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Group Strategy, Policy Coordination and Relations

THE STATE OF COJ FINANCES

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Image: https://www.ft.com/content/e77f49aa-292c-11e4-8b81-00144feabdc0

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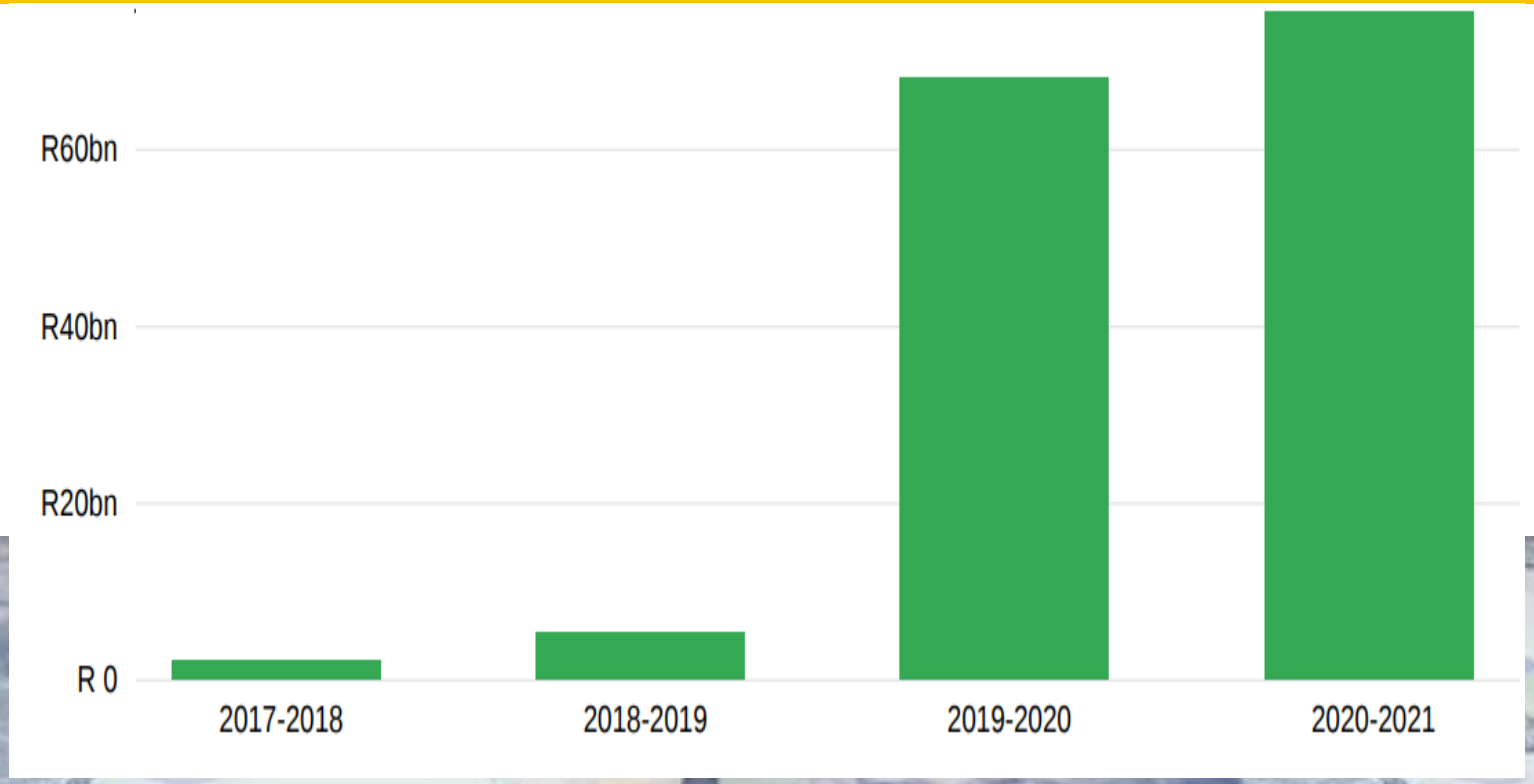
Introduction

