



treasury
Department of
Treasury
FREE STATE PROVINCE



FREE STATE PROVINCE

CONSOLIDATED MUNICIPAL BUDGET
PERFORMANCE REPORT
FOR THE PERIOD ENDING
31 JULY 2023

1. EXECUTIVE SUMMARY

This report covers the performance against the adjusted budgets the Free State Municipalities for the municipal period ending on 31 July 2023 and includes spending against conditional grant allocations for the same period.

The report was prepared by using the datasets from the Municipal Standard Chart of Accounts (*m*SCOA) data strings. The *m*SCOA Regulations were promulgated on 22 April 2014 and prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 1 July 2017. The *m*SCOA Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six *m*SCOA regulated segments.

Moreover, this report is part of the In-year Management, Monitoring and Reporting System for Local Government (IYM), which enables provincial and national government to exercise oversight over municipalities, and identify possible problems in implementing municipal budgets and conditional grants.

The credibility of the information contained in the *m*SCOA data strings is still a concern, but is improving as the reform matures. The core of the problem on the data is:

- The incorrect use of the *m*SCOA and municipal accounting practices by municipalities;
- A large number of municipalities are not budgeting, transacting and reporting directly in or from their core financial systems. Instead they prepare their budgets and reports on excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data lead to unauthorised, irregular, fruitful and wasteful (UIFW) expenditure and fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions go through that should not;
- Municipalities are not locking their adopted budgets or their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2023/24, the Local Government Portal will be locked on the 10th working day after the end of each month. System vendors were also requested to build this functionality into their municipal financial systems; and
- Some municipalities are not consistently submitting all the required monthly data strings and also make submissions with errors but not correcting them.

The reporting facilitates transparency, better in-year management as well as the oversight of budgets. This makes these reports management tools and early warning mechanisms for councils, provincial legislatures and officials in order to monitor and improve municipal performance.

The improvement of the credibility of the data strings is therefore a priority for National and provincial treasuries where continued technical support is provided to all municipalities.

2. INTRODUCTION / PURPOSE OF THE REPORT

The consolidated report provides a review of the implementation of the 2022/2023 Medium Term Revenue & Expenditure Framework (MTREF) of the 23 municipalities in Free State as at 31 July 2023 as required per Section 71(6) of the Municipal Finance Management Act (MFMA).

The Section 71 report facilitates transparency, better in-year management as well as the oversight of budgets. These reports must be used as management tools and early warning mechanisms for councils, provincial legislatures and officials in order to monitor and improve municipal performance. The report also supports the improvement of the credibility of the datasets and data strings submitted by municipalities which must be used by Municipal Accounting Officers to correct these aberrations.

3. LEGISLATIVE FRAMEWORK

This report is compiled in terms of the MFMA, section 71(6) which requires the provincial treasury must by not later than 22 working days after the end of each month submit to the National Treasury a consolidated statement in the prescribed format on the state of the municipalities' budgets, per municipality and per municipal entity.

Furthermore, Provincial Treasury also publishes the quarterly report as per, Section 71(7) of the MFMA, 2003 which requires that provincial treasury must, within 30 days after the end of each quarter, make public as may be prescribed, a consolidated statement in the prescribed format on the state of municipalities' budgets per municipality and per municipal entity. The MEC for Finance must submit such consolidated statement to the provincial legislature no later than 45 days after the end of each quarter.

4. COMPLIANCE

4.1 mSCOA Governance

4.1.1 Municipalities that failed to submit the required financial and non-financial data strings for the month under review:

Cat Code	Demarc Code	Demarcation Description		Due Date		Status of Schedule
Financial Data						
B	FS162	Kopanong	In-Year Monthly 01	2023-08-15		Outstanding
B	FS163	Mohokare	In-Year Monthly 01	2023-08-15		Outstanding
C	DC16	Xhariep	In-Year Monthly 01	2023-08-15		Outstanding
B	FS185	Nala	In-Year Monthly 01	2023-08-15		Submitted/with Errors
B	FS195	Phumelela	In-Year Monthly 01	2023-08-15		Outstanding
B	FS201	Moqhaka	In-Year Monthly 01	2023-08-15		Outstanding
B	FS205	Mafube	In-Year Monthly 01	2023-08-15		Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date		Status of Schedule
Non Financial Data						
B	FS162	Kopanong	Debtors Monthly-M01	2023-08-15		Submitted/with Errors
C	DC16	Xhariep	Creditors Monthly-M01	2023-08-15		Outstanding
C	DC16	Xhariep	Debtors Monthly-M01	2023-08-15		Outstanding
B	FS195	Phumelela	Creditors Monthly-M01	2023-08-15		Outstanding
B	FS195	Phumelela	Debtors Monthly-M01	2023-08-15		Outstanding
B	FS201	Moqhaka	Creditors Monthly-M01	2023-08-15		Outstanding
B	FS201	Moqhaka	Debtors Monthly-M01	2023-08-15		Outstanding

4.1.2 Table 1 below show the summary of the segment validation of financial and non-financial data strings. The 2nd phase errors (yellow) on the data strings should be corrected in the first open month on the financial system. Closed periods may not be opened to correct errors. 1st Phase errors (orange) was rejected and is still outstanding.

Table 1: Summary of the segment validation of financial and non-financial data strings

				2024			
				ORGB	PROR	M01	MCUM
Cat Code	Demarc Code	Demarcation Description	CAP				
A	MAN	Mangaung	H				
B	FS161	Letsemeng	M				
B	FS162	Kopanong	M				
B	FS163	Mohokare	L				
C	DC16	Xhariep	L				
B	FS181	Masilonyana	L				
B	FS182	Tokologo	L				
B	FS183	Tswelopele	M				
B	FS184	Matjhabeng	H				
B	FS185	Nala	M				
C	DC18	Lejweleputswa	L				
B	FS191	Setsoto	M				
B	FS192	Dihlabeng	M				
B	FS193	Nketoana	M				
B	FS194	Maluti-a-Phofung	H				
B	FS195	Phumelela	L				
B	FS196	Mantsopa	M				
C	DC19	Thabo Mofutsanyana	L				
B	FS201	Moqhaka	H				
B	FS203	Ngwathe	M				
B	FS204	Metsimaholo	H				
B	FS205	Mafube	M				
C	DC20	Fezile Dabi	L				

5. OVERVIEW OF PERFORMANCE

This section provides a consolidated view on the budget performance of 23 municipalities for the month under review. Grants, cash and cash coverage as well as debtors and creditors are discussed in this section.

