HOW TO ACHIEVE FINANCIAL CAPACITY TO ENSURE EFFECTIVE SERVICE DELIVERY

PRESENTED BY:

NAME: Ogalaletseng
SURNAME: Gaarekwe

Title: DDG:
Division: IGR

Date: 29 July 2026

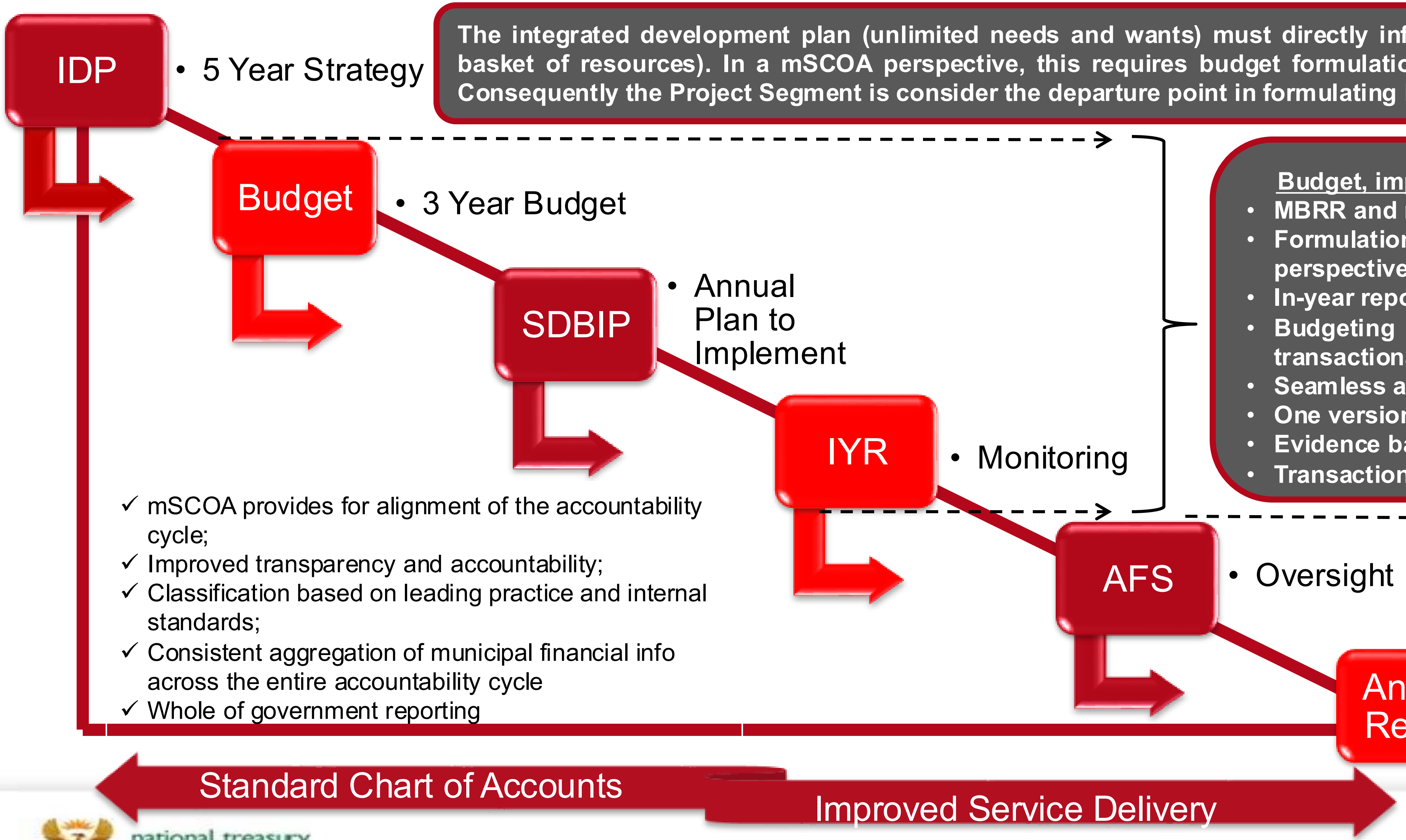
FW de Klerk Foundation

Presentation outline

- Local Government Accountability Cycle
- Pillars of Sustainability
- Understanding financial capacity
- Municipality capacity is
- Underlying courses of municipal dysfunctionality
- Root courses of erosion in LG financial capacity
- Less conspicuous underminers of municipal financial capacity
- Municipalities are underspending on infratruture
- Conditional grant funding returned to National Fiscus (2022/23 to 2024/25)
- Institutional competence and capability have also undermined financial capacity
- What is Government doing about these challenges – Reforms under consideration

Understanding the Local Government Accountability Cycle is fundamental

The integrated development plan (unlimited needs and wants) must directly inform the formulation of the budget (limited basket of resources). In a mSCOA perspective, this requires budget formulation (as per the MBRR) from a project level. Consequently the Project Segment is consider the departure point in formulating budgets across all seven segments.



