**MIG EXPENDITURE PERFORMANCE & ROLL-OVER MANAGEMENT**

1. **BACKGROUND**

The Select Committee on Appropriations invited the Minister on 6 September 2016 to a hearing on the monitoring spending of the Municipal Infrastructure Grant. The letter refers to a report on roll-overs of the MIG for the previous five financial years which was presented by National Treasury on 17 May 2016.

The said hearing is set to be held on 20 September at 10:00 and will also be attended by National Treasury, Department of Planning, Monitoring and Evaluation (DPME), South African Local Government Association (SALGA) and the Financial Fiscal Commission (FFC).

The Committee secretariat was contacted on 13 September 2016 for more clarity with regard to the expectations of the input. It was confirmed that the extent of the input by the Department of Cooperative Governance (DCoG) relates to how monitoring of roll-over spending is being undertaken.

In light of the above, the content of the briefing notes and the attached presentation would focus on this (Section B of the presentation) as well as the general expenditure performance of the Municipal Infrastructure Grant (Section A of the presentation) and how challenges that results in poor expenditure performance e are being mitigate (Section C of the presentation).

1. **DISCUSSION**

**2.1 Expenditure performance of the Municipal Infrastructure Grant for 2015/16**

The revised MIG allocation for the 2015/16 financial year is R14,9 billion. As at the end of June 2016 (the last quarter of the municipal financial year) the overall national performance per province is as indicated in the table below:

**Table 1: Expenditure per Province as at 30 June 2016**



*Source: MIG DoRA report – 30 June 2016*

The overall expenditure for each province is shown as a percent of the allocation received for the 2015/16 financial year as at 30 June 2016.

The province that reported the highest level of expenditure is the KwaZulu-Natal which reached 98 percent expenditure of their allocation of approximately R3,4 billion in the last quarter of the municipal financial year.

The lowest recorded expenditure was reported in Limpopo Province with expenditure of
79 percent of their allocation of approximately R3 billion.

Municipalities will be required to justify their 2015/16 roll-overs to the National Treasury by 31 August 2016.

**Table 2: Summary of adjustments and unspent balances in 2015/16**



The table above indicates some key areas:

1. Municipalities in North West Province lost R83 million in total through stopping procedures in March 2016. They continued not to spend their MIG allocations which resulted in an unspent balance of R238 million by June 2016;
2. Municipalities in Limpopo Province lost R88 million in total through stopping procedures in March 2016. They continued not to spend their MIG allocations which resulted in an unspent balance of R636 million by June 2016;
3. Municipalities in KwaZulu-Natal Province gained a total of R69 million in March 2016. The total unspent balance within the province was however R60 million.

With regard to (a) – (bi) above, the stopping processes normally instituted during March each year, must be brought forward, that will allow municipalities that receive reallocated funding to still plan, implement projects and spend revised allocations. As mentioned in previous submissions, the high level of unspent balances should also be mitigated earlier by ensuring that poor planning is addressed through the support provided by DCoG and MISA.

**Graph 1: MIG performance since inception in 2004/05**

The analysis on MIG expenditures during the 10 years period (2010-2015) shows:

1. 2005-20010 (5-year) there was average exp. of 94%;
2. 2010-2015 (5-year) average exp. trend decline to 85%;
3. Previous FY, 2015-2016 showed improvement to 92%;
4. There was a declined expenditure trend during the last 5 year period, and
5. 7 provinces have since improved *in 2015-2016 financial year*.

The above improvement is due to:

1. Various remedial action undertaken by DCoG (including expansion of monitoring capacity); and
2. This was in collaboration and assistance of MISA.

**Table 3: Comparison of MIG expenditures; 2005-2010, 2010-2015 and 2015-2016**

| **Province** | **2005-2010** | **2010-2015** | **2015-2016** |
| --- | --- | --- | --- |
| Eastern Cape | 94% | 91% | 96% |
| Free State | 91% | 93% | 94% |
| Gauteng | 92% | 86% | 81% |
| KwaZulu-Natal | 93% | 92% | 98% |
| Limpopo | 98% | 73% | 79% |
| Mpumalanga | 92% | 77% | 97% |
| Northern Cape | 82% | 77% | 88% |
| North West | 107% | 80% | 84% |
| Western Cape | 98% | 99% | 94% |
| **TOTAL** | **94%** | **85%** | **92%** |

**Graph 2: Comparison of the municipalities MIG expenditure trend**



**2.2 Monitoring of expenditure on roll-overs**

2.2.1 Determination of Roll-overs

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. National Treasury’s regulations provides for a further guidelines on how rollovers should be conducted and 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.