5.1 Operating revenue

5.1.1 The total generated revenue (billed) amounts to R2.922 billion or 11.6 per cent against the adopted budget of R25.163 billion. The total generated revenue is above the straight line projection of 8.3 per cent mainly due to the equitable share tranche paid during the month under review. 34.8 Per cent (R1.017 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc); whilst 65 per cent (R1.900 billion) was generated from non-exchange revenue (i.e property taxes, fines and transfers & subsidies). *The revenue relates to the ability of the municipality to raise (generate) revenue, and does not take the actual collection into consideration.*

5.1.2 The majority of exchange revenue generated (billed) relates to electricity service charges at 50 per cent, followed by water service charges at 21 per cent. Non-exchange revenue consists primarily of transfers and subsidies (84%) and property rates (15%).

5.1.3 An aggregate operational surplus of R1.604 billion was reported for the period under review (year-to-date) excluding capital transfers.

5.2 Operating expenditure

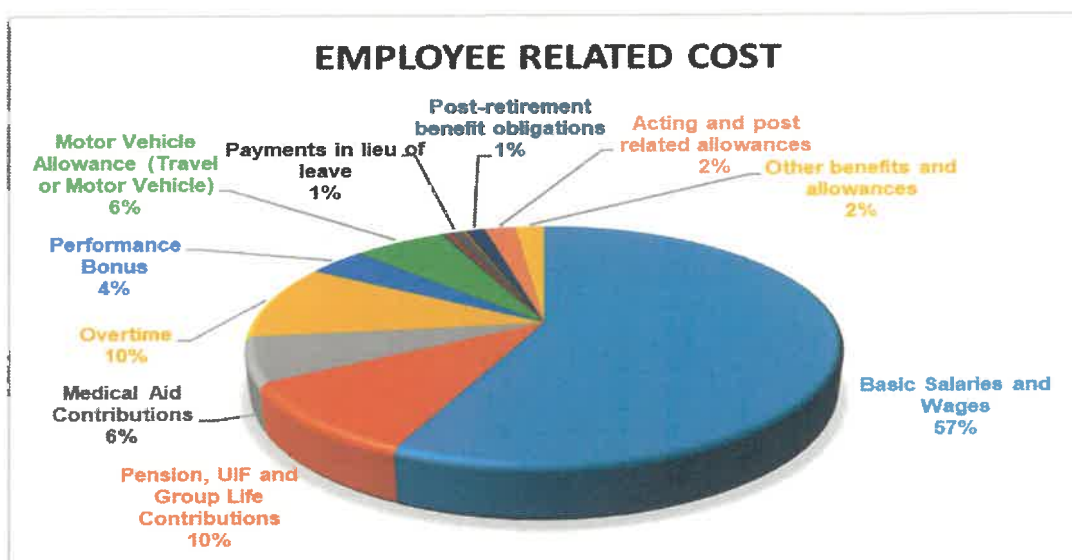
5.2.1 The total operating expenditure reported amounted to R1.317 billion or 5.2 per cent against the adopted budget which is below the straight line projection of 8.3 per cent. Incorrect or non-reporting of expenditure also contributes to the poor performance reported.

5.2.2 The highest spending item reported at the end of July 2023 is electricity bulk purchases amounting to R507.3 million followed by employee related cost amounting to R478.3 million.

5.2.3 The performance of employee related cost against the adopted budget is 6.3 per cent (R478.3 million). The majority of the expenditure reported (99.1 per cent) relates to salaries and wages for municipal staff as indicated in the table below:

Employee Related Cost (ERC)	Original Budget R'000	Actual Year To Date R'000	% Spent on Original Budget	% of Total ERC
Senior Management	226 582	4 284	1.9%	0.9%
Municipal Staff	7 361 871	474 043	6.4%	99.1%
Board Members	827	-	0.0%	0.0%
Total	7 589 280	478 327	6.3%	100.0%

5.2.4 57 per cent (R272.6 million) of the total employee related cost expenditure relates to basic salaries and wages, whilst pension contributions and overtime each contributed 10 per cent to the total expenditure. Expenditure on acting and post related allowances amounted to R9.6 million.



5.2.5 The tables below indicate the total employee related cost and council remuneration per capacity of municipality. 66 per cent of the total employee related cost budget is allocated to high capacity municipalities (incl. Mangaung, Matjhabeng, Maluti a Phofung, Moqhaka and Metsimaholo).

Employee Related Cost - High Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD July 2023	%	Original Budget	YTD July 2023	%
Mangaung	2 447 868 378	198 481 037	8.1%	76 003 457	5 587 370	7.4%
Matjhabeng	952 980 245	80 986 877	8.5%	39 362 111	785 151	2.0%
Maluti-a-Phofung	743 436 701	57 745 248	7.8%	33 085 344	2 426 569	7.3%
Moqhaka	396 116 531		0.0%	25 032 003		0.0%
Metsimaholo	450 539 320	29 845 561	6.6%	21 704 660	1 662 264	7.7%
Total	4 990 941 175	367 058 723	7.4%	195 187 575	10 461 354	5.4%

Employee Related Cost - Medium Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD July 2023	%	Original Budget	YTD July 2023	%
Letsemeng	79 080 565		0.0%	5 446 461		0.0%
Kopanong	153 701 303		0.0%	6 995 823		0.0%
Tswelopele	88 638 862		0.0%	6 225 647		0.0%
Nala	181 572 622		0.0%	10 085 886		0.0%
Setsoto	235 002 972	18 955 834	8.1%	14 641 092	1 142 028	7.8%
Dihlabeng	374 545 474	28 272 341	7.5%	20 720 000	1 667 784	8.0%
Nketoana	160 533 769	-43 703	0.0%	6 841 058		0.0%
Mantsopa	114 544 998	9 632 092	8.4%	7 731 598	652 691	8.4%
Ngwathe	280 898 461	22 959 078	8.2%	18 056 468	1 358 002	7.5%
Mafube	117 872 735		0.0%	6 625 780		0.0%
Total	1 786 391 761	79 775 642	4.5%	103 369 813	4 820 505	4.7%