Budget, implementation (transacting) and reporting

- MBRR and reporting to LG Database (all 7 segments)
- Formulation of implementation plan such as regional perspective, funding, cash flow breakdown etc.
- In-year reporting (focus MBRR), Section 71 & 72
- Budgeting to directly inform implementation and transactional environment
- Seamless alignment
- One version of the truth
- Evidence based financial management in real time
- Transactional validation and audit trails

✓ mSCOA provides for alignment of the accountability cycle;
✓ Improved transparency and accountability;
✓ Classification based on leading practice and internal standards;
✓ Consistent aggregation of municipal financial info across the entire accountability cycle
✓ Whole of government reporting

Accountability Reporting

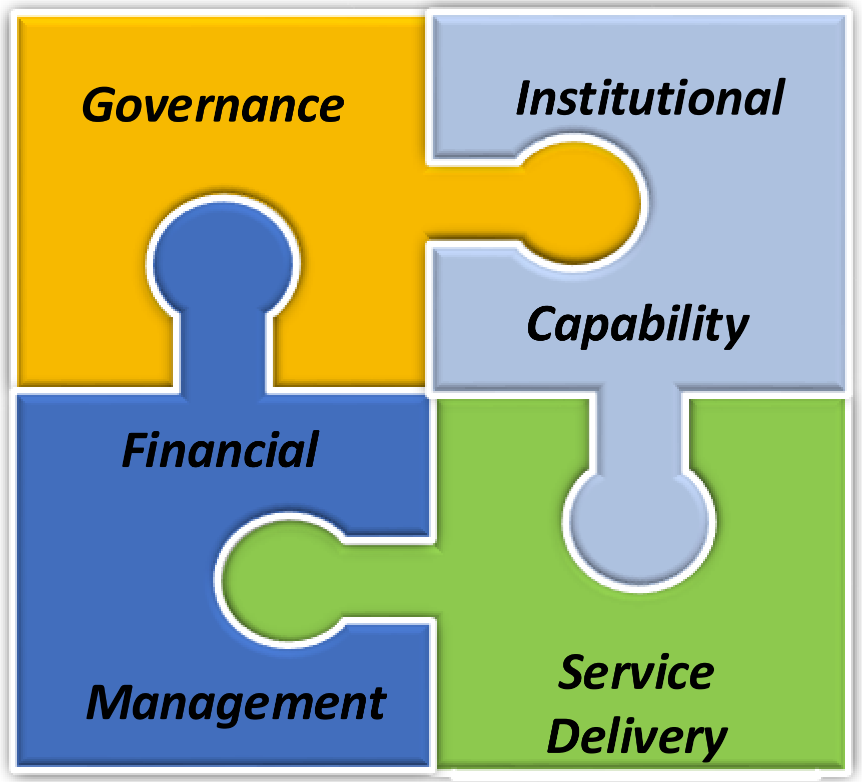
- Incorporation of GRAP
- Improved standardisation
- Improved audit process across 275
- Consistent comparability
- Transparency

