-	-	400 322	226 492	56.6
uThukela	10 715	4 770	44.5	142 283	2 176	1.5	314 723	153 222	48.7
uMzinyathi	8 760	4 205	48.0	40 000	16 951	42.4	305 575	132 990	43.5
Amajuba	7 140	4 014	56.2	-	-	-	181 132	84 918	46.9
Zululand	10 550	4 550	43.1	131 498	50 085	38.1	364 373	236 378	64.9
uMkhanyakude	10 710	4 007	37.4	-	-	-	333 496	136 464	40.9
King Cetshwayo	12 140	6 903	56.9	120 000	3 629	3.0	396 367	171 910	43.4
iLembe	8 570	2 893	33.8	75 446	24 808	32.9	325 083	156 963	48.3
Harry Gwala	10 540	4 429	42.0	70 000	33 122	47.3	309 277	155 558	50.3
Total	107 885	48 407	44.9	579 227	130 771	22.6	3 313 053	1 650 442	49.8

Source: NT Igdatabase

Figure 14: FMG Expenditure vs. allocation as at 31 December 2018

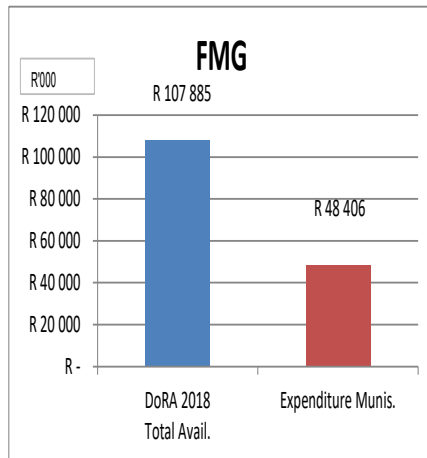


Figure 15: RBIG Expenditure vs. allocation as at 31 December 2018

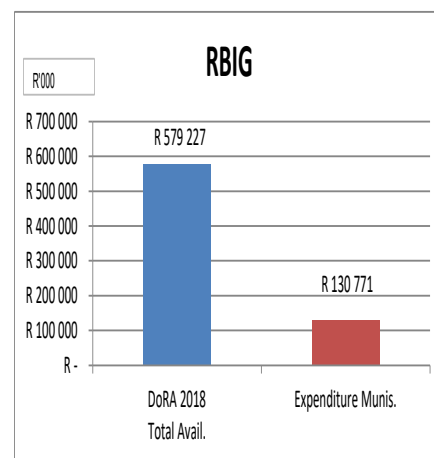
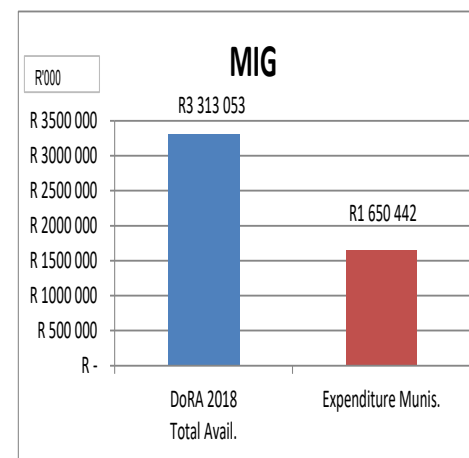


Figure 16: MIG Expenditure vs. allocation as at 31 December 2018



Financial Management Grant

- The aggregate conditional grant expenditure for all districts and the eThekweni Metro for the Financial Management Grant (FMG) was 44.9 percent or R48.4 million against the total available DoRA allocation of R107.9 million which was below the straight line projection of 50 percent at the end of the second quarter.

- The eThekweni Metro has reported the highest spending of 100 percent. The Amajuba (56.2 percent) and King Cetshwayo (56.9 percent) Districts reported expenditure exceeding the 50 percent straight line projection as at the end of the second quarter. The remaining 8 districts reported expenditure below the 50 percent benchmark.

- The lowest spending was reported for the iLembe and uMkhanyakude Districts with 33.8 percent and 37.4 percent respectively.

Regional Bulk Infrastructure Grant

- The Regional Bulk Infrastructure Grant (RBIG) was allocated to six districts in the province with a total spending of 22.6 percent or R130.8 million against the total DoRA allocation of R579.2 million which was below the straight line projection of 50 percent at the end of the second quarter.

- The district with the highest expenditure against the RBIG was the Harry Gwala District Municipality at 47.3 percent followed by the uMzinyathi District Municipality at 42.4 percent. The King Cetshwayo and uThukela District Municipalities both reflected expenditure of below 5 percent against their total allocations.

Municipal Infrastructure Grant

- The total conditional grant expenditure by all the districts for the Municipal Infrastructure Grant (MIG) was 49.8 percent or R1.7 billion against the total DoRA allocation of R3.3 billion as at the end of the second quarter.

- The highest spending on MIG was reported for the Zululand District with 64.9 percent followed by the uMgungundlovu, Ugu and Harry Gwala Districts with 56.6 percent, 51.1 percent and 50.3 percent respectively. The rest of the districts in the province spent less than the straight line projection of 50 percent at the end of the second quarter.

- The lowest spending was reported for the uMkhanyakude District with 40.9 percent.

2.14 National Conditional Grants – District Total / continued...

Table 14(b): National Conditional Grants as at the end of Quarter 2 - 2018/19

R000	Integrated National Electrification Prog. (municipal) Grant			Expanded Public Works Prog. (municipal) Grant			Water Services Infrastructure Grant		
	DoRA 2018 Total Avail.	Unaudited Actual		DoRA 2018 Total Avail.	Unaudited Actual		DoRA 2018 Total Avail.	Unaudited Actual	
		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent		Expenditure Munis.	% Spent
eThekweni	27 000	10 463	38.8	75 333	75 333	100.0	-	-	-
Ugu	52 880	10 994	20.8	11 269	6 338	56.2	55 000	-	-
uMgungundlovu	43 484	11 214	25.8	14 335	5 667	39.5	142 700	25 900	18.1
uThukela	36 582	12 313	33.7	14 344	10 739	74.9	83 000	20 674	24.9
uMzinyathi	47 994	26 590	55.4	13 366	12 761	95.5	55 000	73 267	133.2
Amajuba	21 000	4 917	23.4	6 819	4 281	62.8	124 400	34 356	27.6
Zululand	69 800	33 815	48.4	16 309	10 969	67.3	115 000	10 328	9.0
uMkhanyakude	45 600	25 342	55.6	12 716	9 668	76.0	55 000	25 101	45.6
King Cetshwayo	51 000	37 197	72.9	22 303	12 852	57.6	89 000	56 175	63.1
iLembe	34 706	12 282	35.4	7 878	5 667	71.9	100 500	21 586	21.5
Harry Gwala	58 454	11 306	19.3	9 339	5 291	56.7	80 400	27 110	33.7
Total	488 500	196 434	40.2	204 011	159 565	78.2	900 000	294 496	32.7