Employee Related Cost - Low Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD July 2023	%	Original Budget	YTD July 2023	%
Mohokare	88 588 089		0.0%	5 326 732		0.0%
Xhariep	48 164 666		0.0%	4 808 333		0.0%
Masilonyana	142 588 578		0.0%	8 007 155		0.0%
Tokologo	67 777 068	4 570 137	6.7%	5 344 556	396 046	7.4%
Lejweleputswa	120 433 896	8 504 420	7.1%	11 219 884	790 708	7.0%
Phumelela	109 292 434		0.0%	7 096 352		0.0%
Thabo Mofutsanyana	102 318 012	7 736 920	7.6%	9 196 512	718 655	7.8%
Fezile Dabi	132 784 500	10 681 288	8.0%	8 252 000	618 692	7.5%
Total	811 947 243	31 492 765	3.9%	59 251 524	2 524 101	4.3%

5.2.6 Two municipalities, namely Masilonyana and Tswelopele municipalities did not report any employee related cost and council remuneration due to the non-integration of the payroll system with the main financial system.

5.2.7 It was noted in the analysis that the total equitable share allocation to municipalities amount to R5.576 billion in the 2023/24 financial year, however, the majority of municipalities' wage bill is higher than the equitable share allocated to these municipalities. It is therefore crucial that municipalities implement effective revenue enhancement and debt collection strategies in order to pay their creditors and salaries.

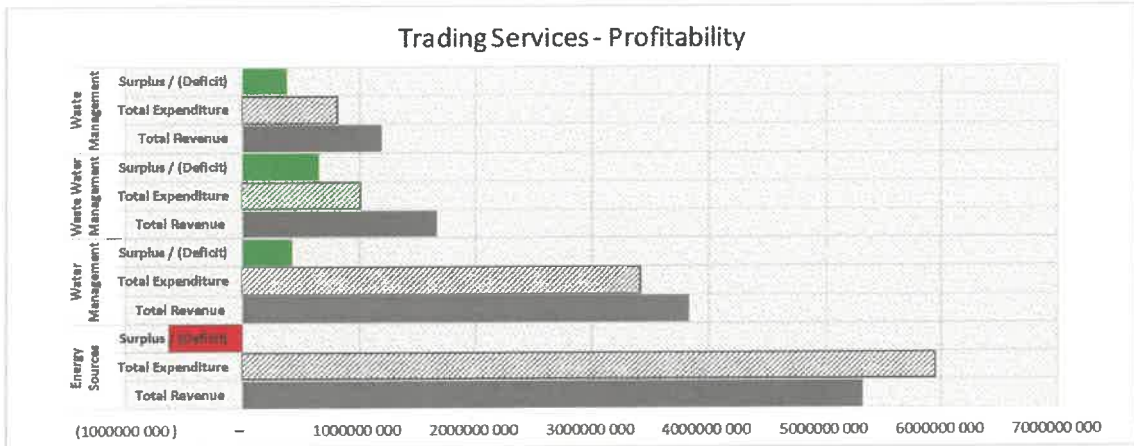
The table below provide the detail of the total compensation budget against the equitable share allocation for the 2023/24 financial year.

R thousands	Employee Related Cost Budget	Council Remuneration Budget	Total ERC & Council Remuneration Budget	2023/24 Equitable Share Allocation	Total Compensation Budget vs ES Allocation
Mangaung Metro	2 447 868	76 003	2 523 872	1 037 664	243.2%
Letsemeng	79 081	5 446	84 527	84 906	99.6%
Kopanong	153 701	6 996	160 697	110 594	145.3%
Mohokare	88 588	5 327	93 915	93 733	100.2%
Xhariep District	48 165	4 808	52 973	50 851	104.2%
DC 16 Total	369 535	22 577	392 112	340 084	115.3%
Masilonyana	142 589	8 007	150 596	158 510	95.0%
Tokologo	67 777	5 345	73 122	75 080	97.4%
Tswelopele	88 639	6 226	94 865	97 242	97.6%
Matjhabeng	952 980	39 362	992 342	685 410	144.8%
Nala	181 573	10 086	191 659	153 857	124.6%
Lejweleputswa District	120 434	11 220	131 654	149 132	88.3%
DC 18 Total	1 553 991	80 245	1 634 237	1 319 231	123.9%
Setsoho	235 003	14 641	249 644	251 487	99.3%
Dihlabeng	374 545	20 720	395 265	230 471	171.5%
Nketoana	160 534	6 841	167 375	130 625	128.1%
Maluti a Phofung	743 437	33 085	776 522	801 631	96.9%
Phumelela	109 292	7 096	116 389	99 870	116.5%
Mantsopa	114 545	7 732	122 277	110 130	111.0%
Thabo Mofutsanyana District	102 318	9 197	111 515	135 615	82.2%
DC 19 Total	1 839 674	99 312	1 938 986	1 759 829	110.2%
Moghaka	396 117	25 032	421 149	279 982	150.4%
Ngwathe	280 898	18 056	298 955	261 348	114.4%
Metsimaholo	450 539	21 705	472 244	276 178	171.0%
Mafube	117 873	6 626	124 499	128 231	97.1%
Fezile Dabi	132 785	8 252	141 037	173 824	81.1%
DC 20 Total	1 378 212	79 671	1 457 882	1 119 563	130.2%
Total	7 589 280	357 809	7 947 089	5 576 371	142.5%

Source: NT Local Government Database

5.3 Trading Services Profitability

5.3.1 When analyzing the profitability of the trading services, it is notable that three trading services (water, waste water and waste management) reported aggregated trading surpluses in the Province as at 31 July 2023. Whilst **energy sources** recorded an operating **deficit of R89.3 million**.