national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

PILLARS OF MUNICIPAL SUSTAINABILITY

Municipal Sustainability

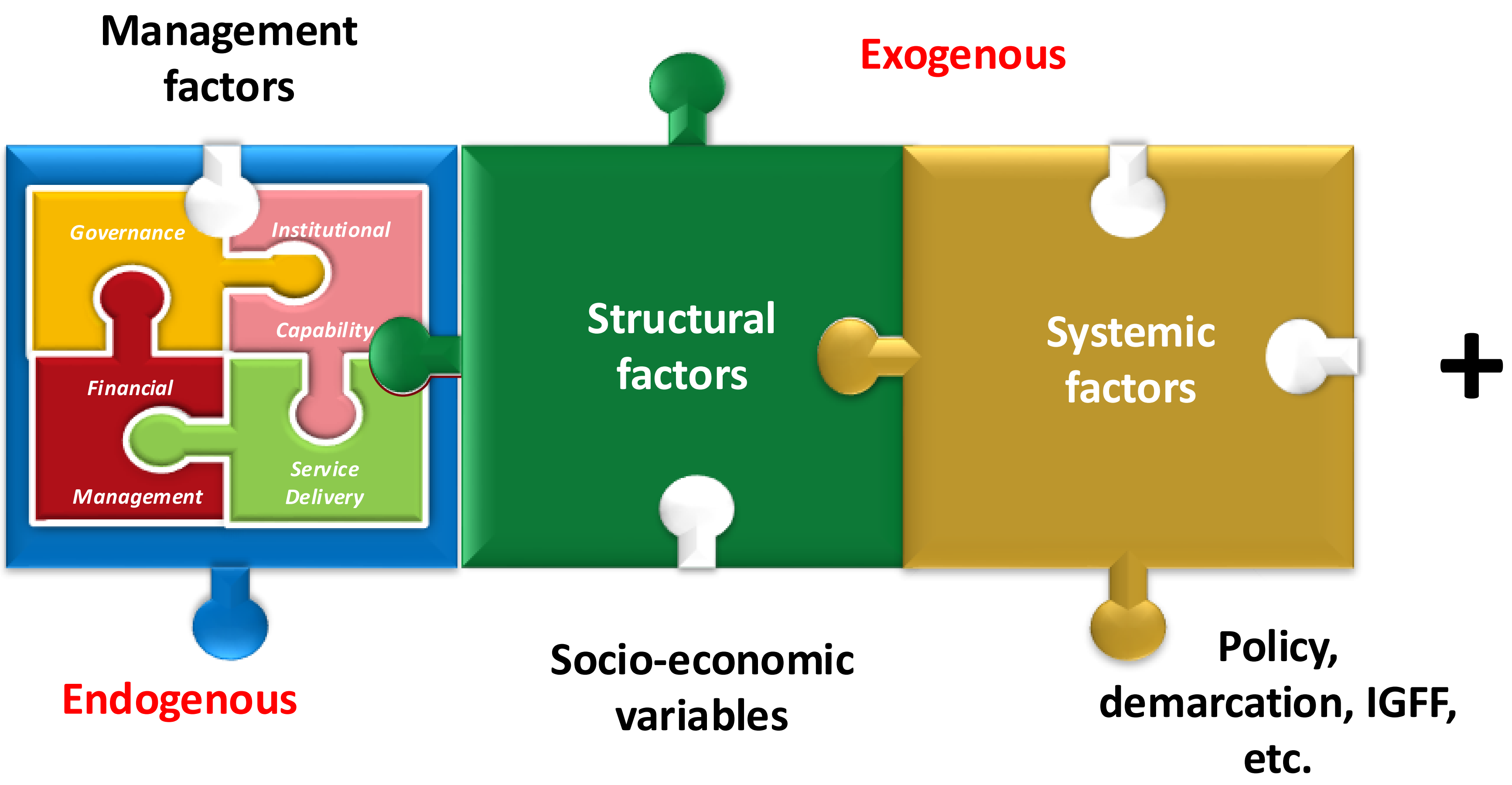
- We know that municipal financial health is multi-dimensional/multi-faceted; and
- 4 pillars are generally used by Team Finance to assess municipal sustainability:



