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Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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LOCAL GOVERNMENT REVENUE AND EXPENDITURE: SECOND QUARTER LOCAL GOVERNMENT SECTION 71 REPORT FOR THE PERIOD: 1 JULY 2023 – 31 DECEMBER 2023

National Treasury has released the local government revenue and expenditure report for the second quarter of the 2023/24 financial year. This report covers the performance against the adopted budgets of local government for the second quarter of the municipal financial year ending on 31 December 2023 and includes spending against conditional grant allocations for the same period.

The Section 71 report facilitates transparency in reporting, better in-year management and the oversight of the financial performance of municipalities against their adopted budgets. This report is, therefore, a management tool that serves as an early warning mechanism for councils, provincial legislatures, and municipal management to monitor and improve municipal performance timeously. Improving the credibility of the data strings is a priority for national and provincial treasuries and the submitted data strings are analysed monthly and errors are communicated to municipalities for correction.

KEY TRENDS:

Aggregate trends

- As of 31 December 2023, aggregate municipal spending (for both operating and capital budgets) was 46.3 per cent or R283.5 billion of the total adopted expenditure budget of R612 billion. Aggregated billing and other revenue was 50.3 per cent or R310.9 billion of the total adopted revenue budget of R618.5 billion.
- Capital expenditure was R25.6 billion or 31.1 per cent of the adopted capital budget of R82.5 billion.
- The adopted operating expenditure budget was R536 billion, of which R285.3 billion (53.2 per cent) was spent by 31 December 2023.
- Municipalities adopted a budget of R154.5 billion for salaries and wages (including remuneration of councillors' remuneration), representing a R7.9 billion or a 5.4 per cent increase from the adopted budget of R146.6 billion for the 2022/23 municipal financial year. As of 31 December 2023, R72.8 billion or 47.2 per cent of the adopted salary budget, had been spent.
- Aggregate municipal consumer debts amounted to R338.2 billion (compared to R306.7 billion reported in the first quarter of 2023/24) as at 31 December 2023. A total amount of R6.4 billion or 1.9 per cent has been written off as bad debt. The largest component of this debt relates to households and represents 72.7 per cent or R245.8 billion (71.9 per cent or R220.4 billion in the



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first quarter of the 2023/24 financial year). Debt owed to municipalities in the category of below 90 days, amounts to R43.1 billion.

6. The creditors' age analysis shows that R104.3 billion is owed by municipalities as at 31 December 2023, an increase of R2.9 billion compared to the R101.4 billion reported in the first quarter of 2023/24.
7. The analysis of the collection rates indicates that while municipalities year-to-date have budgeted for a 75.6 per cent collection rate, aggregated actual collection performance against billed is only 58.4 per cent. The underperformance of actual collections against billed revenue holds a significant risk for the liquidity position of most municipalities as the planned expenditure is based on a higher performance level.

Conditional Grants

Infrastructure Conditional Grants Expenditure as at 31 December 2023

8. As of 31 December 2023, R27.8 billion, or 63.5 per cent, of the R43.7 billion allocated to municipalities in direct conditional grants for 2023/24 has been transferred to municipalities.
9. The performance of the infrastructure grants to municipalities during the second quarter was not satisfactory. The Municipal Infrastructure Grant (MIG) is the highest performing direct infrastructure grant to municipalities during the second quarter, with a performance of 49.3 per cent which is higher than the 37.6 per cent reported for the same period in the previous financial year. The Integrated Urban Development Grant Water (IUDG) is the second highest performing grant with a performance of 46.7 per cent. The MIG grant has been the highest performing grant for the third consecutive time as at the end of the second quarter year-on-year.
10. The Municipal Disaster Recovery Grant (MDRG) had the lowest spending grant during the second quarter, with a 12.7 per cent expenditure, equivalent to R40.1 million expenditure against the R320 million allocation. The Public Transport Network Grant is the second lowest performing grant with expenditure performance of 25 per cent. It should be noted that the PTNG is an infrastructure grant allocated to metropolitan municipalities only and it is an observation that metropolitan municipalities are increasingly struggling to implement this programme.
11. Low expenditure on infrastructure grants is a source of concern because this slow performance may eventually lead to unspent conditional grants that have to revert to the National Revenue Fund (NRF). The surrendering of unspent conditional grants to the NRF has negative consequences to the communities that must receive the services linked to the infrastructure to be built.