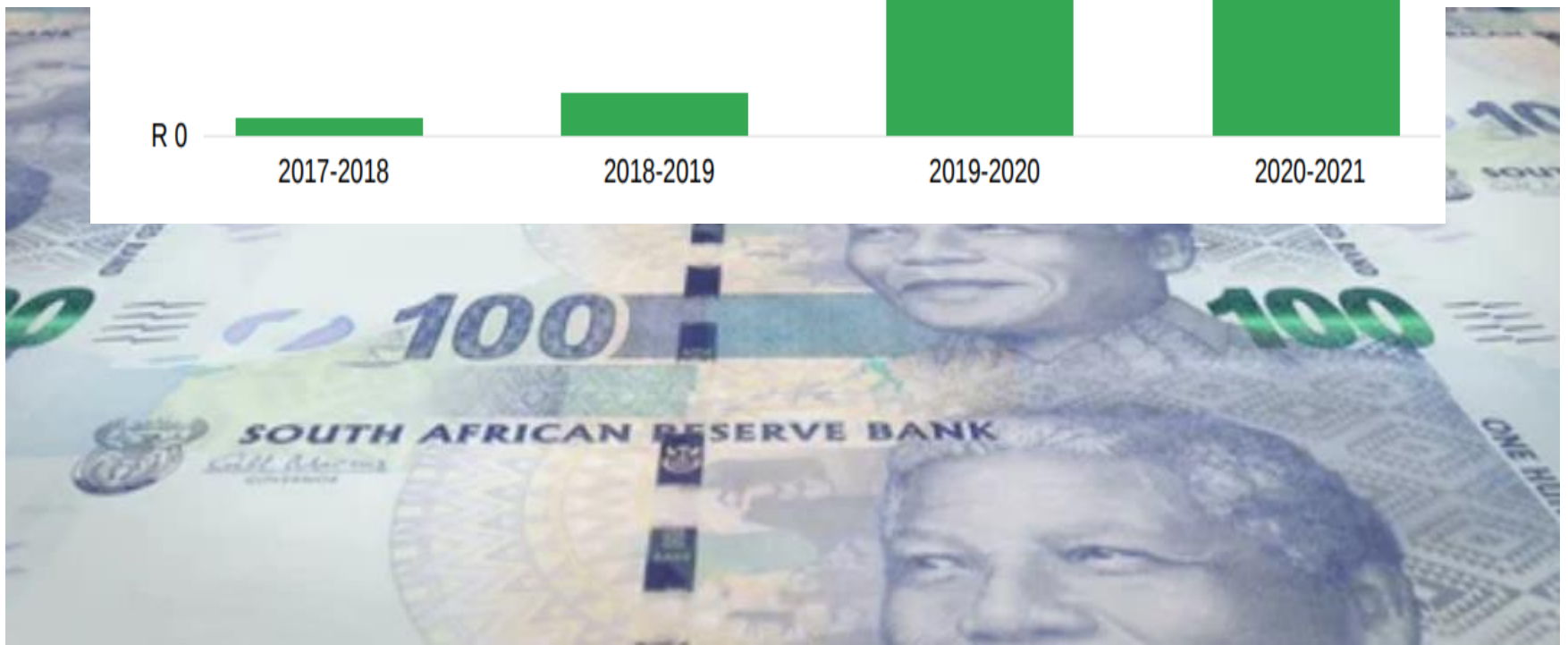
- From time to time, National Treasury collects extensive municipal data which is made available to the public using an online tool called Municipal Money. The data is obtained from SA municipalities who make submissions to National Treasury's Local Government database. These submissions are signed off by the respective Municipal/City Managers and Chief Financial Officer.
- National Treasury verifies the submissions to ensure that the outcomes submitted to the database match the Annual Financial Statements as audited by the Auditor General. Municipal Money then extracts and summarizes pertinent information from the database and presents it in on the portal in a user-friendly manner.
- Through the Municipal Money portal, citizens can have a better understanding of **where** public money is spent and whether it is spent within acceptable norms. By making this information publicly available, government is able to empower its citizens, strengthen civic oversight and promote accountability in municipalities.
- This quarterly brief will focus on the financial performance of the City of Joburg (CoJ) based on the latest available data from Municipal Money for the financial years 2017/18 – 2020/21. Where data is available for 2021/22, the relevant source will be quoted as such.
- According to the CoJ Annual Financial Statements for the year ended 30 June 2022, the City closed the year with a surplus of R1.2 billion compared to the R3.7 billion achieved in 2021. This is largely attributed to the impact of COVID-19 which negatively affected the City’s revenue collection owing to the contraction in the economy and job losses which made it difficult for residents to honor their debts owed to the City, resulting in a growing debtor’s book.

FINANCIAL PERFORMANCE

Cash Balance

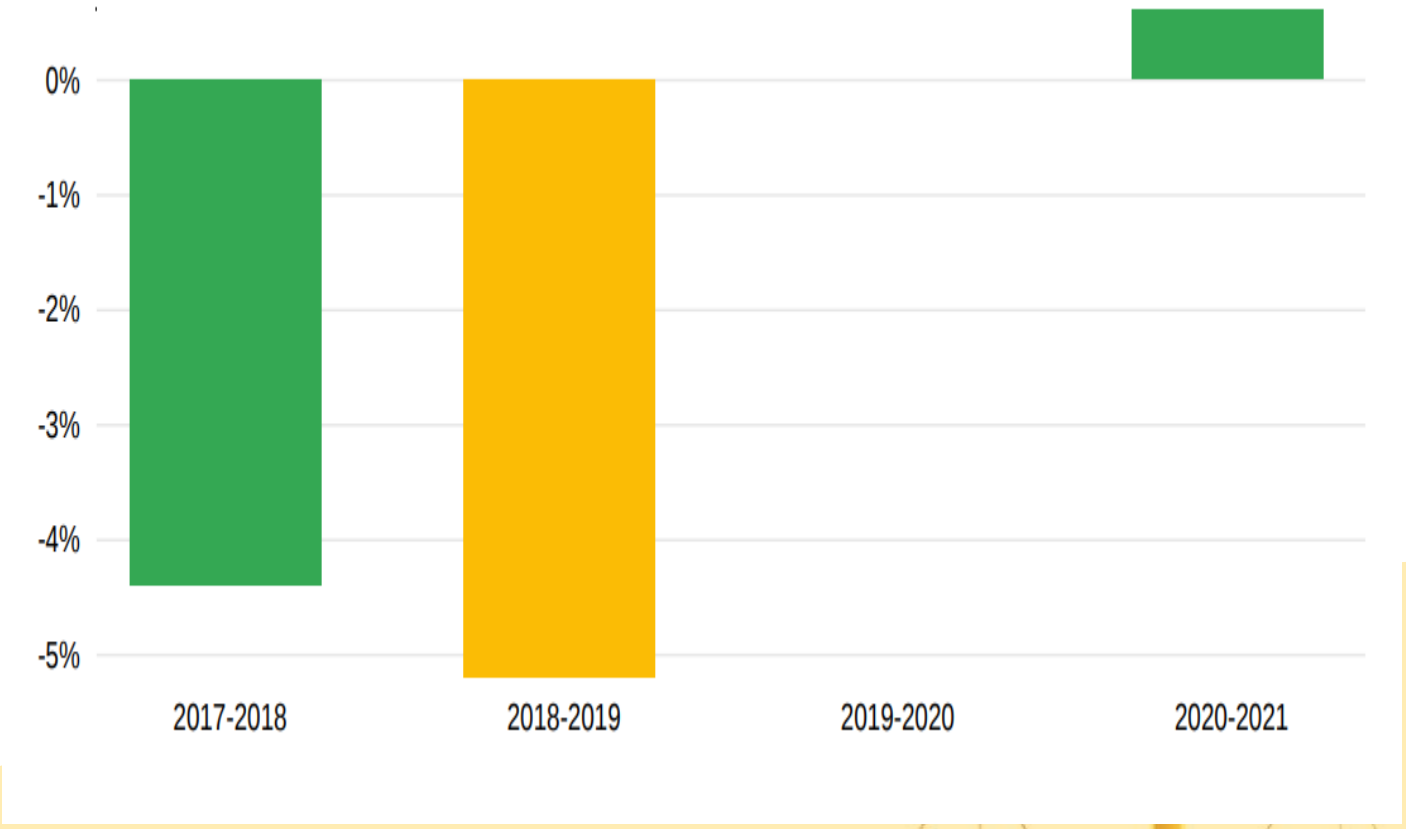
- A cash balance refers to the amount of cash that the municipality has at the bank at a specific point in time and can easily access.
- A positive cash balance indicates that the municipality has sufficient funds readily available to cover its operational expenses such as salaries, det service payments etc.
- The City's cash balance increased exponentially from approximately R2bn in 2017/18 to R75bn in 2020/21.