= Municipal Sustainability

Wrong, we may have the basics in place for a ***functional*** *municipality but municipal* ***sustainability*** *is a much broader concept*
Functional and sustainable are not the same

A Broader Perspective on Municipal Financial Health



Poor financial health usually results from a combination of the above factors

Understanding financial capacity

- To understand what is meant by municipal financial capacity, we first must understand what it is not
- Municipal financial capacity is not:
  - The amount of money a municipality has in its bank account;
  - The amount of grants allocated to a municipality;
  - The structural endowment of the municipality (size and strength of the municipal tax base);
  - The financial position of the municipality as per the balance-sheet; and
  - The surplus on the municipality’s statement of financial performance.
- Individually these may serve as indicators of a municipality’s financial capacity, but on their own do not define it
- There is no single measure of a municipality’s financial capacity

Municipal Financial Capacity is

- A product of four basic functions:

1. A complete and functional revenue value chain
2. Prioritised and disciplined spending
3. Adequate infrastructure spending (new, renewal and R&M)
4. Strong institutional competence to manage 1,2 and 3

- Without all four components, even a municipality with strong revenue potential (tax base) can suffer from weak financial capacity

Municipal financial capacity can be defined as:

The sustained ability of a municipality to generate, secure, and deploy sufficient financial resources to deliver services at the required standard and meet its statutory and financial obligations on an ongoing basis and under reasonably foreseeable stress

The underlying causes of municipal dysfunctionality

Dysfunctional TROIKAs, political instability, hung councils, political/administrative interface, discontinuity due to high turnover of councillors & end of SMs contracts between election cycles

Poor Political Governance

Weakness & instability in institutional capacity, lack of fiscal discipline; acting MMs and CFOs; bloated municipal organograms, increased wage bill, lack of consequence management, poor service delivery

Poor Municipal Management / Administrative Governance

Primary causes

Deteriorating basic services, collapsing infrastructure, decaying bulk and connector infrastructure, lack of maintenance, deficient spatial reforms

Service delivery

Impact of poverty, unemployment and inequality

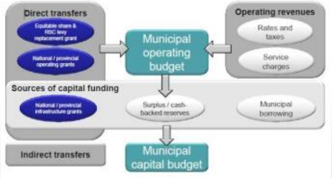
Socioeconomic challenges

Systemic problems

Policy, demarcation, uncoordinated approach to supporting municipalities, failure to implement the intervention framework, weak implementation of capacity building

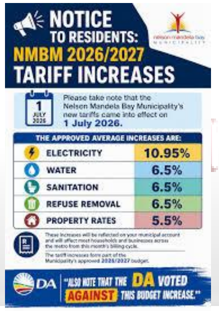
Root causes of erosion in LG financial capacity

- Some of the root causes of the erosion in LG financial capacity include:



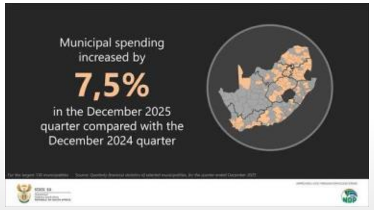
Poor management of the revenue value chain affects revenue generated

- The lack of an accurate valuation roll, complete and correct billing, metering integrity and collection and credit control enforcement
- Incomplete and outdated indigent registers, unmetered and tampered connections, billing that does not reconcile to consumption and credit control policies that exist on paper but are not enforced



Tariffs that do not fully reflect the actual cost of providing the service

- Eskom bulk costs rise faster than what municipalities can pass through – NERSA approval of tariffs for LG are lower than for Eskom
- Switch in many HHs to alternate sources of energy
- Water and sanitation services often operate at losses
- These lead to an under collection of revenue