Source: NT Igdatabase

Figure 17: INEP Expenditure vs. allocation as at 31 December 2018

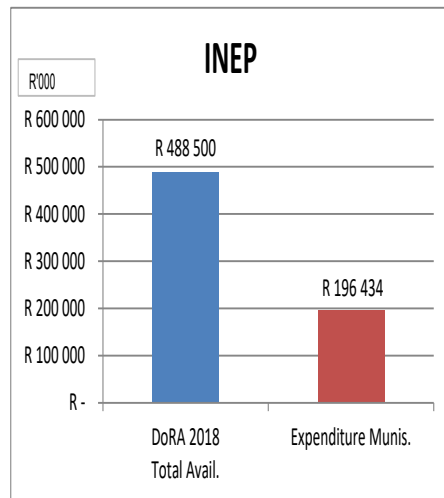


Figure 18: EPWP Expenditure vs. allocation as at 31 December 2018

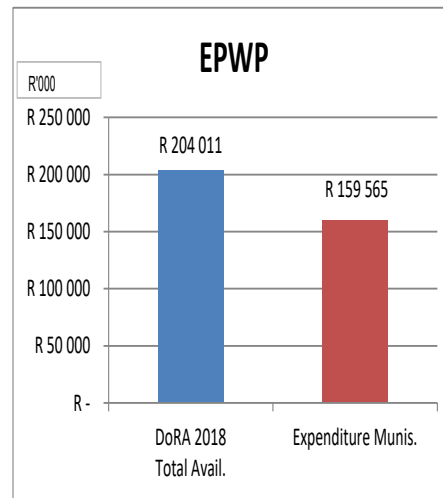
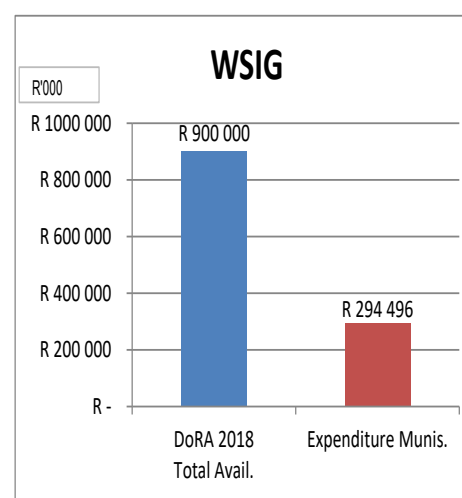


Figure 19: WSIG Expenditure vs. allocation as 31 December 2018



Integrated National Electrification Programme Grant (INEP)

- Expenditure of R196.4 million against the INEP represents 40.2 percent of the total allocation of R488.5 million as at the end of the second quarter.
- Three districts reported expenditure in excess of a straight line projection of 50 percent. The King Cetshwayo, uMkhanyakude and the uMzinyathi Districts reported expenditure of 72.9 percent, 55.6 percent and 55.4 percent respectively.

Expanded Public Works Programme (EPWP)

- The expenditure reported on the EPWP for the province is at 78.2 percent against the total DoRA allocation of R204 million which is above the 50 percent straight line projection.
- The eThekweni Metro recorded the highest percentage spent of 100 percent followed by the uMzinyathi District at 95.5 percent.
- The uMgungundlovu District (39.5 percent) is the only district that has reported spending of less than the 50 percent straight line projection.

Water Services Infrastructure Grant (WSIG)

- A low spending rate was noted against the WSIG which reflected only 32.7 percent or R294.5 million expenditure against the total allocation of R900 million as at the end of the second quarter.
- The uMzinyathi District reported spending in excess of 100 percent as at the end of the second quarter which is questionable. With the exception of the King Cetshwayo District which achieved 63.1 percent, all other districts spent below the straight line projection of 50 percent against their WSIG allocations as at the end of the second quarter.
- The Ugu District did not report any spending against their allocations as at the end of the second quarter; and the Zululand District reported the least expenditure of only 9 percent.
- Municipalities are reminded that poor performance against conditional grant allocations may result in municipalities surrendering the unspent portions of their conditional grants received to The National Revenue Fund. Under-spending on conditional grants negatively impacts on service delivery and infrastructure development.

2.15 Non-Compliance with the DoRA and MFMA Reporting Requirements

Table 15(a): List of municipalities that did not comply with ALL MFMA and DoRA Reporting Requirements for the period July to December 2018. (As at dated 04 February 2019)

Monthly Returns - 2018/19	Monthly Conditional Grant Returns - 2018/19	Quarterly Returns - 2018/19	
Ulundi	iMpendle	Nongoma	eMadlangeni
Mpofana	Nquthu	iMpendle	Dr. Nkosazana Dlamini Zuma
Dannhauser		Mpofana	uMdoni
AbaQulusi		uMsinga	Zululand DM
Mandeni		Okhahlamba	Maphumulo
Nongoma		Dannhauser	uMzambe
iMpendle		Ugu DM	Nkandla
Nquthu		Big Five Hlabisa	Ray Nkonyeni
uThukela DM		Jozini	uMzinyathi
Mtubatuba		Nquthu	
Ugu DM		uMvoti	
eNdumeni		iNkosi Langalibalele	
uPhongolo		uThukela DM	
Richmond		Amajuba DM	

¹List of municipalities exclude the non-delegated municipalities.

Source: NT Igdatabase

- Non-compliance with the DoRA and MFMA reporting requirements is forwarded bi-annually, via a Provincial Treasury Circular by the office of the MEC for Finance to Mayors of all delegated KwaZulu-Natal municipalities. The issuing of the non-compliance circular bi-annually is over and above the weekly schedules which are sent to municipalities regarding their outstanding MFMA reports and returns by the Provincial Treasury.
- Despite these efforts, Tables 15(a), 15(b) and 15(c) show the municipalities that did not fully comply with all reporting requirements according to the National Treasury report reflecting the outstanding MFMA returns and reports as at 04 February 2019.
- Section 71 of the MFMA requires that the Accounting Officer of a municipality must, by no later than 10 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, 14 municipalities have not submitted all their monthly reports, two municipalities did not report on certain conditional grant expenditure. Furthermore, 23 municipalities did not submit their quarterly returns as at 04 February 2019.

Table 15(b): List of municipalities that did not comply with ALL MFMA and DoRA Reporting Requirements for the period July to December 2018. (As at dated 04 February 2019)

Annual Returns - 2018/19	Key Budget Deadlines-2019/20	Municipalities that did not published majority documents on their website as required by Section 75	Municipalities with less than 5 Interns
uMvoti Dannhauser uMshwathi uThukela Harry Gwala DM Nquthu Maphumulo uMsinga Amajuba DM uBuhlebezwe uMfalozi Nkandla uMalazi Ray Nkonyeni uMdoni uMzombe iNkosi Langalibalele Ulundi Zululand DM iMpendle Richmond uMzinyathi DM iMpendle Ugu DM uMalazi eDumbe	eNdumeni eMadlangeni Dannhauser Zululand DM Dr. Nkosazana Dlamini Zuma	uMuziwabantu Ugu DM Nquthu Dannhauser Zululand DM uMfalozi Nkandla eDumbe	uMdoni Ray Nkonyeni Ugu DM eNdumeni uMzinyathi DM eMadlangeni

¹List of municipalities exclude the non-delegated municipalities.

Source: NT Igdatabase

Table 15(c): List of municipalities that did not comply with ALL MFMA and DoRA Reporting Requirements for the period July to December 2018. (As at dated 04 February 2019)

Signed Off Q1 Section 71 figures	Signed Off Q1 Borrowing Monitoring	Investment Monitoring	Non submission of Section 72 report by 25 January 2019
uMzinyathi DM	Newcastle iMpendle Mpofana Nongoma	uMuziwabantu Mpofana Richmond uMsinga Nongoma	uMshwathi uMkhanyakude

¹List of municipalities exclude the non-delegated municipalities.