FINANCIAL PERFROMANCE

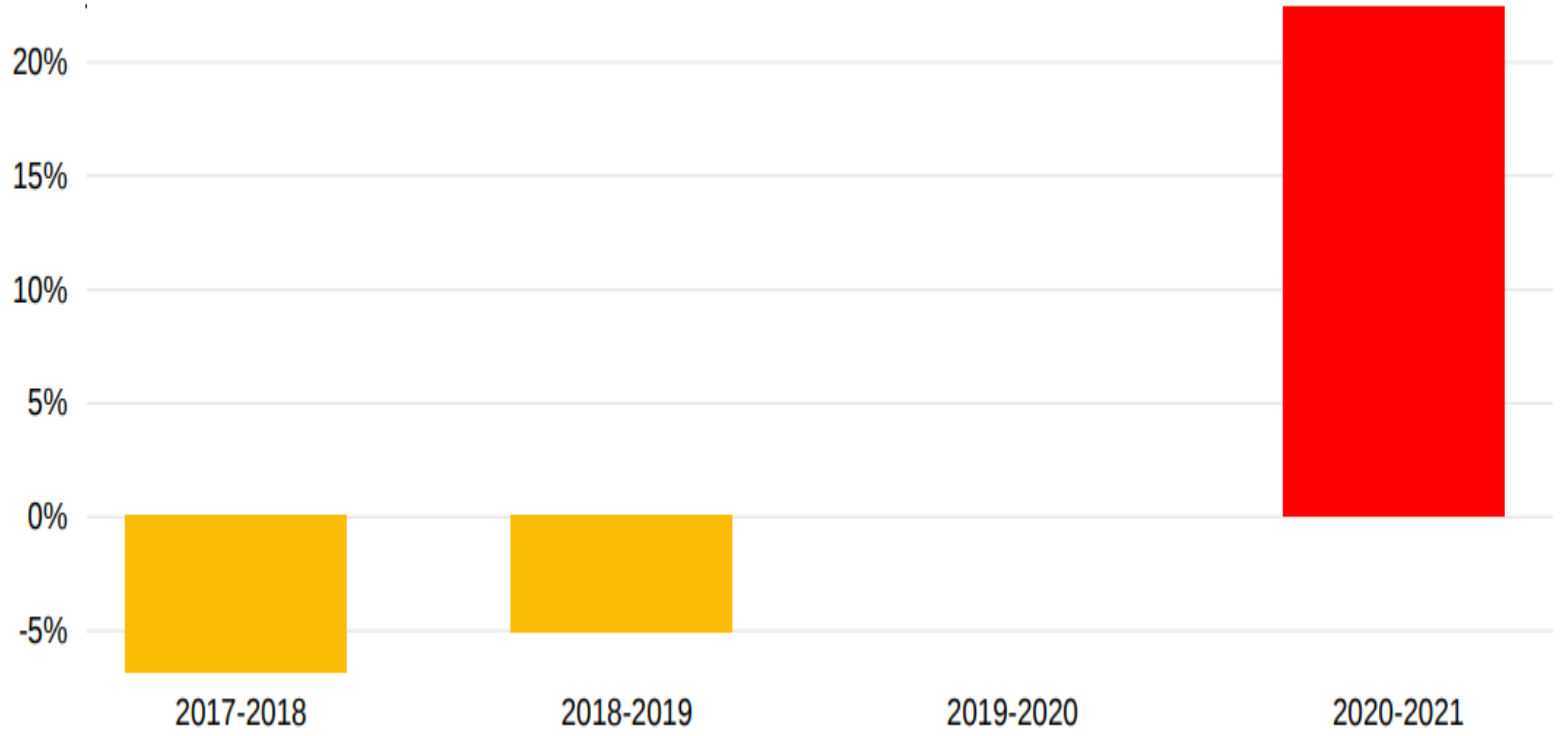
Spending of Operating Budget



- An operating budget is used to cover expenses such salaries, utilities, supplies, maintenance, contractual services, and other routine expenses required to support the municipality's functions.
- The Spending of Operating Budget indicator measures how much more a municipality spent on its operating expenses, than was planned and budgeted for.
- In 2020/21, the City overspent by 0.6% on their operating budget, after two consecutive years of underspending (2017/18 and 2018/19). Data for 2019/20 was not available at the time this brief was prepared.
- Overspending by up to 5% is usually condoned. However, overspending in excess of 15% is a sign of poor operating controls.

