

# ***MUNICIPAL INFRASTRUCTURE GRANT ROLL-OVERS***

***Parliament: Select Committee on Appropriations***

**Presenter:** Mr Sello Mashaba | Local Government Budget Analysis, National Treasury | 17 May 2016



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# Presentation outline

- Legislative requirement
- Background of the rollover process
- Procedure for rollovers
- Unspent MIG
- MIG Rollover
- Challenges and remedial measures

# The request

The presentation covers 2010 until 2015, five years

- MIG rollovers as a percentage of MIG allocation
- Monitoring of expenditure of rolled over funds and outputs
- Successes realised through introducing rollovers clauses
- Challenges and remedial measures put in place

# Legislative background

- Section 216 of the Constitution of the republic of S.A requires National Treasury (NT) to prescribe measures to establish both transparency and control in each sphere by introducing:
  - Generally recognised accounting practice
  - Uniform expenditure classifications, and
  - Uniform Treasury norms and standards
- Section 30 of PFMA provides for an adjustment to be passed following an approval of a rollover of national allocation
- Section 30 of MFMA provides that an appropriation of an annual or adjustment budget lapses to the extent that those funds are unspent except an appropriation for that expenditure is made for a period of more than a year
- Section 28 of MFMA authorises the spending of unspent funds from previous financial year
- Section 22 of the Division of Revenue Act provides for all unspent conditional grants to revert to the National Revenue Fund, unless permission is granted by National Treasury to rollover the unspent funds into the next financial year

# Legislative background

- National Treasury regulation provides for a further guidelines on how rollovers should be conducted
  - Payment for capital assets may only be approved to finalise assets in progress
  - Savings on transfers and subsidies may not be rolled over for purposes other than originally voted for
  - Savings on compensation may not be rolled over
- National Treasury issues annual circulars to guide municipalities on how rollovers should be submitted to National Treasury and how unapproved rollovers should revert to National Revenue Fund
- DoRA provides that should municipalities fail to repay unapproved or unspent conditional grants, they be offset against their respective conditional or unconditional grants
- Further, to avoid funds being offset, a periodical repayment of unspent funds can be arranged on behalf of municipalities

# Background

- Although the DoRA was established few years ago, the first DoRA that included the rollover clause was in 2004/05
- This was after the promulgation of the MFMA in 2003 which in the main gave effect to Section 216 of the constitution
- Between 2005 and 2008, National Treasury focussed on establishing the uniform treasury norms and standards and uniform expenditure classifications
- In 2009, Municipal Budget Reporting and Regulation was approved by the Minister of Finance and the regulation paved a way to allow for recalling unspent conditional grants sitting with municipalities
- In cleaning historical data, National Treasury undertook a process of verifying all unspent funds from 2005 until 2009
- This process was concluded in 2011 and it is now an annual occurrence

# Section 22 of DoRA and approval process

- All unspent conditional grants revert to the National Revenue Fund, unless they be approved as a rollover
- Unspent funds are informed by monthly reports submitted to the Treasury by both municipalities and national Departments
- Quarterly publications by NT in terms of section 71 of MFMA
- Pre and Audited Financial statements by municipalities

# Procedure for applying for roll-overs (1 of 2)

- Munics must submit roll-over applications or required information by 31 August, if not, application will not be considered.
- Munics to supply NT with the following info:
  - Formal letter signed by Accounting Officer (AO), addressed to NT requesting roll-over of unspent Conditional Grants (CGs) to section 22 (2) of 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; or
    - b) Proof that a contract for delivery of the project was signed before 30 June.
  - 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;



# Procedure for applying for roll-overs

(2 of 2)

- 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.
- 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.