5.3.2 Deficits recorded by municipalities on energy and water trading services is an indication that the tariffs are not cost reflective. Municipalities are not linking all relevant operational revenue and expenditure to the correct trading services function, including the allocation of the equitable share to each trading service to provide for the free basic services, which impacts on the surplus or deficits reported. **The trading surplus or deficit indicated in the table below does not take the collection rates into account.**

R thousands	Energy Trading Service Surplus / (Deficit)	Water Trading Service Surplus / (Deficit)	Waste Water Trading Service Surplus / (Deficit)	Waste Trading Service Surplus / (Deficit)
Mangaung Metro	(127 419)	161 024	87 807	100 630
Letsemeng	(3 597)	–	(342)	–
Kopanong	–	–	–	–
Mohokare	–	–	–	–
Masilonyana	262	4 142	2 418	1 286
Tokologo	(1 564)	(1 194)	2 583	2 004
Tswelopele	4 501	(1 202)	34	335
Matjhabeng	69 206	52 545	21 965	10 941
Nala	–	–	–	–
Setsotho	(3 387)	90	(474)	1 737
Dihlabeng	36 908	27 917	26 926	27 696
Nketoana	8 827	6 475	2 415	2 886

R thousands	Energy Trading Service Surplus / (Deficit)	Water Trading Service Surplus / (Deficit)	Waste Water Trading Service Surplus / (Deficit)	Waste Trading Service Surplus / (Deficit)
Maluti a Phofung	(108 623)	1 822	(360)	(3 172)
Phumelela	–	–	–	–
Mantsopa	(918)	(662)	(3 349)	(32)
Moqhaka	–	–	–	–
Ngwathe	13 450	5 436	4 961	3 569
Metsimaholo	23 102	34 717	3 609	1 220
Mafube	–	–	–	–

5.4 Capital Expenditure and Sources of Finance

5.4.1 The aggregate capital expenditure amounts to R53.8 million or 1.6 per cent against the adopted budget of R3.325 billion which is significantly below the straight line projection of 8.3 per cent. The late appointment of contractors contribute to the low spending reported and it is expected that the spending will accelerate as the year progresses.

5.4.2 73 Per cent of the capital expenditure relates to trading services projects amounting to R38.9 million and consist of R3 million for energy services, R21.2 million for water management, R14.8 million for waste water management. No expenditure was reported for waste management, despite the challenges faced in municipalities regarding landfill sites.

5.4.3 Although incorrect or non-recording of transactions on the financial systems contributes to the low performance reported, municipalities also have challenges in implementation of the capital projects. These challenges include:

- The financial sustainability of municipalities in the Province is regressing and therefore projects to be funded with own funding do not realize.
- Conditional Grants are not ring-fenced and therefore once it is paid into the bank account of a municipality, it is easily used for operational expenditure.
- Conditional Grants are spend on operational expenditure for example salaries, SARS, Eskom, etc.
- Late appointment of contractors due to delays in the procurement processes.
- The technical ability of municipalities to manage grants is not sufficient (e.g municipal staff appointed are not engineers with the technical skills to manage the implementation of a project).

5.4.4 Conditional grant performance

5.4.4.1 In terms of the Division of Revenue Act, 2022 (as amended) a total of R2.823 billion was allocated to municipalities in the Province in terms of direct infrastructure grants, capacity

building and other current transfers. The performance at the end of July 2023 show a total spending of R27.9 million against the allocation (1 per cent).

5.4.4.2 The heart of the problem remains that municipalities are still not recording the receipting and spending on conditional grants correctly which impacts negatively on the information presented. Conditional grants must be recorded to be consistent with the reporting on the annual financial statements where only 'conditions met' are recognized as grants expenditure (GRAP 23). mSCOA Circular nr. 13 was issued to provide guidance to the municipalities in this regard.

5.4.4.3 The negative spending reflected in the table below indicate incorrect reporting by municipalities. The table below indicate the conditional grant performance per municipality:

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end June		Projected Over/Under Spending on Allocation	
	R'000	R'000	%	R'000	%
Mangaung	1 118 380	1 230	0.1%	1 117 150	99.9%
Letsemeng	59 493	–	0.0%	59 493	100.0%
Kopanong	58 434	–	0.0%	58 434	100.0%
Mohokare	52 603	–	0.0%	52 603	100.0%
Xhariep	28 918	–	0.0%	28 918	100.0%
Masilonyana	48 887	–	0.0%	48 887	100.0%
Tokologo	45 606	32 091	70.4%	13 515	29.6%
Tswelopele	37 918	(5 616)	-14.8%	43 534	114.8%
Matjhabeng	199 675	–	0.0%	199 675	100.0%
Nala	55 150	–	0.0%	55 150	100.0%
Lejweleputswa	4 629	57	1.2%	4 572	98.8%
Setsoto	224 148	–	0.0%	224 148	100.0%
Dihlabeng	73 239	–	0.0%	73 239	100.0%
Nketoana	61 119	–	0.0%	61 119	100.0%
Maluti a Phofung	242 458	–	0.0%	242 458	100.0%
Phumelela	64 498	–	0.0%	64 498	100.0%
Mantsopa	47 816	–	0.0%	47 816	100.0%
Thabo Mofutsanyana	12 467	–	0.0%	12 467	100.0%
Moqhaka	74 044	–	0.0%	74 044	100.0%
Ngwathe	148 974	–	0.0%	148 974	100.0%
Metsimaholo	107 037	214	0.2%	106 823	99.8%
Mafube	52 561	–	0.0%	52 561	100.0%
Fezile Dabi	4 747	–	0.0%	4 747	100.0%
Total	2 822 801	27 976	1.0%	2 794 825	99.0%

