

# **LIMPOPO PROVINCIAL TREASURY**

## **Fiscal leakages in Limpopo**

### ***Virtual* NCOP Ministerial Briefing**

**30 August 2022**

# PRESENTATION OUTLINE

- Introduction
- Limpopo fiscal leakages
- Budget
- Municipalities
- Revenue
- Conclusion

# INTRODUCTION

- Provincial allocation or budget is "leaked" out of the main flow, reducing the money available in the rest of the provincial economy. This mostly happens when the allocation to provincial departments do not or only create limited impact to the targeted beneficiaries.
- In practice, fiscal leakages occur in the form when sums of money allocated to provincial departments does not achieve the intended benefits or does not translate to the actual or desired output. Fiscal leakage, in this case, lowers the ability of province to delivering basic services to the communities.
- Fiscal Leakage is one of the common problem in the provincial government as it involves, financial mismanagement, fruitless and wasteful expenditure, irregular expenditure and low revenue collection. This normally lead to the provincial budget not creating sustainable benefits to the provincial citizens, as well as creating limited impact to the provincial economy in terms of economic development and economic growth. The economic value of goods and/or services are lost due to fiscal leakages.
- The number of fiscal leakages in the provincial structures will not allow the economy of the province to grow as desired and the COVID-19 pandemic has exposed and help the province to identify many gaps and inadequacies in the Provincial and Local government fiscal framework relating to expenditure, municipalities' revenue pressures and the connection between consumers paying municipalities and municipalities' ability to pay their creditors.

# LIMPOPO FISCAL LEAKAGES (BUDGET)

- Medico Legal Claims – reduces the allocation meant for service delivery in Department of Health.
- Illegal Immigrants – strains the limited health sector budget meant for local citizens.
- Office Accommodation – government buildings which are unoccupied result in fiscal leakages.
- Unplanned and unfunded activities.
- Lack of Infrastructure maintenance – results to unnecessary major renovations.
- Unethical officials – results in purchase of irrelevant and expensive items.
- High cost to deliver service in rural areas – material or items manufactured in urban and transported to rural provinces.
- Fruitless and wasteful expenditure – contribute to fiscal leakages.
- Incomplete Projects – part of fruitless and wasteful expenditure.
- Social Unrest – results to damage to property which need to be re-constructed at a fee from the fiscus.
- Medicines expiring at the distribution centers and high transport cost for distribution to hospital due to distance.
- High Cost of Compensation of Employees – departments still implementing old organizational structures.
- Natural disasters continue to contribute towards fiscal leakages.

# LIMPOPO FISCAL LEAKAGES (MUNICIPALITIES)

FISCAL LEAKAGE IN MUNICIPALITIES	RECOMMENDATION
<p>Municipalities are battling with Unauthorized, Irregular, Fruitless and Wasteful expenditures. LPT has assisted municipalities to develop UIFWe reduction strategy and monitoring progress on a monthly basis.</p>	<p>Compliance and Consequence management needs to be strengthened up to level of council. IGR structures are critical in enforcement of consequence management.</p>
<p>There is still reliance on consultants and this is for the work that is supposed to be done by municipal officials, e.g. preparation of Annual Financial Statements. Municipalities have been supported to develop and implement consultants fees reduction strategies.</p>	<p>There should be key areas where municipalities are forbidden to use consultants e.g. VAT recons and AFS preparation.</p>
<p>Unfunded budgets cause financial leakages as funds are directed to non core functions due to unrealistic budgeting which is a concerned to the province since this is an indication of financial distress.</p>	<p>A municipality with unfunded budgets is required to develop Budget Funding Plans and Financial Recovery Plans to rectify their budget positions. IGR structures assist with enforcement.</p>
<p>Non-compliance to legislation and regulations e.g. investments in VBS, improper appointments and non implementation of SCM policies results in huge losses of municipal funds.</p>	<p>Municipalities are required to effect consequence management to ensure that these leakages are corrected.</p>

# LIMPOPO FISCAL LEAKAGES (MUNICIPALITIES)

FISCAL LEAKAGE IN MUNICIPALITIES	RECOMMENDATION
The infights within the administration between officials and politicians result in poor spending and these allocations are returned to National Treasury.	LPT escalates cases of infights to Intergovernmental structures.
Municipalities lose lots of money to undeserving indigent customers mainly because they are not linked to Home Affairs to verify existence and SARS system for confirmation.	Access by municipalities to this information will assist with allocation of free services to deserving population
Poor spending, particularly on conditional grants compels municipalities to apply for rollover which result in increased expenditure for same projects.	Improve on planning for infrastructure projects
Illegal connections to the service delivery infrastructure cause financial strain in the system.	Disconnection of illegal connections

# LIMPOPO FISCAL LEAKAGES (REVENUE)

- Illegal Mining – contributed negatively to the revenue loss in a form of tax, job creation and incorrect calculation of sector contribution to GDP.
- Illegal Gambling – reduce collection of revenue by the Limpopo Gambling Board.
- Illegal Liquor Outlets – reduce collection of revenue by the Limpopo Liquor Authority and under collection of tax by SARS.
- Non collection of revenue at weighbridges after hours and during weekends.
- Payment of parking bays not fully implemented in the Districts.
- Unoccupied government properties and costs incurred to guard those properties and municipal rates paid by government.
- Illegal occupation of government owned houses and not paying rent for state facilities.
- Delays in completion of revenue enhancement projects.
- Unlicensed motor vehicles.

# LIMPOPO FISCAL LEAKAGES (REVENUE)

- Lack of revenue information management systems contribute to inefficiencies in the collection of revenue e.g National Traffic contravention management system(NTCMS)
- Lack of maintenance of rented properties which prohibits Departments to charge market related prices.
- Lack of permanent case managers contribute to incomplete billing of services and loss of revenue
- New payment requirements introduced by RAF negatively affects collection of patient fee due to the Department of Health
- Reduced number of tourists in resorts due to poor infrastructure or unmaintained facilities.

# CONCLUSIONS

- There is a lot of misalignment in terms of provincial planning amongst the different sphere of government and lack of intergovernmental coordination due to poor consultation with stakeholders.
- Public resources are not allocated according to the rules underlying government's allocation and the government's budget decisions, with obvious equity expenditures and efficiency implications.
- Non availability of factories in the province has a huge impact on to fiscal leakages as the province relies heavily on imports.
- The Province is continuing on the fiscal consolidation path through curbing and reducing COE.
- The provincial budget continues to stimulate economic recovery, through strengthening confidence in the Limpopo's economy and attracting private sector investments.
- The province will continue to improve the efficiency of expenditures.
- The province will play a pivotal role in strengthening revenue mobilization and collection through various strategies that are implemented in the provincial departments.
- The province will continue with its fight against wastage, corruption, and inefficiency in spending by the provincial departments and strengthen consequence management.
- The province will need to gear up in terms of planning and implementation of strategies to curb fiscal leakages so that the intended benefits to the communities are achieved.



LIMPOPO

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# THANK YOU!