# Monitoring expenditure on roll-overs

- NT in consultation with Transferring Officers (TOs), provincial depts considers rollover requests
- TOs are responsible for monitoring expenditure on roll-overs against projects on a monthly and quarterly basis (financial and non-financial)
- TOs monitor registered projects and verifies delivery of projects
- NT requires that municipalities must report separately on the spending of conditional grant funds that are rolled over
- NT monitors expenditure on roll-overs in terms of section 71 of the MFMA and DoRA i.e. monthly reports by both municipalities and Transferring Officers (TOs).
- AFS used to verify expenditure on roll-over i.e. to prevent approval of roll-over of a roll-over

# MIG allocation for 5 years

## Unspent Conditional Grants for 2010/11 to 2014/15 financial year

Description	2010-11			2011-2012			2012-2013			2013-2014			2014-2015		
	R000'	MIG ALLOCATION	MIG ROLL OVER	MIG UNSPENT	MIG ALLOCATION	MIG ROLL OVER	MIG UNSPENT	MIG ALLOCATION	MIG ROLL OVER	MIG UNSPENT	MIG ALLOCATION	MIG ROLL OVER	MIG UNSPENT	MIG ALLOCATION	MIG ROLL OVER
Eastern cape	2 193 444	149 520	59 465	2 405 726	77 730	85 326	2 918 290	343 096	13	2 952 906	113 634	7 546	3 079 289	99 265	73 898
Free State	869 071	129 700	4 743	841 110	17 692	27 782	1 020 313	49 348	-	968 682	-	48 093	829 794	21 063	14 195
Gauteng	332 192	19 234	2 824	399 531	15 479	16 022	484 655	32 826	6 725	456 461	16 419	3 303	445 427	3 486	1 533
Kwa-Zulu Natal	2 160 894	194 696	55 667	2 598 935	174 180	20 520	3 152 666	205 909	45 757	3 193 259	183 687	41 246	3 270 390	53 566	47 258
Limpopo	4 732 732	117 893	32 530	2 030 302	474 390	176 098	2 462 883	590 609	356 174	2 650 869	572 836	76 619	2 748 406	316 317	550 855
Mpumalanga	3 439 424	384 426	8 217	1 177 079	382 932	33 037	1 427 874	140 550	62 424	1 565 716	160 446	65 191	1 717 515	112 158	27 127
Northern Cape	353 286	39 500	58 225	424 904	73 322	27 137	515 429	124 762	9 431	499 123	60 706	58 011	462 944	12 275	40 751
North West	989 883	159 472	226 552	1 190 545	304 369	92 236	1 444 203	383 508	165 525	1 481 743	193 963	115 728	1 725 708	32 615	282 833
Western Cape	2 403 620	67 788	4 838	375 358	4 236	-	455 320	109	-	455 688	7 267	2 626	484 576	3 426	1 799
Total	17 474 546	1 262 229	453 061	11 443 490	1 524 330	478 158	13 881 633	1 870 717	646 049	14 224 447	1 308 958	418 363	14 764 049	654 171	1 040 249

Source: National Treasury dataset

# Rollover funds

## 2010/11 -2014/15 Total MIG unspent Funds

Description		Total MIG between 2010-2015			Total percentages	
		MIG ALLOCATION	MIG ROLL OVER	MIG UNSPENT	percentage of allocation per province	Unspent percentage per province
1	Eastern cape	13 549 655	783 245	226 248	18.87%	7.45%
2	Free State	4 528 970	217 803	94 813	6.31%	3.12%
3	Gauteng	2 118 266	87 444	30 407	2.95%	1.00%
4	Kwa-Zulu Natal	14 376 144	812 038	210 448	20.03%	6.93%
5	Limpopo	14 625 192	2 072 045	1 192 276	20.37%	39.27%
6	Mpumalanga	9 327 608	1 180 512	195 996	12.99%	6.46%
7	Northern Cape	2 255 686	310 565	193 555	3.14%	6.38%
8	North West	6 832 082	1 073 927	882 874	9.52%	29.08%
9	Western Cape	4 174 562	82 826	9 263	5.82%	0.31%
<b>Total</b>		<b>71 788 165</b>	<b>6 620 405</b>	<b>3 035 880</b>	<b>100.00%</b>	<b>100.00%</b>