Source: NT Igdatabase

- As at 04 February 2019, 26 municipalities had still not submitted all the MFMA annual returns for the 2018/19 financial year in accordance with Section 22(b) of the MFMA which requires the Accounting Officer of the municipality to submit the annual budget in electronic format to the National and the Provincial Treasury.
- Section 21(1)(b) of the MFMA requires the Mayor of a municipality to table in council a time schedule outlining key deadlines by 31 August of each financial year. Five municipalities did not table their Time schedule outlining key deadlines by the prescribed deadline of 31 August 2018.
- Section 75 of the MFMA requires municipalities to place certain documents on their municipal websites. It was noted that as at 04 February 2019, eight municipalities had still not placed the majority of the required documents on their municipal websites.
- The conditions of the Financial Management Grant (FMG) requires that each municipality must appoint a minimum of five interns over a multi-year period. It was noted that as at 04 February 2019, six municipalities had still not appointed the required minimum number of five interns.
- It was noted in the past that there has been discrepancies in the data submitted to the Local Government Database by municipalities. To ensure that the figures published by National Treasury are reliable, it is imperative that municipalities scrutinize, verify and sign-off the verification schedules sent to them by National Treasury on a quarterly basis. One municipality failed to submit the signed Section 71 verification schedule, four municipalities failed to submit the signed Borrowing monitoring verification schedule and five municipalities failed to submit the signed Investment monitoring verification.
- Section 72(1)(a) of the MFMA requires that the Accounting Officer of a municipality assesses the performance of the municipality for the first half of the year. A report on such assessment must be performed and submitted to the Mayor of the municipality, National Treasury and the relevant Provincial Treasury by 25 January of each year as per Section 72(1)(b) of the MFMA. Two municipalities had failed to comply with Section 72(1)(b)(iii) as the 2018/19 Mid-Year Budget and Performance Assessments Reports were not submitted to Provincial Treasury in either the electronic or printed formats or both. The municipalities subsequently submitted their 2018/19 Mid-Year Budget and Performance Assessment Reports in the relevant formats to Provincial Treasury.

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

The Minister of Finance promulgated Government Gazette No. 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), on 22 April 2014. All municipalities and related municipal entities were required to transact in compliance with the mSCOA Regulations from 01 July 2017.

Provincial Treasury continued with the implementation of mSCOA in the Province during the second quarter of the municipal financial year by means of providing onsite support and engagements.

A Schedule Validation of the Council Adopted Budget to the mSCOA Budget Data Submission

As previously reported in Quarter 1, there were no municipalities that had perfect alignment between the Council Approved Budget and the A Schedules. In order to address this, National Treasury issued a communication via email to all municipalities to correct this alignment issues by the deadline date of 03 October 2018. A further extension was provided till 12 October 2018.

There were various reasons cited by both the municipalities' and the Provincial Treasuries of challenges experienced in order to correct this alignment as at 12 October 2018. These challenges as extracted from a communication from National Treasury (email) to all municipalities dated 22 October 2018 included the following:

- “The root cause for the discrepancies in the adopted budgets is still the fact that the municipalities do not plan, test and generate the A1 Schedules directly from the financial systems but prepare the A1 Schedules manually on excel spreadsheets and then captured the tabled (TABB) and adopted (ORGB) budgets on the system (or worse, the core system vendor does it for them) after these were tabled and adopted in Council.
- Some municipalities prepared their TABBs in the financial system but made changes to it during community consultation and council meeting(s). These changes were affected to the A1 Schedule that served before council but never made on the financial system. Hence, the municipality started transacting against the TABB on the system instead of the ORGB.
- In some cases, the ORGBs are correct but the information on the adopted A1 Schedules are incorrect (once again the A1 Schedules that were submitted to Council were not prepared in and drawn from the system).
- Some municipalities have already approved and captured roll-over budgets which they are transacting against and therefore have already implemented an adjusted budget;
- Most municipalities do not use and combine the correct segments to populate an accurate cash flow statement;
- Municipalities do not know how to do balance sheet budgeting and as a result they are not populating Tables A2, A6 and A7 in the A1 Schedules correctly; and
- Municipalities are not using the segments correctly when they budget. e.g. Municipalities are not using the project segment as the departure point for all transactions and are not populating the funding segment correctly.”

The communication dated 22 October 2018 further noted that in order to prevent alignment issues going forward, National Treasury will “discontinue to use of the budget return forms in the 2019/2020 financial year and will publish all budget related and Section 71 information directly from the data strings. Municipalities will continue to report on the old electronic returns until the end of the 2018/19 municipal financial year.”

In order to assess the readiness of all municipalities as well as vendors, National Treasury requested that the vendors demonstrated the budget module and the reporting functionality between the periods of the 19-22 November 2018. During the demonstration the abovementioned module was assessed, and immediate feedback provided to the vendor on user friendliness of the module and challenges that were experienced by specific municipalities in relation to that particular vendor. It was however noted, that all vendors had the budget/IDP module and the reporting functionality, either in the form of a third-party integration or their own development, was already available to municipalities. Therefore, municipalities are in a position to meet the requirements as requested by National Treasury. More importantly, municipalities must ensure that they have tested the module and reporting functionality prior to March 2019 in order to ensure that they are able to comply.

Reporting in terms of Section 71 of the MFMA for 2018/2019 financial year

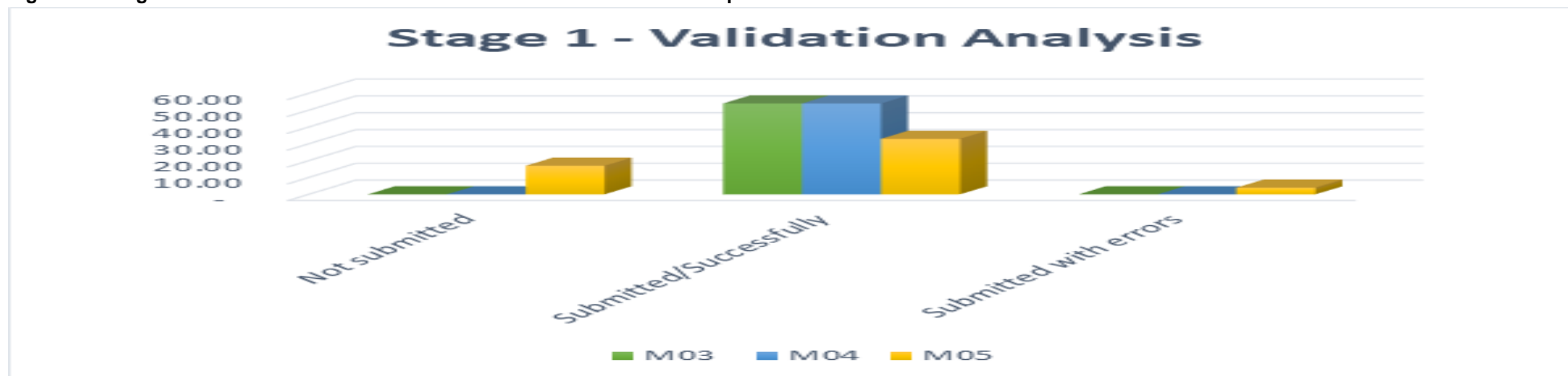
The accounting officer of a municipality is required to, by no later than 10 working days after the end of each month, submit to the Mayor of the municipality and the relevant Provincial Treasury in the prescribed format the statutory monthly reporting for the municipality, which includes the electronic monthly mSCOA transactional information submissions. As of the 31 December 2018, Stage 1 validation status of the KwaZulu-Natal Province for the months of September 2018 to November 2018 is shown in Table 16.