Failure to bring expenditure under control – particularly structural cost drivers

- Bloated wage bills
- High levels of unaccounted for, irregular, fruitless and wasteful expenditure
- Unsustainable bulk purchase arrears to Eskom and Water Boards

Less conspicuous underminers of municipal financial capacity

- The under-collection of revenue and above inflation increases in operating expenditure are the most visible causes of declining municipal financial capacity
- However, there are two other factors which silently erode municipal financial capacity, but their importance is often underestimated:

Deferred repairs, maintenance and asset renewal

- Probably the MOST costly "saving" on a municipal budget
- Year on year underspending results in infrastructure being consumed without any rehabilitation
- Bill for deferred maintenance and asset renewal arrives later as infrastructure failure
- Costly and directly impacts on service delivery and revenue generation

Institutional competence and capability

- Competent, appointed (not perpetually acting) MM, CFO and senior managers
- Councils that approve funded budgets with the right prioritization of expenditure
- Supply chain processes that are not captured
- Skills, systems, processes, leadership and governance that can ensure the deployment of resources towards fulfilment of constitutional obligations
- Proper asset management plans, asset condition assessments and investments

Municipalities are underspending on infrastructure

- In the 2025/26 financial year, to understand what is meant by municipal financial capacity, we first must understand what it is not

Category	Average spend on new infrastructure	Average spend on renewal of infrastructure	Average spend on repairs and maintenance
Metros	R8.9 billion	R9.5 billion	R8.2 billion
Local Municipalities	R8.9 billion	R6.7 billion	R8.3 billion
District Municipalities	R5.8 billion	R1.2 billion	R1.6 billion

Conditional grant funding returned to National Fiscus (2022/23 to 2025/26)

Conditional Grant Unspent Returned to the NRF, 2022/23 TO 2025/26

Provinces	2022/23	2023/24	2024/25	2025/26	Total per provice
Eastern Cape	580 218	307 762	217 594	255 081	1 360 655
Free State	612 152	706 123	382 224	236 029	1 936 528
Gauteng	847 894	546 989	509 301	520 842	2 425 026
KwaZulu Natal	204 049	486 323	214 904	189 910	1 095 186
Limpopo	344 358	341 289	171 508	43 494	900 649
Mpumalanga	140 931	134 886	16 190	29 159	321 166
Nortern Cape	170 212	111 707	90 510	62 846	435 275
North West	435 105	240 427	35 684	129 778	840 994
Western Cape	38 812	53 179	36 092	195 150	323 233
Total per year	3 373 731	2 928 685	1 674 007	1 662 289	9 638 712

National Treasury dataset

Institutional competence and capability have also undermined financial capacity

- Increasing financial capacity in LG is often linked to increasing revenue and decreasing expenditure
- There are also those that advocate for increased grant funding to increase municipal financial capacity
- ***However, the more significant contributor to poor municipal financial capacity is historic (and continued) underinvestment in municipal infrastructure***
- Demand for services have increased significantly since 1994 without the concomitant investments required to address supply side constraints
- Without functional infrastructure to deliver services, revenue generation remains severely compromised - even when the tax base is strong

What is Government doing about these challenges – Reforms under consideration

Review of the White Paper on Local Government	Amendment of the Municipal Finance Management Act
Review of the Local Government Fiscal Framework • Reviewing the local government expenditure and revenue responsibilities • Reviewing the LGES	**Reviewing the municipal powers and functions** • Addressing the two-tier system of government outside metropolitan municipalities
Conditional Grant Review Reforms ▪ Rationalisation of grants to improve efficiencies (i.e., consolidation of water grants) ▪ Metro Trading Services Reforms	**Review of the Municipal Capacity Building System** ▪ Review of financial management support initiatives including MFIP and FMG
Municipal Infrastructure Grant reforms ▪ Split delivery model and the utilization of competent districts and agencies (MISA, DBSA, capable districts)	**Disaster Management Reforms** ▪ National Disaster Risk Financing Strategy ▪ Municipal guide to approach disaster insurance
Reforms to Local Government Own Revenues ▪ Norms and Standards for Electricity Surges ▪ Development Charges ▪ and municipality’s ability to leverage borrowing	**Sector Reforms** ▪ Metro Trading Services reform ▪ Water and Electricity reforms (separation of authority and provider) ▪ Professionalisation of Local Government
Municipal Utility Reform Programme ▪ JET pilot in Mpumalanga (4 municipalities)	**Revenue improvement programme** ▪ Smart meter programme rollout

