Workshop on the Municipal Infrastructure Grant

Select Committee on Appropriations

Intergovernmental Relations Branch, National Treasury
23 May 2018

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Outline

- Introduction and legislative mandate
- MIG performance
- Adjustment gazette
- Rollover considerations
- Return of the unspent conditional grants to National Revenue Fund

Introduction

- The Division of Revenue Act broadly provides for two types of allocations to municipalities:
  - Unconditional allocations (The Equitable Share); and
  - Purpose-specific allocations (Conditional Grants)

- Also included are clauses, which outline the process around funds transfers, management of reporting requirements, and various duties of transferring officers (national departments) and receiving officers (provinces and municipalities) with respect to conditional grants (CGs)

- The April Gazette provides for frameworks, including conditions, conditional grants (this is published 14 days after passage of Division of Revenue Act (DoRA)

- The purpose for IGR within NT is to monitor the implementation of the DoRA

- Focus by NT is given to transferring officers as they monitor municipalities

- PT's are delegated to support NT in implementing the DoRA, and provide support to their respective municipalities

MIG performance (legislative mandate)

- Section 10 and 12 of DoRA requires monthly reporting by both municipalities and Transferring National officer
- NT issues reporting template and facilitates payment schedule approvals
- NT receives monthly spending numbers and publish on quarterly basis following verification as per section 71 of MFMA
- DCoG receives individual MIG reports and consolidate for NT
- NT receives both DCoG and municipal monthly reports and hence verification
- Four months after year end, transferring officers submit to NT performance reports

Third Quarter Local Government Section 71 report for the period: 1 July 2015 – 31 March 2018

- In the 2017/18 financial year MIG had a total allocation of R15.9 billion in terms of the 2017 Division of Revenue Act (Act No. 3 of 2017)

- MIG is the best performing infrastructure grant with expenditure of R9.6 billion or 60.1 per cent of the adjusted MIG allocation of R15.9 billion.
  - INEP 47.3 per cent
  - NDPG 47.9 per cent
  - PTNG 48.2 per cent
  - WSIG 47.1 per cent
  - RBIG 47.5 per cent
- Through the stopping and re-allocation of conditional grants from slow spending municipalities to faster spending municipalities, improved expenditure was obtained on the MIG

- The third quarter performance also takes into account the shifting of funds between municipalities through the adjustment gazettes published on 23 March 2017 (Government Gazettes No. 41519)

Third Quarter Local Government Section 71 Report

Municipal Infrastructure Grant 3rd Quarter report March'2018

Summary by province	Allocated (R'000)	Transferred to date	Expenditure to date	Expenditure as % allocation
Eastern Cape	3 109 796	3 121 796	1 794 488	57.70%
Free State	764 068	764 068	433 702	56.76%
Gauteng	526 578	526 578	273 875	52.01%
KwaZulu Natal	3 463 910	3 463 910	2 288 552	66.07%
Limpopo	3 352 516	3 352 516	2 064 342	61.58%
Mpumalanga	1 855 061	1 719 397	1 218 259	65.67%
Northern Cape	488 020	488 020	277 961	56.96%
North West	1 782 328	1 771 836	956 632	53.67%
Western Cape	536 975	536 975	338 128	62.97%
Unallocated	-	-	-	-
TOTAL	**15 879 252**	**15 745 096**	**9 645 939**	**60.75%**

2017/18 Adjustment Gazette Process

- Section 19 of DoRA stipulates that NT may in its discretion or at the request of an NTO stop the transfer for schedules 4 and 5 grants pertaining to anticipated under-spending on programmes or allocations in the financial year by the municipality
- NTOs engage with munics that are under spending (to evaluate whether municipalities will be able to spend their entire allocated funds by the end of their financial year) or not complying with DoRA prescripts
- NTOs submit proposed stopping and reallocations together with proof that munics were engaged
- NT sent out stopping letters to affected munics and allow 7 days to respond to the proposed stopping
- After considering munics responses, NT makes the final decision