FINANCIAL PERFORMANCE

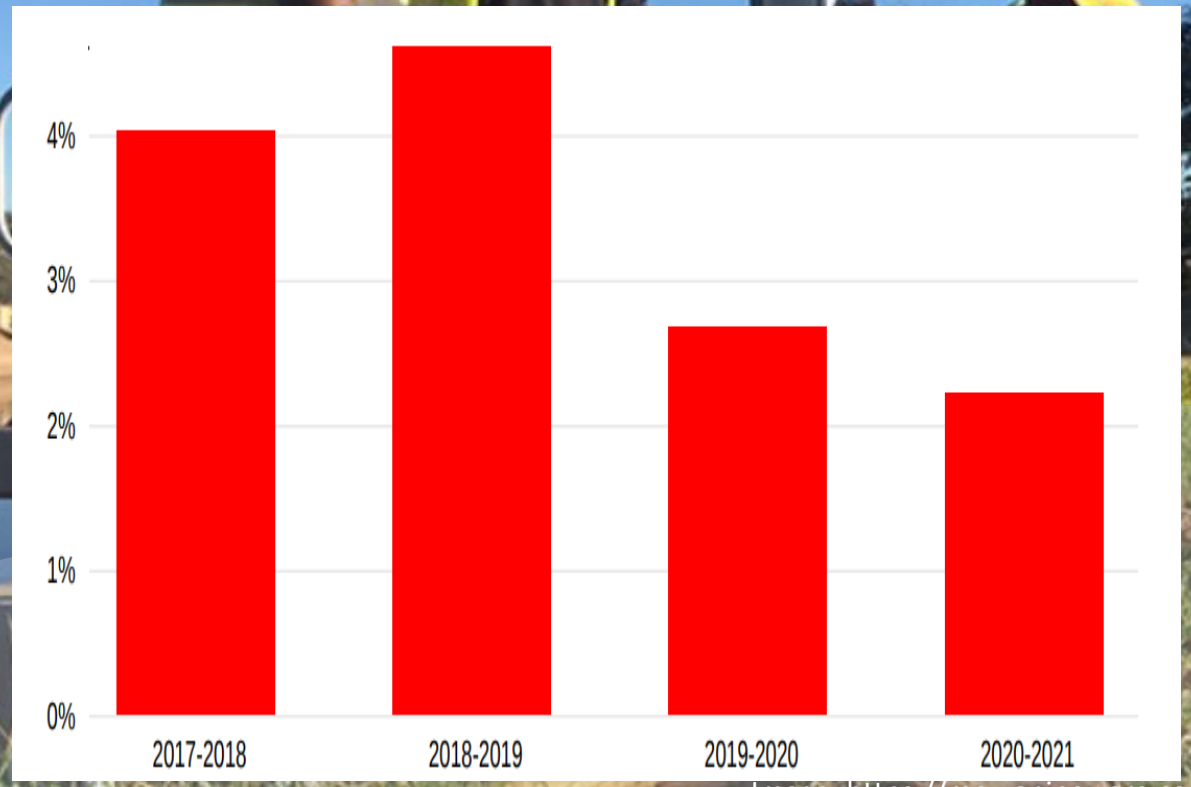
Spending of Capital Budget



- A municipal's capital budget covers expenditure on long-term investments in infrastructure, equipment, and other major assets.
- Underspending on a capital budget can lead to an under-delivery of basic services.
- Spending of capital budget refers to the percentage by which actual spending falls short of the budget for capital expenses.
- The CoJ overspent on their capital budget by 22.4% in 2020/21, following years of under expenditure in 2017/18-2018/19.

FINANCIAL PERFORMANCE

Spending on Repairs and Maintenance



- The City's spending on repairs and maintenance has not been efficient over time.
- It is important that infrastructure is maintained so that service delivery is not negatively affected.
- For every R10 spent on building/replacing infrastructure, R0.80 should be spent every year on repairs and maintenance. In other words, a Repairs and Maintenance budget should be 8% of the value of property, plant and equipment.
- In Joburg spending on repairs and maintenance has been less than 8% since 2017, oscillating between 4% and 2.2% in 2020/21.