5.4.4.4 The table below show the actual performance per grant:

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end June		Projected Over/Under Spending on Allocation	
	R'000	R'000	%	R'000	%
Energy Efficiency & Demand Man Grant	16 000	–	0.0%	16 000	100%
Expanded Public Works Programme	37 963	3	0.0%	37 960	100.0%
Finance Management Grant	59 120	75	0.1%	59 045	99.9%
Infrastructure Skills Development Grant	3 500	–	0.0%	3 500	100.0%
Integrated National Electrification Prog	143 903	–	0.0%	143 903	100.0%
Metro Informal Settlements Partnership Grant	291 940	–	0.0%	291 940	100.0%
Municipal Infrastructure Grant	857 868	(4 092)	-0.5%	861 960	100.5%
Neighbourhood Dev Partnership Grant	21 739	–	0.0%	21 739	100.0%
Programme & Project Preperation Support Grant	14 276	–	0.0%	14 276	100.0%
Public Transport network Grant	270 028	1 209	0.4%	268 819	99.6%
Regional Bulk Infrastructure Grant	208 896	21 529	10.3%	187 367	89.7%
Rural Roads Assets Man Systems Grant	9 692	–	0.0%	9 692	100.0%
Urban settlement Development Grant	513 434	–	0.0%	513 434	100.0%
Water Services Infrastructure Grant	374 442	9 252	2.5%	365 190	97.5%
Total	2 822 801	27 976	1.0%	2 794 825	99.0%

5.4.4.5 Differences were also noted between expenditure reported to the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the data strings, specifically with regards to the Municipal Infrastructure Grant. The CoGTA monthly monitoring report show total spending of R17.2 million, whilst the data strings reflect total expenditure of –R4.1 million.

5.5 Cash Coverage & Cash Flow

5.5.1 Municipalities in the Province closed the month of July 2023 with a surplus cash and cash equivalent balance of **R3.978 billion**. It should however be noted that some municipalities continue to report incorrectly as per Table C7 (cash flow statement) *m*SCOA data strings and the inconsistencies negatively affect the credibility of the information presented on the cash flow statement.

5.5.2 Two municipalities (Nketoana and Mantsopa municipalities) reported a negative closing balances which might indicate eminent financial constraints.

5.5.3 The cash flow table on the next page shows a summary of the cash and cash equivalents information for each municipality.

R thousands	Cash/Cash equivalents at year begin (1 Jul 2023)	Net Cashflow From/(Used) Operating Activities	Net Cashflow From/(Used) Investing Activities	Net Cashflow From/(Used) Financing Activities	Net Increase / (Decrease) in Cash Held	Cash/Cash equivalents month/year end (31 July 2023)
Mangaung Metro	1 242 772	1 211 378	(15 243)	(1 630)	1 194 505	2 437 276
Letsemeng	–	17 900	36	–	17 936	17 936
Kopanong	–	–	–	–	–	–
Mohokare	–	–	–	–	–	–
Xhariep District	–	–	–	–	–	–
DC 16 Total	–	17 900	36	–	17 936	17 936
Masilonyana	–	–	7	–	7	7
Tokologo	–	10 016	12	–	10 028	10 028
Tswelopele	10 481	104 429	(1 358)	–	103 071	113 552
Matjhabeng	173 088	128 311	12 716	242	141 268	314 356
Nala	–	–	–	–	–	–
Lejweleputswa District	106 197	38 958	12	–	38 969	145 167
DC 18 Total	289 766	281 714	11 389	242	293 344	583 110
Setsotso	66 208	6 699	(9 552)	–	(2 852)	63 355
Dihlabeng	18 178	40 528	–	(622)	39 906	58 084
Nketoana	1 575	72 367	(238 266)	(20)	(165 918)	(164 344)
Maluti a Phofung	118 498	387 879	(14 780)	57	373 156	491 653
Phumelela	–	–	–	–	–	–
Mantsopa	–	(15 805)	3 340	–	(12 465)	(12 465)
Thabo Mofutsanyana	–	1 800	–	–	1 800	1 800
DC 19 Total	204 458	493 468	(259 258)	(585)	233 626	438 084
Mochhaka	–	–	22	–	22	22
Ngwathe	46 761	49 425	–	(8)	49 417	96 177
Metsimaholo	158 041	76 339	(41)	–	76 297	234 339
Mafube	–	–	37	–	37	37
Fezile Dabi	103 701	67 199	–	–	67 199	170 899
DC 20 Total	308 503	192 962	18	(8)	192 972	501 474
Total	2 045 498	2 197 422	(263 059)	(1 981)	1 932 382	3 977 880

Source: NT Local Government Database

5.5.3 Municipalities' financial viability is underpinned by their ability to enhance and sustain their own sources of funding. In this regard a good practice suggests that municipalities should have a reserve a of at least three months cash to meet obligations as they fall due if no other revenue is received by the municipality.

5.5.4 It was identified that 5 of the 16 municipalities that have submitted the monthly data strings, have a cash coverage ratio of less than the recommended benchmark of three months, which implies that these municipalities have insufficient funds available to meet their commitments including the fixed monthly and service delivery mandates. These municipalities are:

- Masilonyana (0.00)
- Tokologo (-6.59)
- Mantsopa (-24.93)
- Nketoana (-11.83)
- Setsoto (-7.09)

5.5.5 The average collection rate reported by municipalities for the Province for the month under review is only **46.9 per cent**, which is significantly below the norm of 95 per cent and is not sustainable. However, the actual average collection rate in the Province might be lower due to incorrect reporting by municipalities.

5.5.6 Low collection rates can be attributed to the following factors:

- The increase in rates and tariffs year-on-year which affect affordability levels;
- Breakdown in service delivery resulting in non-supply;
- Illegal connections and tampering of water and electricity meters;
- Non-implementation of debt collection and credit control policies; and
- Non billing and system challenges.

5.5.5 Liquidity ratios

The liquidity ratio is a crucial metric for assessing a municipality's ability to settle its debt obligations with cash and investments without acquiring external funding. Despite the possible economic challenges, municipalities with strong liquidity positions will have adequate cash to satisfy their current obligations. This ratio simply compares a municipality's cash and investments, which are its most liquid assets, to its current liabilities (amounts due to be paid within 12 months). It also shows how frequently the cash and investments are used to pay the short-term debt obligations. If the value is greater than one, it means that short-term obligations are fully covered.

The table below indicate the liquidity ratio for the 16 municipalities that have submitted the information for July 2023. 11 Municipalities have a liquidity ratio of less than one.