Table 16: Municipalities submitted files in the correct structure within the required reporting time of as at the 28 February 2018

No.	Name of Municipality	Month 3 (September 2018) submissions	Month 4 (October 2018) submissions	Month 5 (November 2018) submissions	No.	Name of Municipality	Month 3 (September 2018) submissions	Month 4 (October 2018) submissions	Month 5 (November 2018) submissions
		Status of Submission	Status of Submission	Status of Submission			Status of Submission	Status of Submission	Status of Submission
1	AbaQulusi	Submitted Successfully	Submitted Successfully	Submitted Successfully	28	Ndwedwe	Submitted Successfully	Submitted Successfully	Submitted Successfully
2	Alfred Duma	Submitted Successfully	Submitted Successfully	Submitted Successfully	29	New castle	Submitted Successfully	Submitted Successfully	Submitted Successfully
3	Amajuba DM	Submitted Successfully	Submitted Successfully	Not submitted	30	Nkandla	Submitted Successfully	Submitted Successfully	Submitted Successfully
4	Dannhauser	Submitted Successfully	Submitted Successfully	Submitted Successfully	31	Nongoma	Submitted Successfully	Submitted Successfully	Not submitted
5	Dr Nkosazana Dlamini Zuma	Submitted Successfully	Submitted Successfully	Submitted Successfully	32	Nquthu	Submitted Successfully	Submitted Successfully	Not submitted
6	eDumbe	Submitted Successfully	Submitted Successfully	Submitted Successfully	33	Okhahlamba	Submitted Successfully	Submitted Successfully	Submitted with Errors
7	eMadlangeni	Submitted Successfully	Submitted Successfully	Submitted Successfully	34	Ray Nkonyeni	Submitted Successfully	Submitted Successfully	Not submitted
8	eNdumeni	Submitted Successfully	Submitted Successfully	Not submitted	35	Richmond	Submitted Successfully	Submitted Successfully	Submitted with Errors
9	eThekwini	Submitted Successfully	Submitted Successfully	Submitted Successfully	36	uBuhlebezwe	Submitted Successfully	Submitted Successfully	Submitted Successfully
10	Greater Kokstad	Submitted Successfully	Submitted Successfully	Submitted Successfully	37	Ugu DM	Submitted Successfully	Submitted Successfully	Submitted Successfully
11	Harry Gwala DM	Submitted Successfully	Submitted Successfully	Submitted Successfully	38	Ulundi	Submitted Successfully	Submitted Successfully	Submitted Successfully
12	Big Five Hlabisa	Submitted Successfully	Submitted Successfully	Not submitted	39	uMdoni	Submitted Successfully	Submitted Successfully	Submitted Successfully
13	iLembe DM	Submitted Successfully	Submitted Successfully	Not submitted	40	uMgungundlovu DM	Submitted Successfully	Submitted Successfully	Submitted Successfully
14	iPpendle	Submitted Successfully	Submitted Successfully	Not submitted	41	uMhlabuyalingana	Submitted Successfully	Submitted Successfully	Not submitted
15	iNkosi Langalibalele	Submitted Successfully	Submitted Successfully	Not submitted	42	uMhlathuze	Submitted Successfully	Submitted Successfully	Submitted Successfully
16	Jozini	Submitted Successfully	Submitted Successfully	Submitted Successfully	43	uMkhanyakude DM	Submitted Successfully	Submitted Successfully	Submitted with Errors
17	King Cetshwayo DM	Submitted Successfully	Submitted Successfully	Submitted Successfully	44	uMlalazi	Submitted Successfully	Submitted Successfully	Not submitted
18	Kwa Dukuza	Submitted Successfully	Submitted Successfully	Not submitted	45	uMngeni	Submitted Successfully	Submitted Successfully	Submitted with Errors
19	Mandeni	Submitted Successfully	Submitted Successfully	Submitted Successfully	46	uMshwathi	Submitted Successfully	Submitted Successfully	Submitted Successfully
20	Maphumulo	Submitted Successfully	Submitted Successfully	Submitted Successfully	47	uMuziwabantu	Submitted Successfully	Submitted Successfully	Not submitted
21	uMfolozi	Submitted Successfully	Submitted Successfully	Submitted Successfully	48	uMvoti	Submitted Successfully	Submitted Successfully	Submitted Successfully
22	Mkhambathini	Submitted Successfully	Submitted Successfully	Submitted Successfully	49	uMzimkhulu	Submitted Successfully	Submitted Successfully	Submitted Successfully
23	Mpofana	Submitted Successfully	Submitted Successfully	Submitted Successfully	50	uMzinyathi DM	Submitted Successfully	Submitted Successfully	Submitted Successfully
24	uMsinga	Submitted Successfully	Submitted Successfully	Submitted Successfully	51	uMzumbe	Submitted Successfully	Submitted Successfully	Submitted Successfully
25	Msunduzi	Submitted Successfully	Submitted Successfully	Not submitted	52	uPhongolo	Submitted Successfully	Submitted Successfully	Not submitted
26	Mthonjaneni	Submitted Successfully	Submitted Successfully	Submitted Successfully	53	uThukela DM	Submitted Successfully	Submitted Successfully	Not submitted
27	Mtubatuba	Submitted Successfully	Submitted Successfully	Not submitted	54	Zululand DM	Submitted Successfully	Submitted Successfully	Submitted Successfully

Monthly transactional data validation contains no errors
 Monthly transactional data validation contains errors
 Data file is outstanding
 File Format is incorrect - not validated

Figure 20: Stage 1 Validations status of the KZN Province for the months of September to November 2018



Month 03 (September 2018) Submission Status:

As at the 31 December 2018, there were 54 municipalities that submitted the data strings successfully to the LG Portal. This is a 100 percent submission rate. There were 23 municipalities that submitted within the required deadline of 10 working days after month end.

Month 04 (October 2018) Submission Status:

As at the 31 December 2018, there were 54 municipalities that submitted the data strings successfully to the LG Portal. This is a 100 percent submission rate. There were 30 municipalities that submitted within the required deadline of 10 working days after month end. This was an improvement in comparison to month 3.

Month 05 (November 2018) Submission Status:

As at the 31 December 2018, there were 33 municipalities that submitted the data strings successfully to the LG Portal. This represented a 61 percent submission rate were the data strings were successful. Four (4) municipalities submitted data strings with errors and 17 municipalities did not submit. The municipalities that had outstanding submissions as at the 31 December 2018 are shown in Table 17 as following:

Table 17: Municipalities which did not submit their data strings to the LG Portal as at 31 December 2018

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	Amajuba DM	5	iMpendle	9	Mtubatuba	13	uMhlabuyalingana	17	uThukela DM
2	eNdumeni	6	iNkosi Langalibalele	10	Nongoma	14	uMlalazi		
3	Big Five Hlabisa	7	KwaDukuza	11	Nquthu	15	uMuziwabantu		
4	iLembe DM	8	Msunduzi	12	Ray Nkonyeni	16	uPhongolo		

Month 06 (December 2018) Submission Status:

Due to the legislated deadline for the December 2018 monthly data submissions being 14 January 2019, the submission feedback will be reported in the Quarter 3 report of 2018/2019 Financial year.