The DoRA provides that should municipalities fail to repay unapproved or unspent conditional grants, they be offset against their respective conditional or unconditional grants. It should be noted that to avoid funds being offset at once, a periodical repayment of unspent funds can be arranged on behalf of municipalities.

Although the first DoRA that included the rollover clause was in 2004/05, it was only effected in by National Treasury few years ago.

All unspent conditional grants revert to the National Revenue Fund, unless they be approved as a rollover by National Treasury. The mentioned unspent funds are informed by the:

1. Unspent funds reported by the Transferring Officers at the end of the municipal financial year in the case of conditional grants to municipalities;
2. Quarterly publications by NT in terms of section 71 of MFMA; and
3. Pre and Audited Financial statements by municipalities.

The receiving officers (municipalities) must submit roll-over applications or required information by 31 August 2016, if not, application will not be considered. The information on the application to National Treasury must include:

1. Formal letter signed by Accounting Officer (AO), addressed to NT requesting roll-over of unspent Conditional Grants (CGs) ito section 22 (2) of DoRA;
2. List of projects that are linked to the unspent CGs, and evidence that work has commenced on each of the projects, including the following:
	* Proof that the project tender was published and the period for tender submissions closed before 30 June; or
	* Proof that a contract for delivery of the project was signed before 30 June.
3. Progress report on implementation of each of the projects; and
4. Amount of funds committed to each project, and the conditional allocation from which the funds come from;

After the applications are receive from municipalities, National Treasury will engage with municipalities to determine the validity of their requests and the amount to be roll-over.

The Transferring Officer accompanies National Treasury to these engagements for support. Letters are issued by National Treasury to all municipalities with unspent balances to confirm the amount to be rolled over and the amount to be returned to the National revenue Fund.

National Treasury reported the MIG rollover of funds since 2010/11 on 17 May 2015 to the Select Committee on appropriations.

**Table 4: MIG Rollover funds since 2010/11 as reported by National Treasury**

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As at the end of 30 June 2016, the balance not spent by municipalities was R1,143 billion.

**Table 5: MIG Balances as at 30 June 2016 reported by the Transferring Officer to National Treasury**

National Treasury is currently in the process of determining roll-overs for 2015/16 based on the applications from municipalities and is currently engaging these municipalities. DCoG and the provincial counterparts is supporting NT in this process.

2.2.2 Proposal

National Treasury presented to the Select Committee on Appropriations on 17 May 2016, the following with regard to the monitoring of roll-overs:

* + 1. National Treasury in consultation with Transferring Officer and provincial departments considers rollover requests;
		2. The Transferring Officer to be responsible for monitoring expenditure on roll-overs against projects on a monthly and quarterly basis (financial and non-financial);
		3. The Transferring Officer to monitor registered projects and verifies delivery of projects;
		4. National Treasury requires that municipalities must report separately on the spending of conditional grant funds that are rolled over;
		5. National Treasury monitors expenditure on roll-overs in terms of section 71 of the MFMA and DoRA i.e. monthly reports by both municipalities and TO; and
		6. Annual Financial Statements must be used to verify expenditure on roll-over i.e. to prevent approval of roll-over on a roll-over.

Currently, the DoRA not stipulate how the Transferring Officer will be responsible for the monitoring of the expenditure on the approved roll-overs.

However, monitoring of expenditure on all projects (including proposed roll-over projects) by the National Transferring officer is being done through the assistance of the Provincial MIG units, but only up to the time that roll-overs are approved.

Once roll-overs on projects have been approved they are not included in the monthly DoRA expenditure reports which only allows for reporting against the current year’s allocations.

DCoG has been requesting the National Treasury to provide the necessary guidance that will allow the Transferring Officer to report on roll over projects once approved by the National Treasury.

The timelines for the approval of roll-overs by National Treasury have also varied over the last 5 years which has created uncertainty in the manner in which projects are monitored from a Transferring Officer point of view.