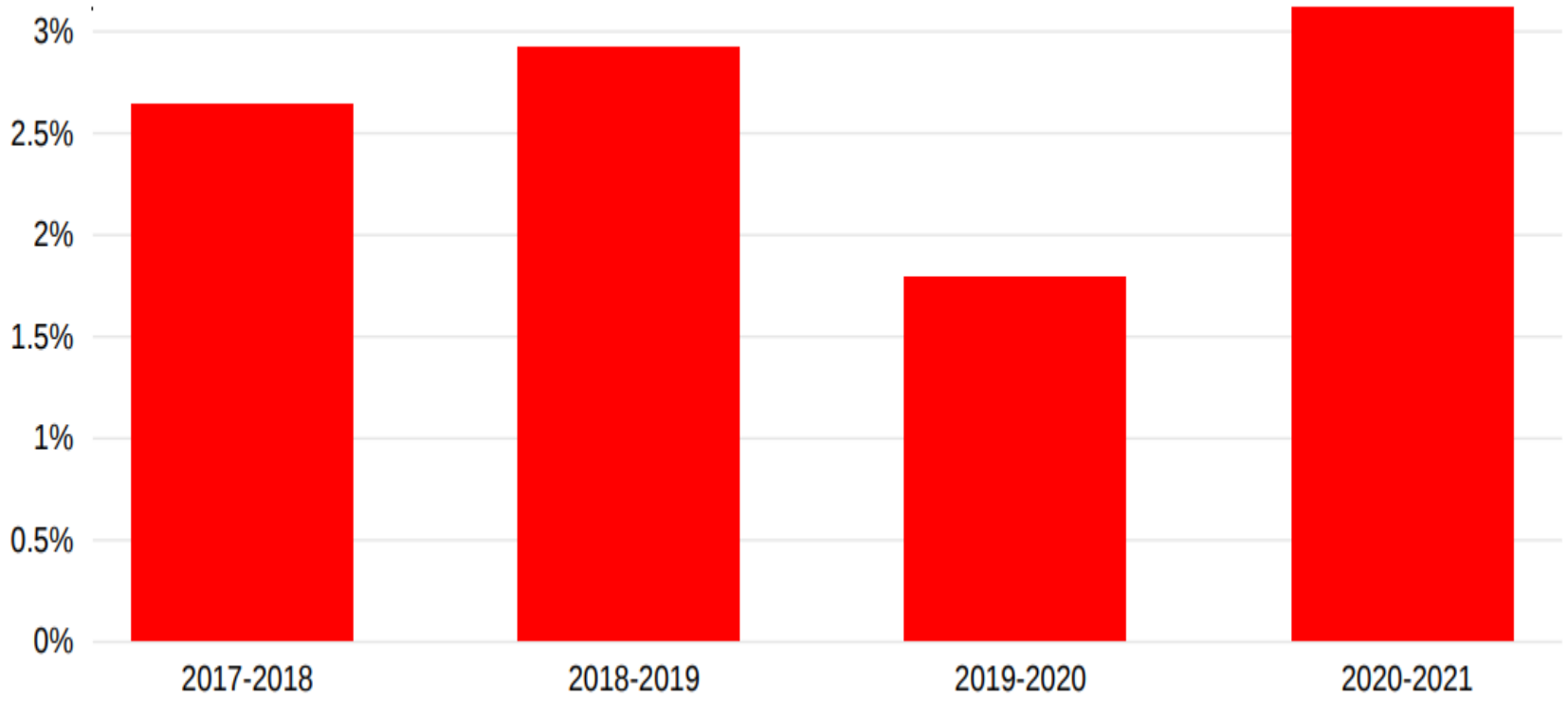
Image: https://mezzanineware.com/the-importance-of-clean-audits-for-municipalities/

Image https://newsroom.gy/

FINANCIAL PERFORMANCE

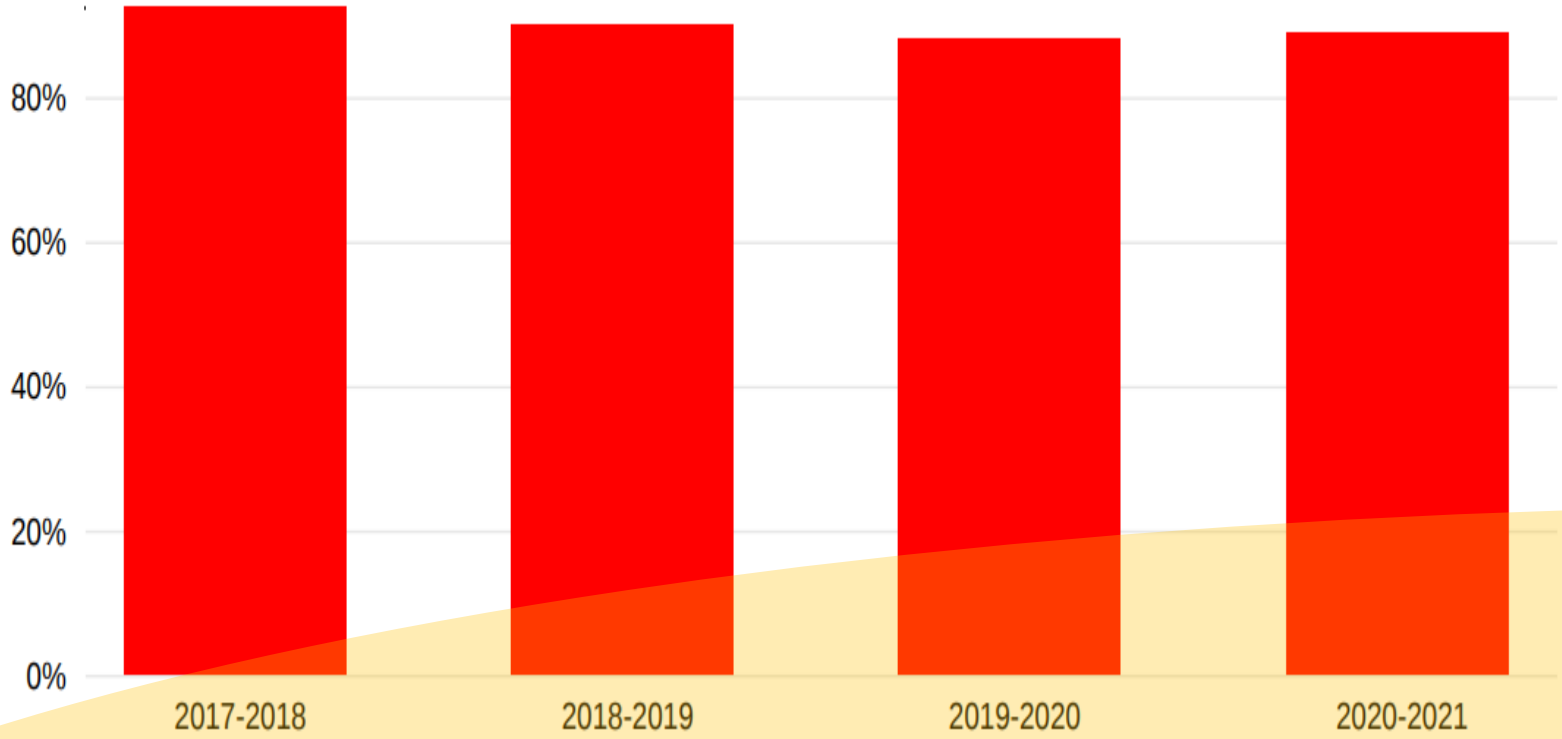
Fruitless and Wasteful Expenditure

- Fruitless and Wasteful expenditure occurs when an expense is incurred in a manner that could have been avoided had reasonable care been taken. For example, a municipality can procure a venue for a function, pay a deposit for the venue and end up not using it, resulting in the forfeiting of the deposit.
- The City has not had a good track record in terms of this indicator. Unauthorized, Irregular, Fruitless and Wasteful Expenditure as a percentage of operating expenditure has been high, ranging between 1.8%, 2.6% and 3.1%.