Segment validation (Stage 2) of monthly mSCOA data submissions received

Subsequent to the receipt of the monthly mSCOA transactional data strings in the correct format, the National Treasury Local Government Portal conducted a segment validation of the data strings to ensure that the municipality has applied the correct segments in their transactional information, based on predetermined rules. Provincial Treasury had engaged municipalities on these errors and provided guidance to these municipalities in understanding these errors and what was required to clear these errors. The status of the segment validation (Stage 2) as at the 31 December 2018 is shown as follows as per Table 18:

Table 18: Status of segment validation (stage 2) as at 31 December 2018

No.	Name of Municipality	Month 3 (September 2018) submissions	Month 4 (October 2018) submissions	Month 5 (November 2018) submissions	No.	Name of Municipality	Month 3 (September 2018) submissions	Month 4 (October 2018) submissions	Month 5 (November 2018) submissions
1	AbaQulusi	Validations contain no errors	Validations contain no errors	Validations contain no errors	28	Ndwedwe	Validations contain no errors	Validations contain no errors	Validations contain no errors
2	Alfred Duma	Validations contain no errors	Validations contain no errors	Validations contain no errors	29	New castle	Validations contain no errors	Validations contain no errors	Validations contain no errors
3	Amajuba DM	Validations contain no errors	Validations contain no errors	Data file is outstanding	30	Nkandla	Validations contain no errors	Validations contain no errors	Validations contain no errors
4	Dannhauser	Validations contain no errors	Validations contain no errors	Validations contain no errors	31	Nongoma	Validations contain no errors	Validations contain no errors	Data file is outstanding
5	Dr Nkosazana Dlamini Zuma	Validations contain no errors	Validations contain no errors	Validations contain no errors	32	Nquthu	Validations contain no errors	Validations contain no errors	Data file is outstanding
6	eDumbe	Validations contain no errors	Validations contain no errors	Validations contain no errors	33	Okhahlamba	Validations contain no errors	Validations contain no errors	v validated
7	eMadlangeni	Validations contain no errors	Validations contain no errors	Validations contain no errors	34	Ray Nkonyeni	Validations contain no errors	Validations contain no errors	Data file is outstanding
8	eNdumeni	Validations contain no errors	Validations contain no errors	Data file is outstanding	35	Richmond	Validations contain no errors	Validations contain no errors	v validated
9	eThekwini	Validations contain no errors	Validations contain no errors	Validations contain no errors	36	uBuhlebezwe	Validations contain no errors	Validations contain no errors	Validations contain no errors
10	Greater Kokstad	Validations contain no errors	Validations contain no errors	Validations contain no errors	37	Ugu DM	Validations contain no errors	Validations contain no errors	Validations contain no errors
11	Harry Gwala DM	Validations contain no errors	Validations contain no errors	Validations contain no errors	38	Ulundi	Validations contain no errors	Validations contain no errors	Validations contain no errors
12	Big Five Hlabisa	Validations contain no errors	Validations contain errors	Data file is outstanding	39	uMdoni	Validations contain no errors	Validations contain no errors	Validations contain no errors
13	iLembe DM	Validations contain no errors	Validations contain no errors	Data file is outstanding	40	uMgungundlovu DM	Validations contain no errors	Validations contain no errors	Validations contain no errors
14	iMpindle	Validations contain no errors	Validations contain no errors	Data file is outstanding	41	uMhlabuyalingana	Validations contain no errors	Validations contain no errors	Validations contain no errors
15	iNkosi Langalibalele	Validations contain no errors	Validations contain no errors	Data file is outstanding	42	uMhlatuze	Validations contain no errors	Validations contain no errors	Validations contain errors
16	Jozini	Validations contain no errors	Validations contain no errors	Validations contain no errors	43	uMkhanyakude DM	Validations contain no errors	Validations contain no errors	v validated
17	King Cetshwayo DM	Validations contain no errors	Validations contain no errors	Validations contain no errors	44	uMlalazi	Validations contain no errors	Validations contain no errors	Data file is outstanding
18	Kwa Dukuza	Validations contain no errors	Validations contain no errors	Data file is outstanding	45	uMngeni	Validations contain no errors	Validations contain no errors	v validated
19	Mandeni	Validations contain no errors	Validations contain no errors	Validations contain no errors	46	uMshwathi	Validations contain no errors	Validations contain no errors	Validations contain no errors
20	Maphumulo	Validations contain no errors	Validations contain no errors	Validations contain no errors	47	uMuziwabantu	Validations contain no errors	Validations contain no errors	Data file is outstanding
21	uMfolozi	Validations contain no errors	Validations contain no errors	Validations contain no errors	48	uMvoti	Validations contain no errors	Validations contain no errors	Validations contain no errors
22	Mkhambathini	Validations contain no errors	Validations contain no errors	Validations contain no errors	49	uMzimkhulu	Validations contain no errors	Validations contain no errors	Validations contain no errors
23	Mpofana	Validations contain no errors	Validations contain no errors	Validations contain no errors	50	uMzinyathi DM	Validations contain no errors	Validations contain no errors	Validations contain no errors
24	uMsinga	Validations contain no errors	Validations contain no errors	Validations contain no errors	51	uMzumbe	Validations contain no errors	Validations contain no errors	Validations contain no errors
25	Msunduzi	Validations contain no errors	Validations contain no errors	Data file is outstanding	52	uPhongolo	Validations contain no errors	Validations contain no errors	Data file is outstanding
26	Mthonjaneni	Validations contain no errors	Validations contain no errors	Validations contain no errors	53	uThukela DM	Validations contain no errors	Validations contain no errors	Data file is outstanding
27	Mtubatuba	Validations contain no errors	Validations contain no errors	Data file is outstanding	54	Zululand DM	Validations contain no errors	Validations contain no errors	Validations contain no errors

Submission of the Pre-Audited Annual Financial Statements (data string)

In respect of Section 5(4)(a) and 74(1) of the Municipal Financial Management Act, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required.

In light of this, municipalities were requested to submit to the LG Portal the Pre-Audited Annual Financial Statement data strings and the submission status is shown in Table 19. As at the 31 December 2018, 40 municipalities uploaded the pre-audited data strings (PAUD). This represents only 74 percent of municipalities within the province. The PAUD data strings were required to be submitted to the LG Portal 10 days after submission of the Annual Financial Statements to the Auditor General of South Africa. There are a further 13 municipalities that are outstanding (denoted in the red) and one municipality that submitted with errors (i.e. the data string did not pass stage 1 validation and is denoted in orange).

Table 19: Submission status of data strings for Pre-Audited Annual Financial Statements as at 31 December 2018

No	Name of Municipality	Submission	No	Name of Municipality	Submission	No	Name of Municipality	Submission
1	AbaQulusi	Successful	19	Mandeni	Successful	37	Ugu DM	Successful
2	Alfred Duma	Successful	20	Maphumulo	Successful	38	Ulundi	Successful
3	Amajuba DM	Successful	21	uMfolozi	Successful	39	uMdoni	Successful
4	Dannhauser	Outstanding	22	Mkhambathini	Successful	40	uMgungundlovu DM	Outstanding
5	Dr Nkosazana Dlamini Zuma	Successful	23	Mpofana	Submitted with errors	41	uMhlabuyalingana	Successful
6	eDumbe	Successful	24	uMsinga	Outstanding	42	uMhlathuze	Outstanding
7	eMadlangeni	Successful	25	Msunduzi	Successful	43	uMkhanyakude DM	Successful
8	eNdumeni	Outstanding	26	Mthonjaneni	Successful	44	uMlalazi	Outstanding
9	eThekwini	Successful	27	Mtubatuba	Outstanding	45	uMngeni	Successful
10	Greater Kokstad	Successful	28	Ndwedwe	Successful	46	uMshwathi	Successful
11	Harry Gwala DM	Successful	29	Newcastle	Successful	47	uMuziwabantu	Outstanding
12	Big Five Hlabisa	Successful	30	Nkandla	Successful	48	uMvoti	Successful
13	iLembe DM	Successful	31	Nongoma	Successful	49	uMzimkhulu	Successful
14	iMpindle	Successful	32	Nquthu	Successful	50	uMzinyathi DM	Outstanding
15	iNkosi Langalibalele	Outstanding	33	Okhahlamba	Outstanding	51	uMzumbe	Successful
16	Jozini	Successful	34	Ray Nkonyeni	Outstanding	52	uPhongolo	Successful
17	King Cetshwayo DM	Successful	35	Richmond	Outstanding	53	uThukela DM	Successful
18	Kwa Dukuza	Successful	36	uBuhlebezwe	Successful	54	Zululand DM	Successful

Submission of the Audited Annual Financial Statements (data string)

In respect of Section 5(4)(a) and 74(1) of the Municipal Financial Management Act, Provincial Treasury may request information from time to time to enable them to monitor compliance with the Act and provide oversight and monitoring. Such information can include, returns, documents, explanations and motivations as may be prescribed or as may be required.