The unspent MIG funding as at 30 June should not be spent against any of the projects in implementation until such time that a roll-over has been approved.

All project expenditure (including the expenditure of proposed roll-over projects) must be reported against the current year’s allocation until the roll over is approved.

Once roll overs have been approved by the National Treasury and communicated timeously to the Transferring Officer, the Transferring Officer will now require separate reports for:

1. Expenditure against current allocations
2. Expenditure on approved roll overs

The Transferring Officer will now require municipalities to report on approved roll-over projects their monthly/quarterly non-financial and monthly financial performance.

However, in order for Transferring Officer to report to National Treasury (as indicated by the National Treasury to the Select Committee on Appropriations on 17 May 2016) on roll-overs a template is required similar to the monthly DoRA.

Note that once roll overs are approved, it could result in the decline of expenditure rates against the current allocation which could result in withholding and stopping if the roll-over process is not concluded timeously by the National Treasury.

**2.3 Mitigation of challenges experienced on the MIG Programme**

2.3.1 Challenges on the MIG Programme

There are a myriad of challenges that contributes to poor spending of MIG funding, resulting in some cases to request for roll-overs.. Roll-overs are only justifiable when unforeseen circumstances caused delays on the expenditure and associated output levels of a project. However, roll-overs must not become a norm to address poor expenditure levels.

These challenges include:

* 1. Inadequate ability to plan a municipal capital budget (3 year horizon) informed by Integrated Development Planning process which requires the participation of relevant stakeholders i.e. sector departments;
	2. Lack of capacity to manage and monitor MIG projects (Project Management Units and Sector departments);
	3. Appointing service providers or contractors who cannot deliver;
	4. Late payment of service providers;
	5. Council decisions take too long (approval of projects and budgets);
	6. Unnecessary delays in MIG project processes i.e. Technical Reports and Environmental Impact Assessment; and
	7. Use of MIG funds for operational budget pressures. Poor intergovernmental relationships to promote and guide infrastructure investment for the poor
	8. In 2015/16 a total of 39 out of 278 Municipalities experienced difficulties in spending their MIG allocation resulting in stopping and reallocation of some of their MIG allocations to better performing municipalities. This had an unintended consequences for the affected communities.
		1. Mitigation of challenges

DCoG’s main responsibility is oversight on MIG processes and procedures, coordination between stakeholders, stakeholder support to municipalities and stakeholder participation in MIG project pre-implementation and implementation phases.

The support is provided to ensure that projects meet the objectives of the MIG Programme. The support involves the following:

**Pre-implementation** phase:

1. Infrastructure programme planning support to ensure that municipalities will have a pipeline of projects to deal with remaining backlogs
2. Projects verification support to municipalities to ensure that projects to be implemented by municipalities do meet the cross cutting and sector specific conditions of the grant.
3. MIG implementation planning support to ensure that MIG projects are appropriately planned and scheduled for implementation.
4. Support municipalities to set spending trajectories on their MIG programmes.

**Implementation phase:**

1. Ensuring that positive spending trends are maintained as per the pre-set payment schedule. This includes frequent engagements with municipalities on maintaining spending discipline (under expenditure) and set remedial actions (that includes the stopping and reallocation or conversion of MIG funds) on how to overcome poor expenditure trends.
2. Coordinated site visits to targeted projects in which all relevant stakeholders participate to confirm that projects are implemented as approved.
* The DoRA allows that there will no longer be reallocation of stopped funds to other municipalities only, but also include grant funding be converted to a Schedule 6B and a Department inconsultation with Treasury will appoint an implementing agent to implement project on behalf of the poor spending municipalities.
* DCoG and MISA with the cooperation of provinces has established teams that are visiting specific municipalities to address identified challenges.
* With the establishment of MISA, a more hands-on support and intervention is provided. Through a District –Wide model MISA has deployed multi-disciplinary technical professionals at various prioritised Districts to support the struggling municipalities.
* The Team comprise sector specialists on water, sanitation and energy as well as Generalist on Roads & Storm-water and solid waste and project management.
* The Team focus on municipal support through the whole project life cycle i.e. planning (incl. feasibility studies), procurement, design, implementation, commissioning, operations and maintenance
* MISA has also established a Programme / Project Management Office (PMO) that coordinates the management of programmes and projects implemented in municipalities by various sectors
* As part of provincial technical support, MISA has assigned engineers to provide technical support to provinces for appraisal of technical reports and evaluation of project designs where required.
* Furthermore the Department through MISA in partnership with National Treasury is putting in place a range of Framework Contracts for various municipal goods and services to ease procurement in municipalities. This will address the challenge of procurement delays in municipalities.