FINANCIAL PERFORMANCE

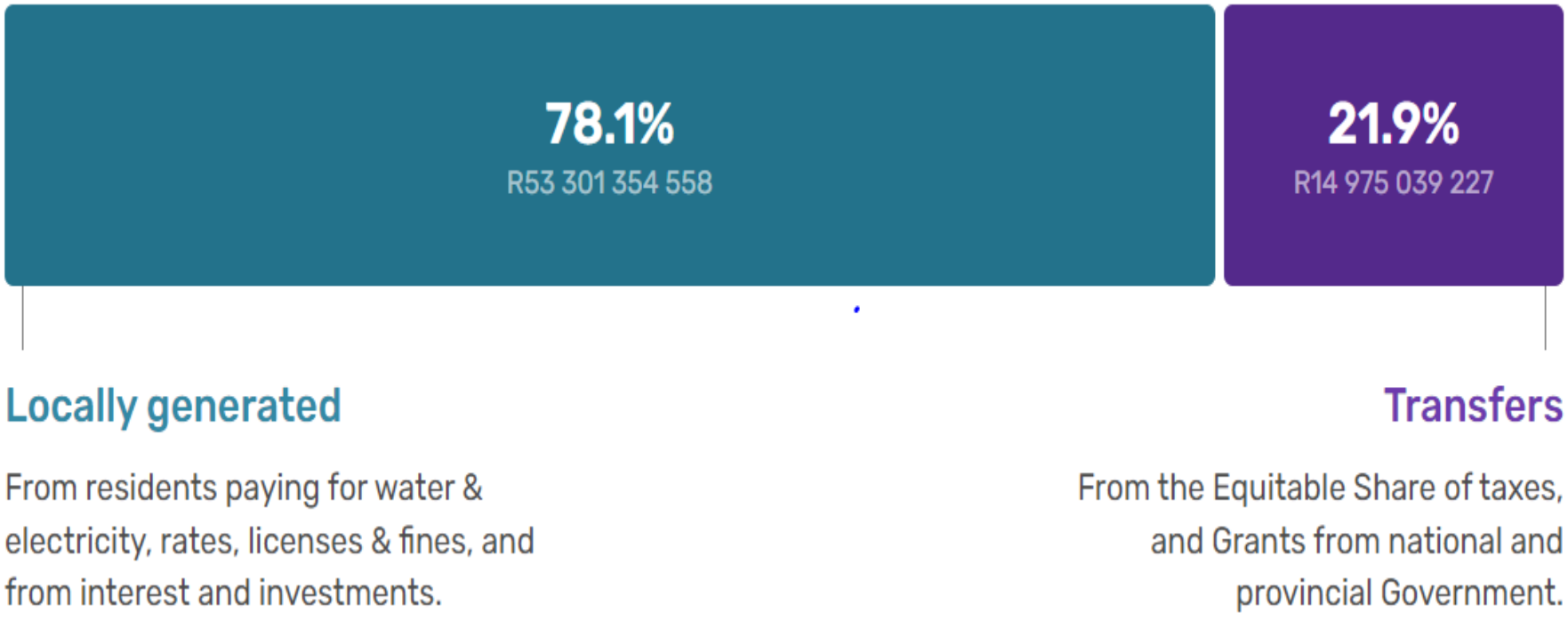
Current Debtors Collection Rate



- A municipality should collect at least 95% of its budgeted revenue, however this is not always the case. Some municipalities, including the City of Joburg do not manage to collect all of the money they earn through rates and service charges.
- The City current debtors collection rate has been below the recommended 95% for the years under review i.e. 92.4% in 2017/18 and 89% in 2020/21.