Source: National Treasury dataset

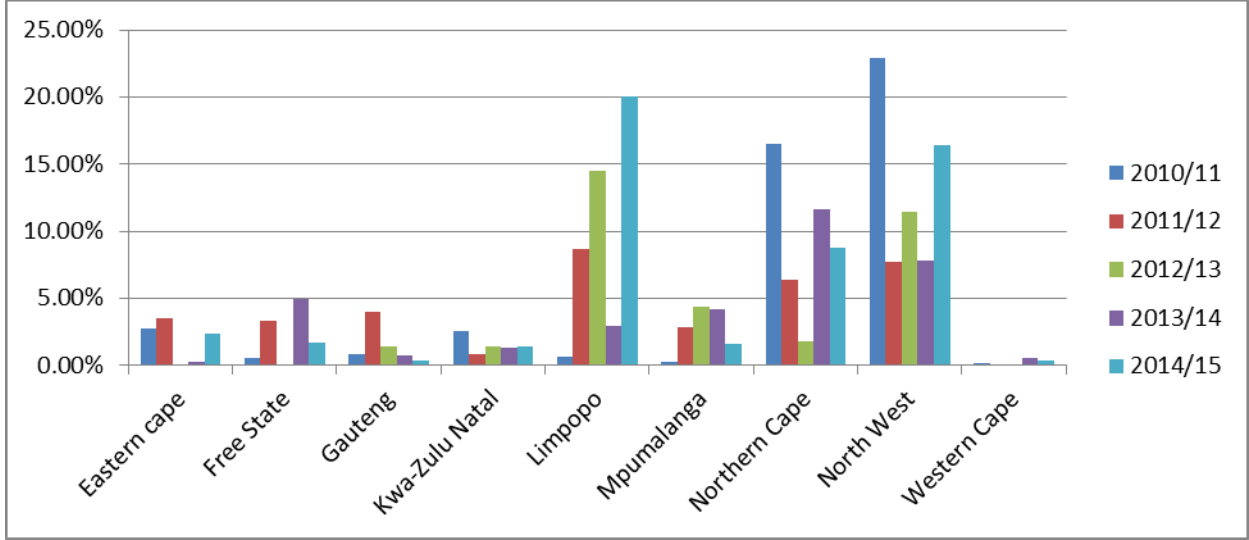
- Eastern Cape, KwaZulu-Natal and Limpopo receive the highest MIG allocation
- Gauteng, Northern Cape and Western Cape receive the lowest MIG allocation
- MIG is linked to backlogs in basic services and mainly water and sanitation backlogs
- MIG allocations are biased towards provinces without access to basic services

# Unspent MIG

MIG UNSPENT AS A % OF ALLOCATION

Province	2010/11	2011/12	2012/13	2013/14	2014/15	Average
Eastern cape	2.71%	3.55%	0.00%	0.26%	2.40%	1.78%
Free State	0.55%	3.30%	0.00%	4.96%	1.71%	2.10%
Gauteng	0.85%	4.01%	1.39%	0.72%	0.34%	1.46%
Kwa-Zulu Natal	2.58%	0.79%	1.45%	1.29%	1.45%	1.51%
Limpopo	0.69%	8.67%	14.46%	2.89%	20.04%	9.35%
Mpumalanga	0.24%	2.81%	4.37%	4.16%	1.58%	2.63%
Northern Cape	16.48%	6.39%	1.83%	11.62%	8.80%	9.02%
North West	22.89%	7.75%	11.46%	7.81%	16.39%	13.26%
Western Cape	0.20%	0.00%	0.00%	0.58%	0.37%	0.23%
	<b>2.59%</b>	<b>4.18%</b>	<b>4.65%</b>	<b>2.94%</b>	<b>7.05%</b>	<b>4.28%</b>

- Unspent conditional grants increases over the period
- North West province leads the pack with average unspent MIG of 13 percent annually
- Followed closely by Limpopo province showing average percentage unspent MIG of 9 percent over the five years period