In the financial year 2016/17 MISA is supporting 74 municipalities across all the 9 provinces. The table below depicts the spread of MISA supported municipalities in various provinces. The detailed list appended in **Annexure A**.

| **Province** | **Number of districts** | **Number of Municipalities** |
| --- | --- | --- |
| Eastern Cape | 5 | 8 |
| Free State | 1 | 9 |
| Gauteng | 2 | 4 |
| KwaZulu-Natal | 5 | 12 |
| Limpopo | 3 | 6 |
| Mpumalanga | 3 | 6 |
| Northern Cape | 2 | 11 |
| North West | 4 | 9 |
| Western Cape | 1 | 9 |
| **Total** | **26** | **74** |

**Annexure A**: MISA Supported Municipalities

| **NAME OF PROVINCE** | **NAME OF DISTRICT** | **NAME OF MUNICIPALITY** |
| --- | --- | --- |
| KwaZulu-Natal | * uMkhanyakude DM
* Amajuba DM
* iLembe DM
* uMzinyathi DM
* Zululand
 | * Jozini LM
* uMhlabuyalingana LM
* Abaqulusi LM
* Maphumulo LM
* Mandeni LM
* Ndwedwe LM
* Endumeni LM
* uPhomgolo LM
* Nquthu LM
* Umvoti
* eDumbe LM
* Nongoma LM
 |
| Mpumalanga | * Nkangala DM
* Gert Sibande DM
* Ehlanzeni DM
 | * Emakhazeni LM
* Emalahleni LM
* Thaba Chweu LM
* Dipaleseng LM
* Mkhondo LM
* Dr Pixley Ka Isaka Seme LM
 |
| Limpopo | * Sekhukhune DM
* Vhembe DM
* Mopani DM
 | * Elias Motsoaledi
* Ephraim Mogale
* Thabazimbi
* Tzaneen LM
* Greater Tubatse
* Mogalakwena
 |
| Eastern Cape | * OR Tambo DM
* Alfred Nzo DM
* Amathole DM
* Cacadu
* Chris Hani
 | * Great Kei LM
* Nxuba/Mkonkobe
* Lukhanji/Tsolwana/Inkwance
* Inxuba Yethemba LM
* Sundays River LM
* Makana LM
* Ikwezi/Baviaans/Camdeboo
* Mhlonhlo LM ( new)
 |
| Western Cape | * Eden DM
 | * Kannaland LM
* Oudtshoorn LM
* Laingsburg LM
* Beautfort West LM
* Prince Albert
* Cape Agulhas LM
* Swellendam LM
* Cederberg LM
* Matzikamma
 |
| North West | * Dr Ruth Segomotsi
* Mompati DM
* Ngaka Modiri
* Molemo DM
 | * Ditsobotla LM
* Tswaing LM
* City of Matlosana
* Maquassi Hills LM
* Kgetlengrivier LM
* Rusternburg LM
* Moses Kotane LM
* Madibeng LM
* Morotele LM
 |
| Gauteng | * Sedibeng DM
* West rand DM
 | * Westonaria LM
* Merafong LM
* Lesedi LM
* Randfontein LM
 |
| Free State | * Xhariep DM
 | * Letsemeng LM
* Kopanong LM
* Mohokare LM
* Masilonyana LM
* AD HOC Suport
* Ngwathe LM
* Mafube LM
* Phumelela LM
* Maluti a Phofung LM
 |
| * Northern Cape
 | * John Taolo Gaetsewe DM
* Pixley Ka Seme DM
 | * Joe Morolong LM
* Gamagara LM
* Ga Segonyana LM
* Renosterberg LM
* Umsobomvu LM
* Siyancuma LM
* Thembelihle LM
* AD HOC Support
* Kheis LM
* Khai Ma LM
* Ubuntu LM
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