INCOME

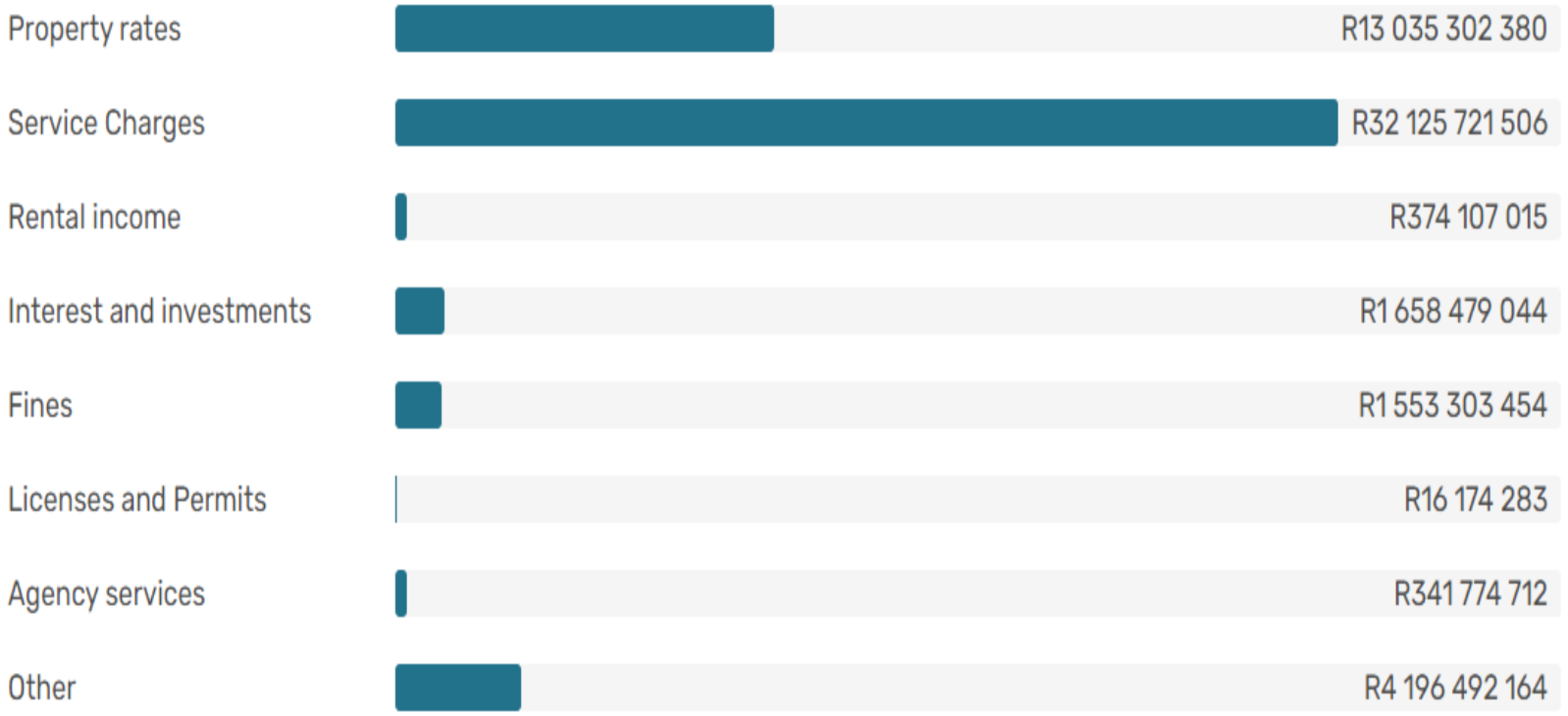
Where does the municipality get money from?



- Only data for 2020/21 was available from Municipal Money for this indicator.
- 78.1% of the CoJ's income comes from its own services that it bills for such as electricity, rates, licenses, fines etc.
- The City only receives 21.9% of transfers from the Equitable share and grants from National and Local government.
- Ideally, municipalities should be able to support themselves financially with minimal reliance from external funding. In other words, municipalities should be in a position to fund the services they provide from the rates paid by the local residents.

INCOME

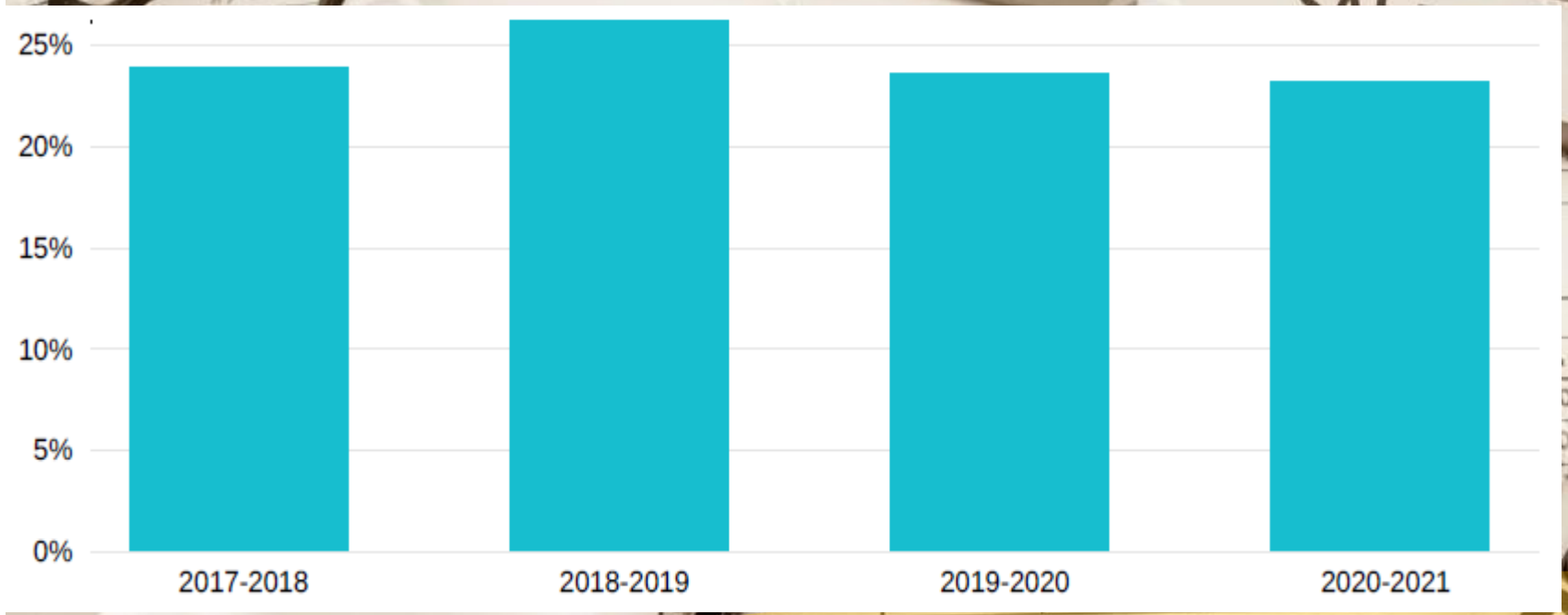
Local Income Sources



- This diagram shows how much income the City of Joburg received from each local source in 2020/21.
- The majority of the City's income comes from service charges (R32bn) and property rates (R13bn).
- Rental income (R374mill) and licenses and permits (R16mill) make up the smallest share of income received from local sources.