	Mangaung	Letsemeng	Masilonyana	Mefjhabeng	Tokologo	Tswelopele	Lejweleputswa	Ditlabeng	Matluf-a-Phofung	Mantsopa	Nketoana	Setsoho	Thabo Mofutsanyana	Mereimahelo	Ngwathe	Fezile Dabi
	MAN	FS161	FS181	FS184	FS182	FS183	DC18	FS192	FS184	FS196	FS193	FS191	DC19	FS204	FS203	DC20
Indicator 8 - Liquidity Ratio	0.15	-0.89	1.85	0.03	1.15	0.32	6.92	0.03	0.04	1.95	0.04	0.22	-55.06	0.17	0.04	16.51

Source: Local Government Database

5.6 Debtors

5.6.1 The aggregated debtors as at 31 July 2023 amounted to R34.136 billion having **increased** with R0.430 billion from the previous month (*June 2023: R33.706 billion*). Annexure A and B provides the summary and breakdown of the outstanding debtors per income source. The municipal debt has grown substantially for debtors exceeding 90 days due to declining collection rates.

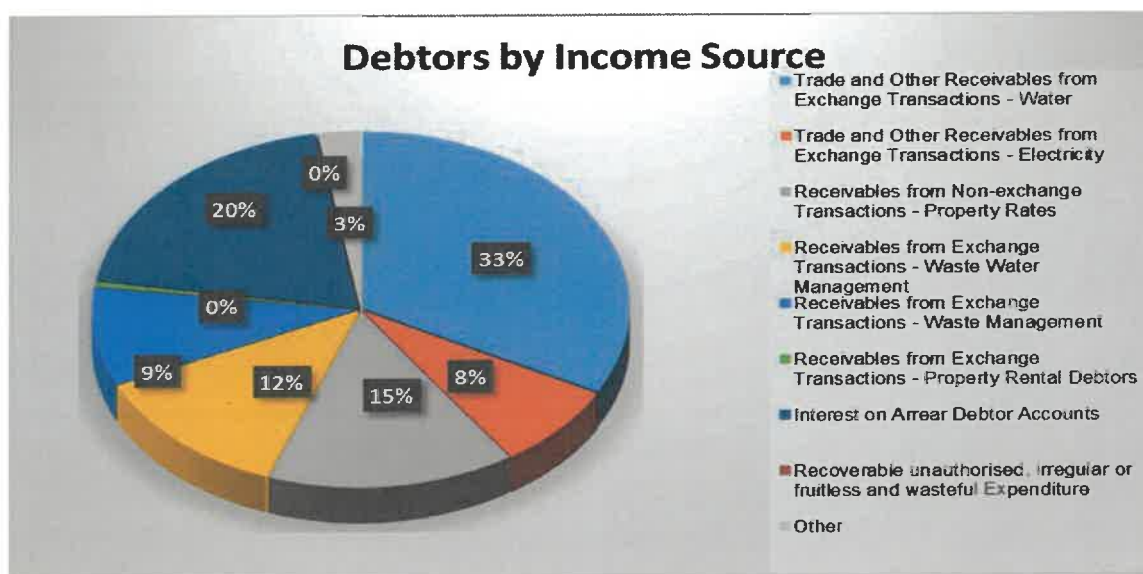
5.6.2 The norm for **the net debtors' day's ratio is 30 days** and the ratio provides information about consumer payment patterns and how well the municipality manages its debtors. The late payment of municipal bills by consumers and the **failure to implement municipal credit control and debt collection systems has resulted** in the debtors' day's ratio reported above **500 days** for the majority of the municipalities. Therefore, if the ratio is above the norm of 30 days, it is indicative that the municipalities are experiencing

challenges in the collection of outstanding amounts which exposes the municipality to significant cash flow risks.

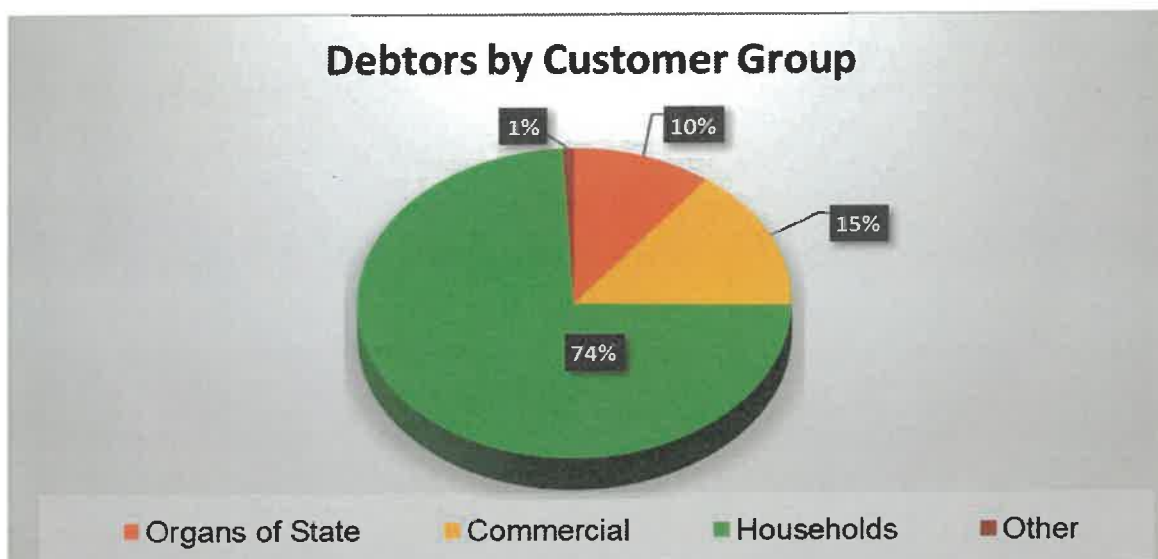
5.6.3 Although section 75A of the Municipal Systems Act, 2000 (MSA) empowers a municipality to levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and to recover collection charges and interest on any outstanding amount subject to the provisions of the National Credit Act, 2005 (Act 34 of 2005), the **debt is increasing on a monthly basis**.