In light of this, municipalities were requested to submit to the LG Portal the Audited Annual Financial Statement data strings (AAUD) and the submission status thereof is shown in Table 20. As at the 31 December 2018, only two municipalities uploaded the audited data strings (AAUD). This represents only 3 percent of municipalities within the province. There are 51 municipalities that are outstanding (denoted in the red) and one municipality that submitted with errors (i.e. the data string did not pass stage 1 validation and is denoted in orange).

Table 20: Submission status of data strings for Audited Annual Financial Statements as at 31 December 2018

No	Name of Municipality	Segment Validation	No	Name of Municipality	Segment Validation	No	Name of Municipality	Segment Validation
1	AbaQulusi	Outstanding	19	Mandeni	Outstanding	37	Ugu DM	Submitted with errors
2	Alfred Duma	Successful	20	Maphumulo	Outstanding	38	Ulundi	Outstanding
3	Amajuba DM	Outstanding	21	uMfolozi	Outstanding	39	uMdoni	Outstanding
4	Dannhauser	Outstanding	22	Mkhambathini	Outstanding	40	uMgungundlovu DM	Outstanding
5	Dr Nkosazana Dlamini Zuma	Outstanding	23	Mpofana	Outstanding	41	uMhlabuyalingana	Outstanding
6	eDumbe	Outstanding	24	uMsinga	Outstanding	42	uMhlathuze	Outstanding
7	eMadlangeni	Outstanding	25	Msunduzi	Outstanding	43	uMkhanyakude DM	Outstanding
8	eNdumeni	Outstanding	26	Mthonjaneni	Outstanding	44	uMlalazi	Outstanding
9	eThekwini	Outstanding	27	Mtubatuba	Outstanding	45	uMngeni	Outstanding
10	Greater Kokstad	Outstanding	28	Ndwedwe	Outstanding	46	uMshwathi	Outstanding
11	Harry Gwala DM	Outstanding	29	Newcastle	Successful	47	uMuziwabantu	Outstanding
12	Big Five Hlabisa	Outstanding	30	Nkandla	Outstanding	48	uMvoti	Outstanding
13	iLembe DM	Outstanding	31	Nongoma	Outstanding	49	uMzimkhulu	Outstanding
14	iMpendle	Outstanding	32	Nquthu	Outstanding	50	uMzinyathi DM	Outstanding
15	iNkosi Langalibalele	Outstanding	33	Okhahlamba	Outstanding	51	uMzumbhe	Outstanding
16	Jozini	Outstanding	34	Ray Nkonyeni	Outstanding	52	uPhongolo	Outstanding
17	King Cetshwayo DM	Outstanding	35	Richmond	Outstanding	53	uThukela DM	Outstanding
18	Kwa Dukuza	Outstanding	36	uBuhlebezwe	Outstanding	54	Zululand DM	Outstanding

Third-party integration tool and onsite assessments

On 23 August 2018, National Treasury held a team meeting at which a third-party integration assessment tool was demonstrated, and officials were trained on the usage and completion of the tool. Provincial Treasuries were then requested over the period of September 2018 and October 2018 to conduct this assessment for each municipality within the Province. As at the 31 December 2018, all 54 municipalities were assessed and completed.

It was further noted that municipalities have not fully implemented all required modules and were unable to provide us with information outstanding particularly with regards to date on when the municipality plans to implement the module/system or when does the municipality plans to integrate the between the third-party system and the core financial system. The tool focuses of the functionality as contained in MFMA Circular No. 80 that should be in place for that particular category of municipality. This includes the following:

- Corporate governance;
- Municipal budgeting, planning and financial modelling;
- Financial accounting;
- Costing and reporting;
- Project accounting;
- Treasury and cash management;
- Procurement cycle: Supply chain management (SCM), Expenditure management, contract management and accounts payable;
- Grant management;
- Full asset life cycle management including maintenance management;
- Real estate and resource management;
- Human resource and payroll management;
- Land use and building control management;
- Valuation roll management;
- Revenue cycle: Meter reading, billing accounts receivable, revenue management and receipting; and
- Customer care, credit control and debt collection.

The following was noted from the third-party tool assessment:

- Manual processes are continuously used where the guidelines in terms of MFMA Circular No. 80 is a legislative and mSCOA regulation requirements and such functionality should be automated for that category of municipality;
- Business process remain unchanged and this impacts the reporting capability of the municipalities;
- Costing has not been implemented particularly for low capacity municipalities;
- Funding of the additional modules is challenge as municipalities' already have existing cash flow challenges;
- Reporting is still occurring outside the system. Although the functionality is available, municipalities continue to rely on excel schedules;
- Change management is a concern; and
- Staff retention and major changes in senior management negatively impacts the mSCOA implementation process.

Provincial Treasury Support to Municipalities and Entities

The KwaZulu-Natal Provincial Treasury has actively engaged municipalities and entities through various forums, training workshops, one on one sessions and district engagements. A summary of the support provided during this quarter is listed below:

- KwaZulu Natal Provincial Treasury CFO Forum – Adjustments Budget and Correction Process (13 November 2018);
- Councillor Training – uMlalazi Local Municipality (20 November 2018); and
- mSCOA Training and the Role of the Internal Auditor – Newcastle Local Municipality (11 December 2018).

Further to this, the appointed mSCOA Advisors have provided individual support to all municipalities in addressing the challenges at the municipality with regards to the vendor, processing and understanding of mSCOA. This includes budgeting and transacting and clearing of validation errors on the data files and findings on the opening balances and how to correct this and the review of the general ledger and/or in-year reporting.

National Treasury Support

National Treasury has conducted the following engagements with the attendance of all Provincial Treasuries:

- Team Meetings – 28 October 2018;
- Train the Trainer – 29 October 2018 to 01 November 2018 (Basic mSCOA and Reporting in mSCOA);
- Reporting Reference Group – 02 November 2018; and
- Vendor Engagements 19-22 November 2018. This included the demonstration of the IDP/Budget Module and the generation of reporting Schedules (Reporting functionality).

Way forward

Provincial Treasury will continue to engage with the municipalities in addressing the outstanding issues via monthly site visits, frequent communication via email and telephonically as well as the various platforms such as mSCOA forums, CFO Forums and District engagements.

The focus areas of the mSCOA implementation team for the next quarter is planned as follows:

- Monitor and support municipalities in ensuring that the monthly data submissions are in compliance with National Treasury requirements and free from errors;
- Assist municipalities with the readiness for Adjustments Budget period for the 2018/2019 and the Tabled budget period for the 2019/2020;
- Conduct Refresher training on mSCOA basics, Budgeting in mSCOA and changes in the mSCOA chart from Version 6.2 to 6.3 at a district level; and
- Review of the municipal data transactions to ensure the quality of the transactional data and provide feedback to municipalities;
- Provision of guidance to municipalities on system implementation issues and governance matters;

- Review of the Audit Working Paper files for the mSCOA implementation for all municipalities;
- Engagement with National Treasury on the demonstration of the Supply Chain Management and Asset Management Modules;
- Attendance of Training to be held by National Treasury on Budgeting and Transacting in mSCOA, Change Management, Dashboards; and
- Attendance of Mid-Year assessments with respective Budget Analyst to address mSCOA matters.