Conclusion

Financial capacity is built by:

Closing the gap between what a municipality is owed and what it collects, between what it spends and what it should spend and between what its assets need and what it reinvests

AND THEN

Sustaining that with people and governance structures that hold

Service delivery then improves as a consequence and not as a separate programme

THANK YOU

For additional information on municipal matters, visit the MFMA Webpage at http://mfma.gov.za or

https://lg.treasury.gov.za/ibi_apps/welcome

https://municipalmoney.gov.za

For additional information on national and provincial budgets, visit: https://vulekamali.gov.za

Capital Grants - Conditional Grant performance for municipalities, 2020/21 to 2024/25

Capital Grants - Conditional Grant performance for municipalities, 2020/21 to 2024/25

R'000'	2020/21		2021/22		2022/23		2023/24		2024/25		Total for five years			
Metropolitan Municipaliti	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	Total Unspent Grants	Percentage Unspent CG
USDG	*10 572 145*	*10 192 623*	*7 404 711*	*7 029 306*	*7 352 273*	*6 788 261*	*7 596 178*	*7 447 478*	*8 705 124*	*8 159 525*	**41 630 431**	**39 617 193**	**2 013 238**	**5%**
WSIG	*2 924 232*	*2 429 000*	*593 145*	*561 224*	*588 945*	*559 544*	*522 204*	*476 756*	*567 997*	*493 859*	**5 196 523**	**4 520 383**	**676 140**	**13%**
RBIG	*1 962 228*	*1 555 019*	*2 237 370*	*1 745 041*	*2 655 668*	*2 289 910*	*3 258 828*	*2 915 573*	*3 627 383*	*3 536 916*	**13 741 477**	**12 042 459**	**1 699 018**	**12%**
PTNG	*3 850 318*	*3 530 193*	*4 902 551*	*4 077 881*	*6 012 892*	*5 110 803*	*6 194 045*	*5 087 860*	*6 075 563*	*5 317 740*	**27 035 369**	**23 124 477**	**3 910 892**	**14%**
MIG	*14 496 532*	*13 489 344*	*15 717 748*	*14 526 401*	*16 867 656*	*15 231 570*	*16 341 585*	*15 833 787*	*17 054 355*	*16 647 004*	**80 477 876**	**75 728 106**	**4 749 770**	**6%**
INEP	*1 394 447*	*1 202 089*	*2 008 057*	*1 786 360*	*2 117 038*	*1 912 180*	*2 032 046*	*1 941 088*	*1 746 436*	*1 669 969*	**9 298 024**	**8 511 686**	**786 338**	**8%**
NDPG	*635 666*	*539 458*	*569 920*	*509 006*	*1 273 336*	*1 049 637*	*1 346 012*	*1 307 485*	*1 290 552*	*1 204 062*	**5 115 486**	**4 609 648**	**505 838**	**10%**
Other direct grants	*3 386 740*	*3 104 387*	*3 878 788*	*2 695 098*	*14 566 987*	*10 869 343*	*12 646 766*	*11 205 378*	*12 952 076*	*11 695 629*	**47 431 357**	**39 569 835**	**7 861 521**	**17%**
Total	**39 222 308**	**36 042 113**	**37 312 290**	**32 930 317**	**51 434 795**	**43 811 248**	**49 937 664**	**46 215 405**	**52 019 486**	**48 724 704**	**229 926 543**	**207 723 787**	**22 202 755**	**10%**