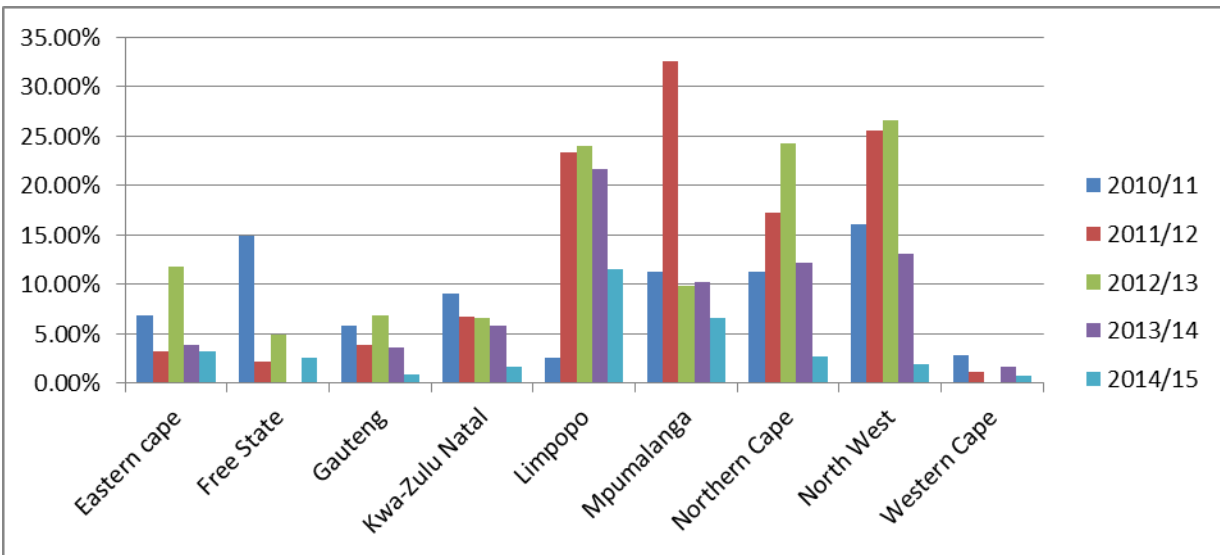


# Rollover funds

**MIG ROLL OVER AS A % OF ALLOCATION**

Province	2010/11	2011/12	2012/13	2013/14	2014/15	Average
Eastern cape	6.82%	3.23%	11.76%	3.85%	3.22%	5.78%
Free State	14.92%	2.10%	4.84%	0.00%	2.54%	4.88%
Gauteng	5.79%	3.87%	6.77%	3.60%	0.78%	4.16%
Kwa-Zulu Natal	9.01%	6.70%	6.53%	5.75%	1.64%	5.93%
Limpopo	2.49%	23.37%	23.98%	21.61%	11.51%	16.59%
Mpumalanga	11.18%	32.53%	9.84%	10.25%	6.53%	14.07%
Northern Cape	11.18%	17.26%	24.21%	12.16%	2.65%	13.49%
North West	16.11%	25.57%	26.55%	13.09%	1.89%	16.64%
Western Cape	2.82%	1.13%	0.02%	1.59%	0.71%	1.25%
<b>Total</b>	<b>7.22%</b>	<b>13.32%</b>	<b>13.48%</b>	<b>9.20%</b>	<b>4.43%</b>	<b>9.53%</b>

- MIG rollovers have increased over time but is showing a decline in 2014/15
- On average 16 percentage on Limpopo's and North West of their MIG total allocation has been rolled over in 5 years
- Mbombela municipality has contributed to the high rollover due to the 2010 construction of the Stadium



# Application of stricter conditions on rollovers

- Significance of linking the submission of the AFS to the AG with the rollover approval process
  - Increased number of AFS submitted to AG for audit in time
  - Improved quality of AFS submitted to AG for audit
  - Improved audit outcomes of municipalities
- The process has achieved the following
  - Instituted compliance in municipalities in terms of the Division of Revenue Act
  - Promoted accountability in municipalities
  - Improved overall performance in MIG spending i.e 95%
  - Overall improvement on the compilation of the financial statements

# Challenges

- Non-submission of AFS
- Insufficient motivation as required by the circular
- Restating of Annual Financial Statements (AFS) by municipalities
- Grants not properly disclosed in the AFS
- Unspent funds not cash backed
- Interest, VAT and retention included in the unspent amount
- Reporting on approved rollovers, non-reporting or rollover expenditure incorporated in the current allocation.
- Late submission of rollover applications and multiple applications for the same grant
- Unable to verify expenditure against approved projects on the ground
- Rollover of a rollover



# Remedial Measures

- Stop and reallocate to fast spending municipalities within the same province
- Re-channel the money via their DM's
- Convert the allocation from direct to indirect allocation to address capacity and SCM constraints
- MFMA budget circulars provide guidance for rollover applications
- Provincial DoRA workshops with both depts. and Provinces
- Provincial Treasuries provide support to delegated municipalities
- Provide support through MFMIP deployed
- Allow for repayment arrangement if unable to repay immediately
- One on one sessions with affected municipalities

**Thank you**