4. Municipal Support and Oversight

Municipal Support Programme (MSP)

The Municipal Support Program (MSP) within the Municipal Finance Management Programme was established to assist and provide technical support to delegated municipalities in financial distress. The main objective of the program is to identify the root cause of financial problems experienced by the municipalities, support the municipalities where their financial sustainability is threatened and implement support initiatives that will assist the municipalities to improve their financial health.

The Value Added Tax (VAT) and Pay As You Earn (PAYE) Review initiatives are intended to address the shortcomings relating to the management of VAT and PAYE. The filing of VAT and PAYE Returns by municipalities and the processes associated with these functions have often been outsourced to service providers which resulted in external resources preparing and filing the Returns on behalf of the municipality at a considerable cost thereto. Further, the municipal officials have not necessarily been trained in the tasks involved and could be unaware of the best practices to follow in fulfilling these responsibilities. The VAT and PAYE Review initiatives aims to capacitate municipalities to undertake the function on their own.

The MSP also launched the “Guide to Grant Management” in the 2017/18 financial year. The guide presents a holistic approach to effective grant management with the intention of embedding key foundation principles in a municipal environment, covering areas such as municipal planning, budgeting, and financial accounting and reporting, cash management, compliance as well as document management. The publication has been rolled-out to three pilot municipalities which included intensive grant management training. Table 21 below list the municipalities which were supported by the Municipal Support Program.

Table 21: Municipalities supported by the Municipal Support Program in Quarter 2 of 2018/19

No	Name of Municipality / Entity	Municipal Support Programme			No	Name of Municipality / Entity	Municipal Support Programme		
		Value added tax review	Pay As You Earn Review	Grant Management			Value added tax review	Pay As You Earn Review	Grant Management
1	iMpendle	✓	✓		5	AbaQulusi	✓	✓	
2	uMsinga	✓	✓		6	King Cetshwayo DM			✓
3	New castle		✓	✓	7	Mandeni		✓	
4	Amajuba DM			✓	8	iLembe DM	✓	✓	

Norms and Standards

Norms and Standards supported the Big Five Hlabisa Local Municipality with the review of the following draft policies:

- Budget Policy;
- Indigent Support Policy; and
- Virement Policy.

Reviewed policies for one municipality incorporating mSCOA as per issued MFMA Circular. Only one municipality was supported, as the Unit is currently conducting compliance monitoring on Public entities.

Banking and Cash Management

Quarterly Withdrawals from Municipal Bank Accounts

The Table 22 below lists the municipalities that have not submitted the 1st quarterly withdrawal report in respect of the 2018/2019 financial year.

Table 22: List of municipalities which did not submit their 1st quarterly withdrawal reports in the current financial year of 2018/19

No	Name of Municipality	No	Name of Municipality
1	Msunduzi	5	AbaQulusi
2	uMngeni	6	Nkandla
3	Richmond	7	Ndwedwe
4	uMzinyathi DM	8	Harry Gwala DM

The Table 23 below lists the municipalities that have not submitted the 2nd quarterly withdrawal report in respect of the 2018/2019 financial year.

Table 23: List of municipalities that have Outstanding Quarterly Withdrawal Reports for the 2nd quarter of 2018/19

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	uMdoni	9	Richmond	17	Nongoma	25	Ndwedwe
2	uMzumba	10	Okhahlamba	18	Zululand DM	26	iLembe DM
3	uMuziwabantu	11	uThukela DM	19	uMhlabuyalanga	27	Dr Nkosazana Dlamini Zuma
4	Ray Nkonyeni	12	Nquthu	20	Jozini	28	uMzimkhulu
5	uMshwathi	13	uMzinyathi DM	21	Mtubatuba	29	Harry Gwala DM
6	uMngeni	14	Newcastle	22	uMkhanyakude DM	30	Msunduzi
7	Mpofana	15	Amajuba DM	23	uMhlatuze	31	AbaQulusi
8	iMpendle	16	uPhongolo	24	uMlalazi	32	Nkandla

Status of support offered to Municipality

During the second quarter of 2018/19 financial year telephonic support was provided to all municipalities on the following applicable Sections of the MFMA:

- Section 11(4) – Quarterly bank withdrawal reports;
- Section 8(5) – Primary Bank Account;
- Section 9(b) – Details of all bank accounts details before year-end;
- Section 45(4) (a) – Short Term Debt; and
- Section 13 – Investment and Cash Management Policy.

Bank Accounts

Provincial Treasury monitors changes to primary bank accounts. During April 2018, a request in terms of Section 9(b), 86(1)(b) and 86(2) of the MFMA was sent to all municipalities requiring the accounting officer to submit a schedule of all bank accounts held by the municipality and of those held by any municipal entities.

The Table 24 below lists the municipalities that have not submitted their bank account details in respect of the 2017/2018 financial year.

Table 24: List of municipalities that did not submit the Banking Accounts Details in 2018/19 Financial year

No	Name of Municipality	No	Name of Municipality	No	Name of Municipality
1	uMdoni	19	Nquthu	37	uMkhanyakude DM
2	uMzumbe	20	uMsinga	38	uMfolozi
3	uMuziwabantu	21	uMvoti	39	uMhlatuze
4	Ray Nkonyeni	22	uMzinyathi DM	40	uMlalazi
5	Ugu DM	23	Newcastle	41	Mthonjaneni
6	uMshwathi	24	eMadlangeni	42	Nkandla
7	uMngeni	25	Danhauser	43	King Cetshwayo DM
8	Mpofana	26	Amajuba DM	44	Mandeni
9	iMpendle	27	eDumbe	45	KwaDukuza
10	Msunduzi	28	uPhongolo	46	Ndwedwe
11	Mkhambathini	29	AbaQulusi	47	Maphumulo
12	Richmond	30	Nongoma	48	iLembe DM
13	uMgungundlovu DM	31	Ulundi	49	Dr Nkosazana Dlamini Zuma
14	Alfred Duma	32	Zululand DM	50	Greater Kokstad
15	iNkosi Langalibalele	33	uMhlabuyalanga	51	uBuhlebezwe
16	Okhahlamba	34	Jozini	52	uMzimkhulu
17	uThukela DM	35	Big Five Hlabisa	53	Harry Gwala DM
18	eNdumeni	36	Mtubatuba		

Cash Management and Investments

All Municipalities were provided with the Municipal Investment Regulations (Government Gazette No. 27431) and a generic Investment policy. These are to be used to tailor their own Investment policy in order to ensure compliance with the Regulations and to make economically beneficial investments.

Impending Overdrafts

Municipalities were once again made aware of the reporting requirements in terms of Section 70, 74 and 101 of the MFMA by issuing a Circular in October 2018 in this regard. No municipality reported any impending overdrafts during the Second quarter.

Supply Chain Management (SCM)

In the quarter under review, the following 14 municipalities shown in Table 26 were supported in various aspects of the SCM which include the following amongst others:

- E-tender portal Workshops
- Implementation of Preferential Procurement Policy Framework Act (PPPFA) Regulations
- Implementation of SCM related issues as per MFMA Circulars 34, 43 and 69
- Assistance regarding SCM processes and procedures in general etc.