5.6.4 *Water services* remains the largest contributor to the total outstanding debt and amounts to R11.232 billion (32.9 per cent), followed by *interest on arrear debtor accounts* amounting to R6.759 billion (19.8 per cent). Debt relating to *property rates* contribute 15.1 per cent (R5.161 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.4 per cent (R4.241 billion) of the total debt.

5.6.5 *Electricity services* contributes only 7.4 per cent (R2.481 billion) to the total outstanding debt.



5.6.6 The report also show the majority of the debt is owed by *Households*, which contributes 74 per cent (R25.251 billion) to the total debt, followed by *Businesses* with 14.8 per cent (R5.037 billion) and *Organs of State* with 10.4 per cent (R3.560 billion).



5.6.7 Debtors days ratio

5.6.7.1 Net Debtor Days refers to the average number of days required for a municipality to receive payment from its consumers for bills/invoices issued for services. This indicator provides information about consumer payment patterns and how well the municipality manages its debtors. A shorter payment period (less than 30 days) indicates that a municipality has and maintains an effective system of credit control and debt collection in respect of debtors' management. If the ratio is above the norm, it indicates that the municipality is experiencing challenges in the collection of outstanding amounts due to it. This exposes a municipality to significant cash flow risk.

5.6.7.2 In most cases, late payment of municipal bills is as a result of a municipality's failure to implement municipal credit control and debt collection systems.

	Mangaung	Letseameeng	Maatlonyana	Matjhabeng	Tokologo	Tswelopele	Lejweleputswa	Ditlhabeng	Matlufi-Phofung	Mantsope	Nketoana	Seteate	Thabo Mofutsanyana	Metamahole	Ngwathe	Fozile Dabi
	MAN	FS161	FS181	FS184	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS191	DC19	FS204	FS203	DC20
Indicator 9 - Debtors Days	1 799.27	-223.76	273.86	4 096.95	652.06	533.66	0.00	1 774.75	16 335.98	0.00	-98.01	2 856.30	0.00	1 745.31	3 125.46	0.00

Source: Local Government Database

5.7 Creditors

5.7.1 Timely payment of creditors is not only essential for the liquidity of local economies and the survival of SMMEs but is also a good reflection of the extent of financial challenges facing a municipality.

5.7.2 The total creditors decreased with R0.608 billion to R26.422 billion for the month under review (June 2023: R27.030 billion). Annexure C and D provides the summary and breakdown of the outstanding creditors per type.

5.7.3 Municipalities are not transacting correctly within the financial systems and therefore the total outstanding creditors are understated. Eskom and water boards debt are not reflected correctly on the financial systems.

5.7.4 Payables relating to bulk service providers (Eskom & Water Boards) contribute 89.3 per cent or R23.583 billion of the total outstanding debt. In the past, the following interventions were introduced to address the outstanding debt:

- Payment agreements were entered into with service providers (current account to be paid in full and installments for accrued debt);
- Ring fencing of capital portion of debt;
- Reduction of interest on capital portion of debt (if current account is paid in full).

5.7.5 Despite the above interventions, no corrective measures were implemented by the Municipal Councils to ensure that the payment agreements were met and that current accounts were paid in full. These corrective measures includes:

- Increase of revenue (including completeness of revenue, decrease in rebates and subsidies, increase collection rate, implementation of credit control, etc.);
- Implement cost reflective tariffs; and
- Decrease distribution losses.

5.7.6 According to the report submitted by Eskom in terms of section 41 of the MFMA (July 2023), the following breach notices were issued or legal actions are underway in cases where municipalities defaulted on the payment of their accounts:

Municipality	Actions/Sanctions
Letsemeng	A writ to attach the bank account was re-issued
Mafube	Preparing to issue summons
Matjhabeng	Litigation ongoing
Mohokare	Payment reminder issued
Nala	Litigation ongoing
Tokologo	Litigation ongoing

PAYE and Pension/Retirement Contributions Debt

5.7.7 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R211.3 million of which 45 per cent of the total is outstanding for periods longer than 30 days. Kopanong and Mafube reported the highest outstanding contribution payments over 30 days relating to 3rd parties (PAYE and pensions).

5.7.8 The non-payment of PAYE and pension/retirement contributions, constitutes an act of financial misconduct in terms of section 171 of the MFMA. These cases should be referred to the Disciplinary Boards for investigations. This non-compliance may also result in the withholding of the equitable share which will place a further financial burden on the municipalities.

5.7.9 The tables below indicate the age analysis regarding the outstanding amounts for pension fund contributions and PAYE per municipality:

Creditors Age Analysis PAYE	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	7 694	100.0%	-	0.0%	-	0.0%	-	0.0%	7 694	11.6%
Kopanong	1 345	3.7%	-	0.0%	-	0.0%	35 061	96.3%	36 406	54.7%
Matjhabeng	13 365	100.0%	-	0.0%	-	0.0%	-	0.0%	13 365	20.1%
Nala	13	100.0%	-	0.0%	-	0.0%	-	0.0%	13	0.0%
Thabo Mofutsanyana Distric	1 572	100.0%	-	0.0%	-	0.0%	-	0.0%	1 572	2.4%
Ngwathe	4 221	81.5%	386	7.5%	410	7.9%	160	3.1%	5 177	7.8%
Mafube	2 016	88.8%	169	7.5%	-	0.0%	86	3.8%	2 271	3.4%
Total Debt	30 226	45.5%	555	0.8%	410	0.6%	35 307	53.1%	66 499	100.0%

Creditors Age Analysis Pension/Retirement	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	53 893	100.0%	-	0.0%	-	0.0%	-	0.0%	53 893	37.2%
Kopanong	2 052	5.1%	-	0.0%	-	0.0%	38 524	94.9%	40 576	28.0%
Matjhabeng	25 249	100.0%	-	0.0%	-	0.0%	-	0.0%	25 249	17.4%
Nala	4	100.0%	-	0.0%	-	0.0%	-	0.0%	4	0.0%
Ngwathe	3 255	100.0%	-	0.0%	-	0.0%	-	0.0%	3 255	2.2%
Mafube	624	2.9%	624	2.9%	1 236	5.7%	19 354	88.6%	21 839	15.1%
Total Debt	85 078	58.7%	624	0.4%	1 236	0.9%	57 878	40.0%	144 817	100.0%

Source: Local Government Database

6. RISKS

This section identifies the municipalities that poses a financial and serious service delivery risk. The Provincial Treasury has identified these municipalities based on the datasets for the month under review. These municipalities meet the triggers for failures on financial and service delivery, based Section 138 & 140 of the MFMA, 2003, respectively.