EXPENDITURE

Staff Wages and Salaries

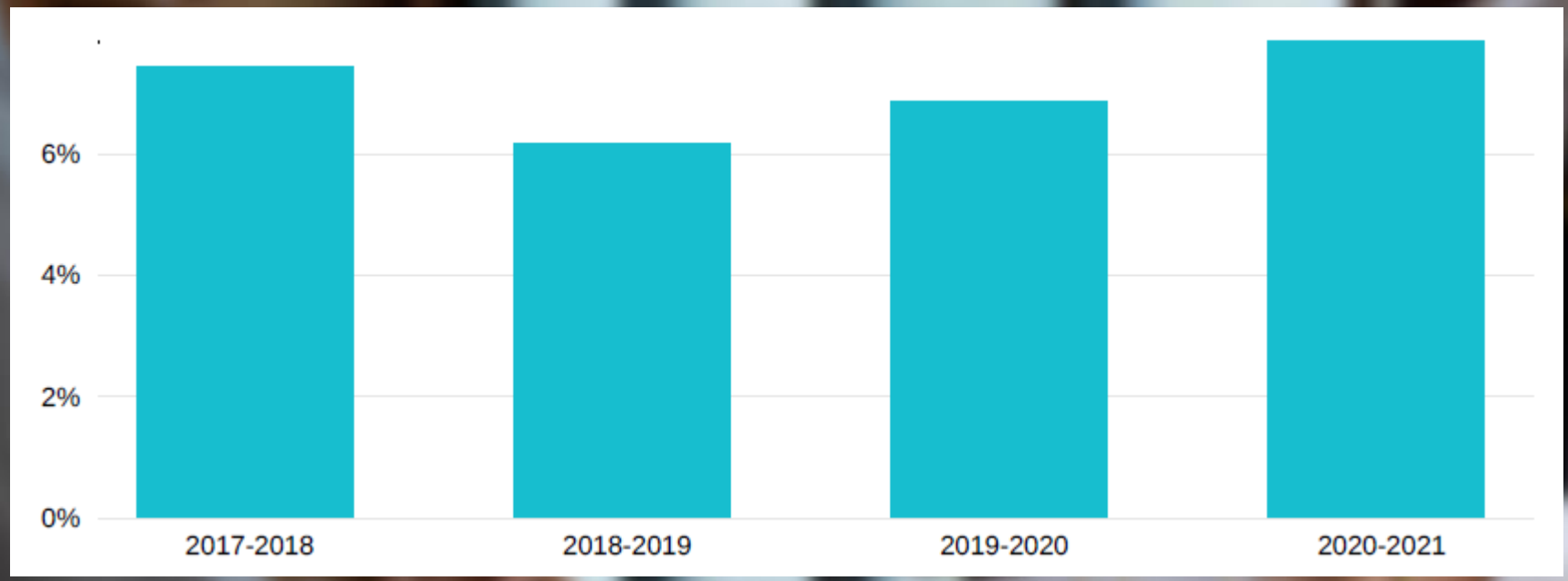


- Typically, staff wages and salaries are the largest component of operating expenditure. However, the rate of increase should not be high enough that it threatens the sustainability of the operating budget.
- According to the Municipal Money portal, the normal range for this indicator is between 25%-40% of total operating expenditure.
- The City of Joburg's expenditure on staff wages and salaries has been in line with the prescribed norms, averaging at around 24.5% over the period 2017/18-2020/21.

Image: https://www.dreamstime.com/

EXPENDITURE

Contractor Services



- Municipalities sometimes procure the services of private contractors or consultants for certain specialized work, but this usually comes at a high cost. Expenditure on contractor services should be kept to a minimum and efforts should be made to provide services internally, where possible.
- The normal measure for this indicator is between 2% and 5% of total operating expenditure.
- The City has been consistently spending above the acceptable threshold for this indicator. In 2017/18, expenditure on contactor services was 7.4% of operating expenditure, 6.2% in 2018/19, 6.9% in 2019/20 and 7.8% in 2020/21.

Image: https://www.freepik.com

SUMMARY

- Municipal Money is an initiative of the National Treasury. The online portal hosts extensive amounts of municipal financial data, submitted by SA municipalities to Treasury's Local Government database. This quarterly brief focused on the financial status of the City of Joburg using selected indicators from the Municipal Money portal. Below are some of the salient points:
  - The City's cash balance experienced significant growth, increasing from approximately R2bn in 2017/18 to R75bn in 2020/21.
  - Operating and capital budgets play a vital role in covering the day-to-day expenses and long-term infrastructure investments of the City, respectively. In the 2020/21 financial year, the City overspent on its capital budget by over 22%, and only 0.6% on its operating budget.
  - The City needs to make drastic improvements on the following indicators: Spending on Repairs and Maintenance, Fruitless and Wasteful Expenditure and its Current Debtors Collection Rate.
  - Approximately 78.1% of the CoJ's income is derived from its own services, such as electricity billing, rates, licenses, fines etc., indicating a significant reliance on revenue generated internally. A majority of the City's income comes from service charges. On the other hand, the City receives only 21.9% of its income from transfers, including the Equitable share and grants from national and local government.
  - The data also shows that the City expenditure on staff wages has been better than the prescribed norms for this line item, averaging at around 24.5% over the period 2017/18-2020/21. Whereas the average spend on contractor services, 7%, is higher the acceptable threshold during the same period. It is important for the City to strike a balance between consultants and personnel costs to enhance service delivery.