Table 25: List of municipalities which were supported on SCM related activities in Quarter 3 of 2017/18

No	Name of Municipality	No	Name of Municipality
1	Mpofana	8	Dannhauser
2	Mkhambathini	9	uMdoni
3	Ray Nkonyeni	10	iNkosi Langalibalele
4	Newcastle	11	Nkandla
5	King Cetshwayo DM	12	Ndwedwe
6	uMhlathuze	13	iLembe DM
7	uMkhanyakude DM	14	Maphumulo

Internal Audit - Risk and Advisory Services

The purpose of this report is to provide the status of the work performed from 01 October 2018 to 31 December 2018 with regards to Risk Management and Internal Audit Services to Municipalities and Municipal Entities.

The Provincial Internal Audit Services provides risk management and internal audit support to municipalities. Below is the summary of the work done by the Unit as at the end of 31 December 2018.

Risk and control assessment workshops

Risk and control assessment including fraud risks assessment workshops were conducted to the municipalities in Table 26 and final reports issued:

Table 26: List of municipalities in which workshop on Risk and Control assessment was provided

No	Name of Municipality	No	Name of Municipality
1	eNdumeni	4	Amajuba DM
2	uMkhanyakude DM	5	Okhahlamba
3	iNkosi Langalibalele	6	Nquthu

Training and awareness

The training was conducted during the quarter (October – December 2018) to the following municipalities:

- uMkhanyakude District;
- eNdumeni;
- Nquthu;
- Okhahlamba;
- iLembe District; and
- Maphumulo.

Weaknesses observed

Municipalities visited during the period under review provided the following observations:

- Risk and Control Assessment

The uMkhanyakude and the Amajuba District Municipalities do not have heads of department appointed which makes it challenging to get commitment to implementing action plans. Amajuba District Municipality is in dire situation as there's just no interest in risk management and no one wants to take responsibility for the process.

- Audit Committee meetings

Audit committee meetings were attended at various municipalities. It was observed that most audit committee meetings are not probing issues brought to their attention of the audit committee by internal audit adequately. This leads to internal audit recommendations not to be implemented and recurring issues re-reported.

- Risk Management Training

Attendance to risk management training continues to be a concern as most senior officials are not attending.

Annexure G: Creditors Age Analysis (Total) -2nd Quarter 2018/19

R'000	0 - 30 Days		30 - 60 Days		60 - 90 Days		Over 90 Days		Total
	Total	%	Total	%	Total	%	Total	%	
A	1 358 151	60.8	6 599	0.3	46 530	2.1	824 258	36.9	2 235 538
B	1 985	100.0	-	-	-	-	-	-	1 985
B	(22)	223.6	156	(1 607.0)	(160)	1 653.3	16	-169.9	(10)
B	23 784	100.0	-	-	-	-	-	-	23 784
C	(4 813)	-	(4 839)	-	4 930	-	16 191	-	11 469
Total: Ugu Municipalities	20 935	56.2	(4 683)	-12.6	4 769	-	16 208	43.5	37 229
B	-	-	-	-	-	-	-	-	-
B	2	4.0	38	96.0	-	-	-	-	39
B	(5 421)	-5.1	2 458	2.3	(2 470)	(2.3)	111 982	105.1	106 550
B	737 838	97.2	7 656	1.0	2 364	-	11 542	1.5	759 400
B	14	100.0	-	-	-	-	-	-	14
B	18 076	65.6	575	2.1	2 252	8.2	6 639	24.1	27 542
C	750 509	84.0	10 728	1.2	2 146	0.2	130 163	14.6	893 546
Total: uMgungundlovu Municipalities	2 635	100.0	-	-	-	-	-	-	2 635
B	17 327	11.8	1 287	0.9	21 008	14.3	107 336	73.0	146 957
B	31 042	100.0	-	-	-	-	-	-	31 042
C	3 109	5.7	10 183	18.5	12 047	21.9	29 644	53.9	54 983
Total: uThukela Municipalities	54 013	22.9	11 470	4.9	33 055	14.0	136 980	58.2	235 518
B	26 748	100.0	-	-	-	-	-	-	26 748
B	-	-	-	-	-	-	-	-	-
B	4	-	-	-	-	-	-	-	4
B	3 622	25.9	(294)	-2.1	96	0.7	10 584	75.6	14 008
C	9 090	13.4	1 453	-	9 834	14.5	47 647	70.0	68 024
Total: uMzinyathi Municipalities	39 464	36.3	1 159	1.1	9 930	9.1	58 231	53.5	108 784
B	72 988	29.0	42 735	17.0	74 536	29.6	61 587	24.5	251 845
B	158	98.9	2	1.1	0	0.0	0	0.0	160
B	873	50.6	356	20.6	252	14.6	244	14.1	1 726
C	-	-	1 151	3.5	4 497	13.8	27 011	82.7	32 660
Total: Amajuba Municipalities	74 019	25.8	44 244	15.4	79 285	27.7	88 842	31.0	286 391
B	905	7.1	887	7.0	236	1.8	10 750	84.1	12 768
B	4 477	90.4	475	9.6	-	-	1	0.0	4 953
B	67 651	100.0	-	-	-	-	-	-	67 651
B	1	88.6	0	11.4	-	-	-	-	1
B	202	0.2	1 968	2.2	-	-	89 337	97.6	91 507
C	2 634	50.8	1 227	23.6	1 327	25.6	-	-	5 189
Total: Zululand Municipalities	75 870	41.7	4 566	2.5	1 564	0.9	100 088	55.0	182 088
B	690	3.0	13 753	59.4	9 639	41.6	(934)	(4.0)	23 148
B	40	11.0	17	4.8	-	-	303	84.1	360
B	1 701	34.7	212	4.3	322	6.6	2 672	54.5	4 907
B	355	9.2	1 525	39.5	9	0.2	1 969	51.0	3 858
C	3 492	4.0	(2 755)	(3.2)	6 547	7.5	79 773	91.6	87 057
Total: uMkhanyakude Municipalities	6 278	5.3	12 752	10.7	16 517	13.8	83 783	70.2	119 330
B	(5 229)	(142.9)	5 577	152.4	142	3.9	3 169	86.6	3 658
B	552 572	100.0	-	-	-	-	-	-	552 572
B	32 461	100.0	-	-	-	-	-	-	32 461
B	1 242	46.2	(70)	(2.6)	1 394	51.9	121	4.5	2 686
B	(2 758)	106.5	1 141	(44.0)	424	-16.4	(1 398)	54.0	(2 590)
C	31 162	-	7 623	8.7	4 999	5.7	43 991	50.1	87 776
Total: King Cetshwayo DM	609 450	90.1	14 271	2.1	6 959	1.0	45 883	6.8	676 564
B	1 500	98.0	-	-	30	2.0	-	-	1 530
B	79 759	99.3	215	0.3	214	-	152	-	80 340
B	(79)	(46.1)	(1 289)	(749.8)	889	517.2	651	378.7	172
B	167	200.2	(186)	(222.0)	168	200.8	(66)	-79.0	84
C	13 631	84.6	2 108	13.1	27	0.2	338	2.1	16 104
Total: ILembe Municipalities	94 978	96.7	849	0.9	1 328	1.4	1 075	1.1	98 230
B	(17)	(19.4)	(0)	(0.3)	-	-	107	119.7	90
B	412	100.0	-	-	-	-	-	-	412
B	14 658	100.0	-	-	-	-	-	-	14 658
B	4 524	100.0	-	-	-	-	-	-	4 524
C	8 618	74.0	1 145	9.8	3	0.0	1 878	16.1	11 644
Total: Harry Gwala Municipalities	28 195	90.0	1 145	3.7	3	-	1 985	6.3	31 328
Total	3 111 862	63.4	103 099	2.1	202 087	4.1	1 487 496	30.3	4 904 545

Source: NT Publication