National Treasury dataset

Urban Settlement Development Grant - Metros

USDG - Conditional Grant performance for Metropolitan municipalities, 2020/21 to 2024/25

R'000'	2020/21		2021/22		2022/23		2023/24		2024/25		Total for five years			
Metropolitan Municipaliti	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	Total Unspent Grants	Percentage Unspent CG
Buffalo City	*887 121*	*858 940*	*499 705*	*477 910*	*496 166*	*496 166*	*618 034*	*612 188*	*625 365*	*599 179*	**3 126 391**	**3 044 383**	**82 008**	**3%**
Nelson Mandela Bay	*1 205 880*	*1 030 755*	*593 145*	*561 224*	*588 945*	*559 544*	*522 204*	*476 756*	*567 997*	*493 859*	**3 478 171**	**3 122 138**	**356 033**	**10%**
Mangaung	*381 019*	*363 768*	*795 269*	*522 915*	*491 760*	*460 188*	*477 782*	*472 239*	*465 611*	*465 611*	**2 611 441**	**2 284 721**	**326 720**	**13%**
Ekurhuleni	*2 075 670*	*2 072 573*	*1 291 347*	*1 291 347*	*1 182 202*	*1 182 202*	*1 225 757*	*1 224 448*	*1 320 416*	*1 320 416*	**7 095 392**	**7 090 986**	**4 406**	**0%**
City of Johannesburg	*1 368 076*	*1 368 076*	*963 099*	*963 099*	*1 404 509*	*1 404 509*	*1 535 158*	*1 533 748*	*1 919 693*	*1 528 793*	**7 190 535**	**6 798 225**	**392 310**	**5%**
City of Tshwane	*1 545 948*	*1 501 158*	*1 001 557*	*999 305*	*1 044 111*	*878 336*	*948 462*	*922 848*	*1 056 600*	*1 054 000*	**5 596 678**	**5 355 647**	**241 031**	**4%**
eThekwini	*1 771 286*	*1 771 286*	*1 288 158*	*1 288 158*	*1 179 036*	*878 336*	*1 330 681*	*1 330 681*	*1 657 617*	*1 641 726*	**7 226 778**	**6 910 187**	**316 591**	**4%**
City of Cape Town	*1 337 145*	*1 226 067*	*972 431*	*925 348*	*965 544*	*928 980*	*938 100*	*874 570*	*1 091 825*	*1 055 941*	**5 305 045**	**5 010 906**	**294 139**	**6%**
Total	**10 572 145**	**10 192 623**	**7 404 711**	**7 029 306**	**7 352 273**	**6 788 261**	**7 596 178**	**7 447 478**	**8 705 124**	**8 159 525**	**41 630 431**	**39 617 193**	**2 013 238**	**5%**

