STANDING COMMITTEE ON APPROPRIATIONS

BRIEFING BY NT ON UNDERSpending on MUNICIPAL REVENUE MANAGEMENT IMPROVEMENT PROGRAMME (MRMIP) AS AT THE END OF THE 2021/22 FINANCIAL YEAR

PRESENTED BY:
National Treasury
Title: DDG: IGR
Date: 21 September 2022
The State of Local Government Finance

Bankruptcy and Insolvency: unable to pay creditors and 3rd parties – SARS, pensions, etc.
MFMA criteria: S138 (financial problems) and S140 (financial crisis)
Collapsing service delivery

Unfunded Budget
- 44% (98)

Financial Distress
- 68% (175)

Meet MFMA criteria for financial problems and crises
- 85% (219)

Bankrupt and Insolvent
- 59% (151)

Crisis
- 17% (43)
Trend continues

2021/22 Financial year

R530.4 billion (total adjusted expenditure budget)

- R463 billion (operating budget)
  - >30% to salaries and wages
  - Some cases 45 – 50%
- R67.4 billion (capital budget)

As at 30 June 2022, 4th Q.

R460.5 billion (86.8%) (total expenditure)

- R412.8 billion (89.2%) (operating expenditure)
- R47.7 billion (70.8%) (capital expenditure)
- R130 billion (94.6%) (salaries and wages expenditure)

Municipal Q4 results for 2021/22

- Consumer debts R255.5 billion
- Outstanding creditors R89.7 billion
- R61 billion total balance on borrowing
- R39.8 billion is owed to Eskom
- R37.1 billion total investments
- Total allocation of direct grants R37.4 billion - R30.2 billion (80.6%) expenditure reported
- R15.1 billion is owed to Water Boards and Water Trading Entity (DWS)

(Source: MFMA S71 reports)
Key observations of revenue management failures

- Weak leadership to enforce proper implementation and revenue management practices – failure to implement legislation and policies such as credit control effectively and efficiently which has perpetuated a culture of non-payment
- The culture of non-payment that has filtered into the organs of state space - year on year not paying and owing municipalities more
- Lack of consequence management for non implementation of revenue management processes
- Weak internal control – leading to revenue leakage in areas of billing estimates, incorrect meter readings, slow attendance of losses, unlimited supply of free basic services (FBS) in excess of the national FBS policy limits
- Municipal Councils adopt unfunded budgets
- Inadequate asset management practices - lack of maintenance of revenue generating infrastructure
Objective of the MRMIP

- To improve the generation of own revenue by local government to become self sustainable:
  - Improve efficiency of the revenue value chain - cash flows so that the suppliers of services to the municipality are paid within the legislative time frame
  - Up lift the quality of life by providing reliable and consistent services to the communities
What do we want to achieve?

- Ensure existing local government revenue sources are optimised.
- Introduce initiatives to improve efficiency within the revenue value chain.
- Improve completeness of local government revenue (General Valuation Roll standardise/ minimum content and reconciliation, facilitate cost reflective tariffs).
- Coordinate the monitoring of budget funding compliance in relation to revenue (is anticipated revenue realistic).
- Initiate further research and develop local government revenue norms and standards.
- Capacitate local government practitioners and PT officials on best practices.
- Explore innovative and smart solutions to improve efficiency in revenue management.
Setbacks of the programme

- COVID pandemic – monies had to be surrendered to cater for the pandemic
- Procurement delays:
  - Cancellation of project with CoGTA - Cost of Supply Studies targeting the top defaulting municipalities that owe Eskom
  - Issuing of transversal for smart prepaid meters – NT
- The problem in local government far exceeds the funding, we had to ensure that the projects and initiatives are carefully chosen and targets the areas of biggest impact
What have we achieved to date?

- Developed socio-economic profiles for 257 municipalities
- Economic and financial viability studies of local municipalities in NW, GP, EC and NC
- Developed a user-friendly tariff setting tool with a guideline and methodology to assist municipalities set cost-reflective tariffs in a phased approach
- Enhanced the budget assessment tool to address the issues of large bulk outstanding debt
- Developed a tool to reconcile the general valuation roll to the billing system
- Assessed the tariffs and undertook the reconciliation of general valuation roll to the billing system for the 43 municipalities in crisis
- Introduced a revenue master class to assist municipalities better understand processes and procedures to optimise the revenue value chain – taking away best practices
The Intended Programme

- The problem in local government far exceeds the funding, we have to ensure that the projects and initiatives are carefully chosen and targets the areas of biggest impact.
- With limited funding target catalytic projects within the programme to create an enabling environment.
- **Overarching**
  - Greater awareness of revenue management in municipalities – role of administration and politicians, work force transformation
  - Support the budget analyst with improving revenue management assessment
  - Support the municipalities placed under intervention to improve revenue management
  - Now that we have a selected group of municipalities in crisis – more targeted approach will be devoted to this group
  - Deep dive assessments to better understand the underlying causes of revenue collection failure
- **Municipal Tariffs**
  - Cost of Supply studies to inform cost reflective tariffs
  - Complete the economic and financial viability studies for the remaining provinces
  - Integrate the tariff setting tool to the mSCOA costing segment
- **Eskom/electricity**
  - Exploring a partnership with Stellenbosch University – authenticity of the Eskom bill
  - Exploring a partnership with CSIR – verification of Large Power Users in 43 municipalities in crisis
The Intended Programme, continued

- **Organs of state debt**
  - Completeness of revenue – correction of the government ownership in deeds office

- **The Format and Minimum Content of General Valuation Rolls**

- **Revenue value chain**
  - Standing Operating Procedures
  - Policy enhancement/ strengthening - best practice policy development
  - Indigent management

- **Initiatives for near future**
  - Explore linking the home affairs information to municipal systems for correctness of customer information
  - In discussion with using banks to collect on behalf of municipalities
  - Exploring the link with SARS to profile customers – regarding outstanding debt

- **Traversal tender for smart meter for water and electricity and the STS TID rollover process**
  - Regulate prices – better prices for municipalities, value for money, cost effective
  - Quality assure product municipalities acquire
  - Save on procurement cost for municipalities
  - Eliminate corruption in the procurement of smart meters
  - Pilot the 4 municipalities with smart meters once the transversal is in place
Recommendations

It is recommended that the SCoA:

- Notes the financial position of municipalities;
- Notes the challenges associated with revenue management in municipalities;
- Notes the set backs in the programme;
- Notes the initiatives to dates to improve cash flows in municipalities; and
- Notes the intent of the programme in the near future.
THANK YOU

For additional information on national and provincial budgets, please visit our new budget data portal: https://vulekamali.gov.za

For information on local government finances, please visit: https://municipalmoney.gov.za