6.1 MFMA s138 and 140 triggers

6.1.1 In terms of section 138 of the MFMA, the following factors may indicate a serious financial problem:

- The municipality has failed to make payments as and when due;
- The municipality has defaulted on financial obligations for financial reasons;
- The actual current expenditure of the municipality has exceeded the sum of its actual current revenue plus available surpluses for at least two consecutive financial years (cash flow position);

- The municipality had an operating deficit in excess of five per cent of revenue in the most recent financial year for which financial information is available;
- The municipality is more than 60 days late in submitting its annual financial statements to the Auditor-General in accordance with section 126;
- The Auditor-General has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements or records of the municipality, or has issued an opinion which identifies a serious financial problem in the municipality;
- Any of the above conditions exists in a municipal entity under the municipality's sole control;
- Any other material condition exists which indicates that the municipality, or a municipal entity under the municipality's sole control, is likely to be unable for financial reasons to meet its obligations.

6.1.2 In addition to the above section 140 of the MFMA indicates factors which may indicate that a municipality is in serious material breach of its obligations to meet its financial commitments, including the municipality has failed to make any other payment as and when due, which individually or in the aggregate is more than the amount as may be prescribed or, if not is prescribed, more than two per cent of the municipality's budgeted operating expenditure.

6.1.3 The table on the next page indicate the triggers (criteria) identified per municipality which may indicate that the municipalities are in financial distress.

Municipalities	Nr of Triggers identified	S138 Triggers	S140 Triggers (Creditors >2% of Opex Budget)	S140 Triggers - Severe (Creditors >40% of Opex Budget)	Financial Distress 2021
Mangaung	3	✓	✓		✓
Letsemeng	4	✓	✓	✓	✓
Kopanong	4	✓	✓	✓	✓
Mohokare	4	✓	✓	✓	✓
Xharies	3	✓	✓		✓
Masilonyana	3	✓	✓		✓
Tokologo	4	✓	✓	✓	✓
Tswelopele	4	✓	✓	✓	✓
Matjhabeng	4	✓	✓	✓	✓
Nala	4	✓	✓	✓	✓
Lejweleputswa	0				
Setsotho	3	✓	✓		✓
Dihlabeng	4	✓	✓	✓	✓
Nkomoana	4	✓	✓	✓	✓
Matjhabeng	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsopa	4	✓	✓	✓	✓
Thabo Mofutsanyana	0				
Moghaka	4	✓	✓	✓	✓
Ngwathe	4	✓	✓	✓	✓
Metsimahole	3	✓	✓		✓
Matjhabeng	4	✓	✓	✓	✓
Fezile Dabi	1	✓			

6.1.4 20 Municipalities in the FS have three or more triggers (criteria), indicating these municipalities are in distress and need urgent intervention to improve the financial position and sustainability going forward.

7. CONCLUSION

Municipalities are operating in a difficult environment, with continued low economic growth and rising fiscal risk.

This analysis presented in this report indicates that a significant number of municipalities continue to perform poorly with no sign of improvement. At an aggregate level:

- There are **municipalities that closed the month with negative cash and cash equivalents**, which is a strong indicator that there are severe underlying financial problems;
- Municipalities **continue to have insufficient cash coverage to fund their operations** and implies that a municipality is at a higher risk of defaulting on its debts;
- Most municipalities **do not have sufficient cash and investments to pay for current obligations** (liquidity ratio).
- It takes **longer than 30 days for municipalities to collect debt** from consumers after issuing the bill. Municipalities have demonstrated **no effort to intensify their debt collection and credit control strategies**.
- **Outstanding creditors are growing rapidly**. The declined collection rates and deteriorating cash flows led municipalities to many financial problems. Several municipalities have defaulted on bulk suppliers' accounts including paying workers' pension contributions to respective pension funds.
- **Some municipalities are in a state of insolvency**. A municipality is technically insolvent if its total liabilities exceed total assets. This means that a municipality might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets;
- **Unfunded budgets are a threat to municipal financial sustainability**. Most municipalities that adopt unfunded budgets ended up in a financial distressed position;
- **Inadequate spending on repairs and maintenance of infrastructure**. Municipalities are still underspending on repairs and maintenance. Underspending results in a steady deterioration in the quality and serviceability of municipal assets; and
- **Underinvesting on capital infrastructure**. This continues to undermine efforts to improve access to services, service reliability and local economic growth.

In order to address the challenges identified in the report, it is **proposed/recommended that the following measures be implemented:**

- **Revenue enhancement strategies** should be developed and implemented (including completeness of revenue, decrease in rebates and subsidies, increase collection rate, implementation of credit control, etc.);

- **Implement cost reflective tariffs;**
- **Accelerate spending of capital budget** (including timely appointment of contractors);
- **Grants should be ring-fenced** in separate accounts to ensure that they are spend according to conditions.
- Municipalities must **implement cost containment measures** and ensure that they have operating surpluses;
- **Implementation of credit control policies** is crucial to ensure the financial sustainability of the municipalities;
- Municipalities must enter into an **affordable payment agreement with their creditors** and honors such arrangements;
- To ensure accuracy and credibility of data, **reports (data strings) should be reviewed and signed off by the MM and CFO prior to uploading** to the GoMuni portal.

Approved / ~~Not approved~~:



Ms. MA Sesing
Head of Department
FREE STATE PROVINCIAL TREASURY

DATE: 30-08-2023

ANNEXURES:

- Annexure 1 – S71 Summary Report per municipality
- Annexure 2 – Indicators (State of Local Government Report)