MIG: 2017/18 Adjustment Gazette (March 2018)

- January 2018, DCoG in consultation with NT initiated the process of stopping by issuing letters dated 11 January 2018 to the affected municipalities due to significant under-performance and non-compliance against the MIG
- After the letters, munics were afforded an opportunity to make representations regarding the under-performance against MIG
- DCoG had meetings with municipalities that reported expenditure of less than 40% against the allocation as at the end of 31 December 2017
- Further, in January 2018, NT conducted an analysis of MIG performance using Q2 Sec 71 & the monthly DoRA reports from DCoG
- Letters dated 12 Feb 2018 signed by DDG:IGR were sent to munics of the intention to stop and 7 days was given to munics to respond
- NT subsequent to receiving written representations from the affected munics, met with DCoG for finalisation of MIG amounts to be stopped and reallocated
- National Treasury and DCoG were in agreement on the amounts to be stopped and re-allocated following a meeting held on 02 March 2018

2017/18 MIG Stopping

	Municipal Infrastructure Grant			
	Column A	Column B		Column C
	2017/18 Main allocation	Reallocation	Stopping	2017/18 Adjusted allocation
	R'000	R'000	R'000	R'000
Eastern Cape	3 109 796	82 500	(70 500)	3 121 796
Free State	771 954	67 280	(75 166)	764 068
Gauteng	543 420	15 700	(32 542)	526 578
Kwa-Zulu Natal	3 444 092	61 500	(41 682)	3 463 910
Limpopo	3 342 883	112 992	(103 359)	3 352 516
Mpumalanga	1 852 385	40 000	(37 324)	1 855 061
Northern Cape	480 527	51 000	(43 507)	488 020
North West	1 814 487	182 864	(215 023)	1 782 328
Western Cape	531 708	30 619	(25 352)	536 975
Total	**15 891 252**	**644 455**	**(644 455)**	**15 891 252**

2016/17 rollover process

- Unspent grants that are **committed** are legible for rollover consideration by NT in terms of section 22 of DoRA
- Commitment
  - Identifiable project on the ground (Including appointments)
- Submit requests to NT by 31 August 2017
- Letter must include the following in terms of the MFMA Cir No.86:
  - Formal letter signed by AO, addressed to NT requesting roll-over of unspent CGs in terms of section 22 (2) of the 2016 DoRA;
  - List of projects that are linked to the unspent CGs, and evidence that work has commenced on each of the projects, including the following:
    a) Proof that the project tender was published and the period for tender submissions closed before 30 June 2016; or
    b) Proof that a contract for delivery of the project was signed before 30 June 2016.
  - Progress report on implementation of each of the projects;
  - Amount of funds committed to each project, and the conditional allocation from which the funds come from;
  - Reasons why the grant(s) were not fully spent in the year that it was originally allocated as per the DoRA; and
  - An indication of the time-period within which the funds are to be spent; and Proof that the CFO is permanently appointed.
- Submission of pre-audit Annual Financial Statements including accurate disclosure of grant performance .
- When considering rollover requests from municipalities, all unspent cash backed grants should be classified only as “Cash and cash equivalents”. This number must also reconcile with the cash flow statements.
- All conditional grants must be spent in line with the conditions for which they are set for. They must not be invested.

Timelines

- Submitted by 31 August 2017
  - Assessment of rollovers – assessment and share the information with all stakeholders
- National departments met and discussed the roll overs between **31 August and 30 September** in order to make a decision
- A decision was made final by **October 2017**
- By **November 2017**; all monies for roll overs not approved and unspent funds not requested for roll-over should be paid back to the National Revenue Fund
- By **November 2017**; if monies were not paid back, they were offset against the **December 2017 and March 2018** trench of the Equitable Share

The stopping and the rollover process is a consultation process between sectors and municipalities

2016/17 Rollover outcome (All grants)