A summary of key aggregated information is included in the tables in **Annexure A**.



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Further details on this report can be accessed on the National Treasury's website: www.treasury.gov.za.

NOTE TO EDITORS:

- This information is published in terms of Sections 71 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and 30(3) of the Division of Revenue Act, 2023 (Act No. 5 of 2023) (DoRA). The budgeted figures shown are based on the 2023/24 adopted budgets approved by municipal councils.
- In terms of the process, Municipal Managers and Chief Financial Officers were required to sign and submit data to the National Treasury by 02 February 2024. Any queries on the figures in these statements should be referred to the relevant Municipal Manager or Chief Financial Officer. Queries on conditional grants may be referred to the national department responsible for administering the grant.
- A municipal budget must be funded in terms of Section 18 of the MFMA before a Municipal Council can adopt it for implementation. A funded budget is essentially a budget that is funded by a combination of cash derived either from realistically anticipated revenues to be collected in that year, or from cash backed surpluses of previous years. When preparing their annual budgets, it is common amongst most municipalities to overstate or inflate revenue projections, either to reflect a surplus, or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Therefore, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in municipalities not being able to collect this revenue, resulting in difficulties in cash flow. Should such situations arise, municipalities must adjust expenditures downwards to ensure that there is sufficient cash to meet these commitments.
- This second quarter publication covers 257 municipalities on financial information and conditional grant information.

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STRUCTURE OF INFORMATION RELEASED:

Other information released on National Treasury's website (www.treasury.gov.za) as part of this process includes the following:

- Municipal Budget Statements:
 - a. Cash Flow closing balances as at 31 December 2024;
 - b. High-level summary of revenue for 257 municipalities;
 - c. High-level summary of expenditure for 257 municipalities.
- Summary of revenue and expenditure per function (electricity, water, etc):
 - a. High level summary of revenue per function; and
 - b. High level summary of expenditure per function.
- Consolidation of revenue and expenditure numbers for each municipality in one file.
- Detail per province per municipality.
- Summary of Conditional Grant (CG) Information for all municipalities and per grant.
- CG - Detail per province per Municipality.
- Summary of Conditional Grant (CG) information per programme.
- Section 71 summary information for the first quarter:
 - a. Summary of total monthly operating expenditure – 257 municipalities;
 - b. Summary of total monthly operating revenue – 257 municipalities;
 - c. Summary of total monthly capital expenditure – 257 municipalities;
 - d. Summary of total monthly capital revenue – 257 municipalities;
 - e. Summary – Metros;
 - f. Conditional Grant summary – Metros;
 - g. Summary – Top 19 municipalities;
 - h. Conditional Grant summary – Top 19 municipalities;
 - i. Summary – Provinces;
 - j. Conditional Grant summary – Provinces;
 - k. Analysis of Sources of Revenue – 257 municipalities;
 - l. Listing of borrowing instruments – 598 municipalities;
 - m. Listing of investment instruments – 2 199 municipalities;
 - n. Monthly repairs and maintenance expenditure – 257 municipalities.
- Service delivery information (non-financial performance) for all municipalities.



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- Non Compliance:
 - a. List municipalities not complying with Section 71 of the MFMA.

The Section 71 information reported by municipalities to National Treasury is also published on the National Treasury website in the format of Schedule C, which is the format for monthly and quarterly municipal financial statements as prescribed by the Municipal Budget and Reporting Regulations.