National Treasury dataset

Regional Bulk Infrastructure Grant

RBIG - Conditional Grant performance for municipalities, 2020/21 to 2024/25

R'000'	2020/21		2021/22		2022/23		2023/24		2024/25		Total for five years			
Province	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	Total Unspent Grants	Percentage Unspent CG
Eastern Cape	*419 263*	*330 397*	*341 602*	*303 455*	*413 907*	*382 730*	*672 700*	*530 528*	*606 346*	*549 546*	**2 453 818**	**2 096 656**	**357 162**	**15%**
Free State	*249 608*	*161 396*	*213 921*	*117 637*	*204 407*	*153 067*	*163 896*	*155 000*	*200 112*	*195 135*	**1 031 944**	**782 235**	**249 709**	**24%**
Gauteng	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	**-**
KzaZulu Natal	*219 725*	*196 592*	*242 531*	*242 531*	*463 810*	*463 810*	*636 452*	*636 452*	*625 991*	*625 991*	**2 188 509**	**2 165 376**	**23 133**	**1%**
Limpopo	*284 846*	*273 044*	*218 806*	*190 487*	*134 584*	*134 584*	*238 539*	*238 539*	*126 013*	*126 013*	**1 002 788**	**962 667**	**40 121**	**4%**
Mpumalanga	*494 407*	*424 765*	*561 080*	*558 783*	*657 142*	*612 870*	*419 793*	*379 597*	*421 588*	*392 898*	**2 554 010**	**2 368 913**	**185 097**	**7%**
Northern Cape	*93 651*	*48 907*	*146 289*	*66 835*	*50 000*	*50 000*	*150 000*	*150 000*	*577 000*	*577 000*	**1 016 940**	**892 742**	**124 198**	**12%**
North West	*190 728*	*119 918*	*404 135*	*156 307*	*280 128*	*219 170*	*322 000*	*322 000*	*401 333*	*401 333*	**1 598 324**	**1 218 728**	**379 596**	**24%**
Western Cape	*10 000*	-	*109 006*	*109 006*	*451 690*	*273 679*	*655 448*	*503 457*	*669 000*	*669 000*	**1 895 144**	**1 555 142**	**340 002**	**18%**
Total	**1 962 228**	**1 555 019**	**2 237 370**	**1 745 041**	**2 655 668**	**2 289 910**	**3 258 828**	**2 915 573**	**3 627 383**	**3 536 916**	**13 741 477**	**12 042 459**	**1 699 018**	**12%**

National Treasury dataset

Water Services Infrastructure Grant

WSIG - Conditional Grant performance for municipalities, 2020/21 to 2024/25

R'000'	2020/21		2021/22		2022/23		2023/24		2024/25		Total for five years			
Province	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	DoRA Adjusted Allocation	Actual Expenditure	Total Unspent Grants	Percentage Unspent CG
Eastern Cape	*453 950*	*386 088*	*592 000*	*447 756*	*481 474*	*299 337*	*487 864*	*475 802*	*562 092*	*549 129*	**2 577 380**	**2 158 112**	**419 268**	**16%**
Free State	*409 386*	*331 218*	*350 867*	*238 315*	*332 599*	*235 208*	*310 442*	*216 220*	*328 959*	*281 819*	**1 732 253**	**1 302 780**	**429 473**	**25%**
Gauteng	-	-	*215 000*	*205 518*	*177 338*	*169 529*	*184 290*	*152 221*	*183 295*	*157 981*	**759 923**	**685 249**	**74 674**	**10%**
KzaZulu Natal	*811 061*	*755 561*	*932 050*	*871 778*	*1 058 400*	*1 032 945*	*881 310*	*847 715*	*1 087 534*	*1 061 300*	**4 770 355**	**4 569 299**	**201 056**	**4%**
Limpopo	*397 746*	*307 615*	*305 449*	*246 707*	*452 774*	*406 523*	*440 808*	*438 495*	*483 713*	*483 713*	**2 080 490**	**1 883 053**	**197 437**	**9%**
Mpumalanga	*402 375*	*353 645*	*535 000*	*476 442*	*479 745*	*451 515*	*483 937*	*483 937*	*419 381*	*411 587*	**2 320 438**	**2 177 126**	**143 312**	**6%**
Northern Cape	*333 692*	*258 594*	*293 551*	*247 579*	*252 055*	*221 550*	*301 134*	*280 999*	*345 881*	*300 722*	**1 526 313**	**1 309 444**	**216 869**	**14%**
North West	-	-	*270 910*	*237 192*	*336 286*	*289 987*	*393 630*	*386 875*	*459 898*	*411 880*	**1 460 724**	**1 325 934**	**134 790**	**9%**
Western Cape	*116 022*	*36 279*	*125 500*	*94 647*	*140 460*	*124 289*	*123 246*	*119 908*	*135 375*	*106 723*	**640 603**	**481 846**	**158 757**	**25%**
Total	**2 924 232**	**2 429 000**	**3 620 327**	**3 065 934**	**3 711 131**	**3 230 883**	**3 606 661**	**3 402 172**	**4 006 128**	**3 764 854**	**17 868 479**	**15 892 843**	**1 975 636**	**11%**

National Treasury dataset