2016/17 Roll-over Outcome

R'000	Total Amount requested	Total Amount Approved	Total Amount Rejected	Expenditure	Exp %
Eastern Cape	252 459	157 644	94 815	20 150	12.8%
Free State	262 635	146 772	115 863	3 910	2.7%
Gauteng	463 439	44 794	418 645	1 837	4.1%
KwaZulu - Natal	324 829	95 487	229 342	24 634	25.8%
Limpopo	323 970	189 169	134 801	43 269	22.9%
Mpumalanga	110 486	35 560	74 926	876	2.5%
Northern Cape	133 060	64 269	68 791	10 697	16.6%
North West	197 274	128 002	69 272	24 526	19.2%
Western Cape	183 061	130 452	52 609	24 859	19.1%
Total	**2 251 213**	**992 149**	**1 259 064**	**154 758**	15.6%

Rollover rejections mainly due to:

- Late submissions of the 2016/17 pre-audited AFS
- Insufficient motivation as per Circular No.86
- Unspent not cash backed
- Late appointment of contractors

MIG rollover outcome

2016/17 MIG - Roll-over Outcome

Description		Total Amount requested	Total Amount Approved	Total Amount Rejected	Expenditure	Exp %
R'000	Grants requested					
Province						
1	Eastern Cape	112 951	68 567	44 384	8 710	12.7%
2	Free State	37 469	22 142	15 327	2 505	11.3%
3	Gauteng	21 033	20 342	691	-	-
4	KwaZulu - Natal	21 443	11 272	10 171	4 403	39.1%
5	Limpopo	208 046	159 291	48 755	29 958	18.8%
6	Mpumalanga	38 988	-	38 988	-	-
7	Northern Cape	69 050	46 273	22 777	6 249	13.5%
8	North West	117 569	73 968	43 601	24 526	33.2%
9	Western Cape	33 726	19 083	14 643	9 753	51.1%
						-
Total		**660 275**	**420 938**	**239 337**	**86 104**	20.5%

2016/17 rollover outcome and offset against ES

Summary of unspent CG

Municipality R'000 Provinces	Offset of 16/17 unspent in December	Offset of 16/17 unspent in March	Offset of 15/16 brough forward unspent in Dec	Payment arrangents offset in July 2017	Payment arrangents offset in Dec 2017	Payment arrangents offset in March 2018	Payment into NRF	Reimbursement	Total unspent /offset against 17/18 ES
Eastern Cape	155 922				3 666	6 188	15 218	67 359	83 199
Free State	66 865		3 000		19 098	12 080			101 043
Gauteng	482 031								482 031
Kwa-Zulu Natal	262 611	31 989	3 942				28 337	9 458	260 747
Limpopo	227 503			45 000	53 200	13 653	45 566	119 914	173 876
Mpumalanga	98 086	2 500					208	22 670	77 708
Northern Cape	48 472	17 276	26	4 750	6 021	6 022	182	12 099	70 286
North West	78 114			30 000	6 563	55 796		9 187	161 286
Western Cape	111 592				626	626	75 974	10 231	26 639
	1 531 196	**51 765**	**6 968**	**79 750**	**89 174**	**94 365**	**165 485**	**250 918**	**1 436 815**

- 2016/17 Offset against unspent CG is R1.4 billion (2015/16 – R1.8 billion)
- Challenges – reporting, late submission, improper disclosure of grant in AFS

Conclusion and Recommendation

- Some municipalities continue to underspent their MIG allocation
- Slow start up during the course of the year
- MIG rollovers remain the highest compare to other grants
- In ability to ring-fence cash for MIG

- However, MIG has improved over the years averaging 90 per cent annually
- The stopping and reallocation has been used as an incentive for municipalities
- Priority is given to District when reallocating stopped funds to continue to benefit the loosing local municipality
- Stopping also reduces the quantum of unspent funds at year end

Recommendation

- More support by sectors and provinces
- Regular onsite verification

Thanks

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