

FREE STATE PROVINCIAL TREASURY

Municipal Budget Performance

Consolidated Statement as at 31 December 2008

INTRODUCTION

1. This consolidated budget statement covers the in-year financial performance of the 2008/09 municipal financial year-to-date, which ended 31 December 2008.
2. The consolidated statement assesses the in-year financial performance of municipalities against their budgeted revenue and expenditure. The assessment focus on the sustainability and credibility of municipal budgets and includes the following indicators:
 - Capital & Operating budgets;
 - Cash Flow;
 - Outstanding Debtors & Creditors;
3. It covers an analysis of the month under review i.e. December 2008, a year-to-date analysis and a year-on-year comparative analysis.

LEGISLATIVE FRAMEWORK

4. In terms of the Municipal Finance Management Act (Act 56 of 2003) section 71(1), the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to, amongst others, the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget. Section 74 of the MFMA requires accounting officers to submit such information, returns, documents and motivations as may be required.
5. Furthermore, according to section 71(6) the Provincial Treasury must by no 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 municipal budgets.

COMPLIANCE

6. The due date for the submission of the report was 15 January 2009 and the following municipalities did not comply:

Municipality	Date Submitted	Reason for non-compliance
Mafube	Not Submitted	No reasons provided
Ngwathe	Not Submitted	No reasons provided
Moqhaka	Not Submitted	No reasons provided
Metsimaholo	2009/01/20	No reasons provided
Mohokare	2009/01/21	No reason provided
Letsemeng	2009/01/20	No reasons provided
Kopanong	Not submitted	No reasons provided
Tswelopele	2009/01/22	No reasons provided
Nala	2009/01/28	No reasons provided
Matjhabeng	2009/01/27	No reasons provided
Motheo	2009/01/27	No reasons provided
Naledi	2009/01/28	No reasons provided
Setsoto	2009/01/21	No reasons provided
Nketoana	2009/01/20	No reasons provided
Maluti a Phofung	2009/01/16	No reasons provided

Although no reasons were provided by the municipalities for the late and non submission, it was noted that officials responsible for the compilation of the reports were on leave during December 2008 which may have caused a delay in the submission of reports. Municipalities will be encouraged to delegate the responsibility of compiling reports to more than one official to enhance the flow of work.

CAPITAL AND OPERATING REVENUE BUDGETS

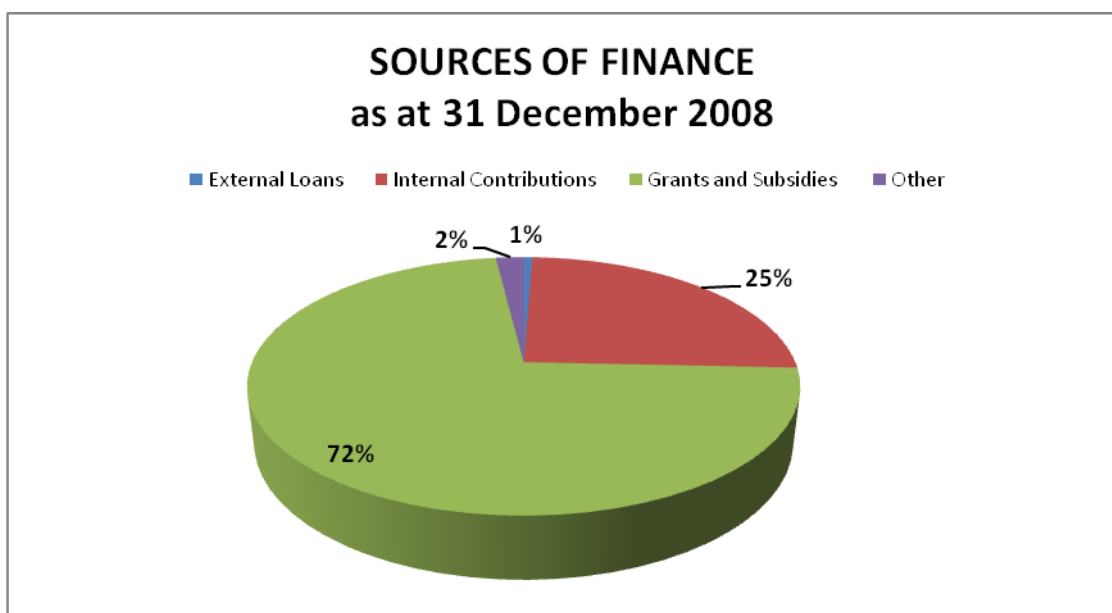
7. Table 1 below shows the sources of finance, capital and the operating revenue per district as at 31 December 2008.



Municipality	REVENUE BUDGET					
	CAPITAL			OPERATING		
	Original Budget	Actual YTD	% Spent	Original Budget	Actual YTD	% Spent
Total Xhariep District	74,678	19,651	26.3	215,336	96,990	45.0
Total Motheo District	772,365	284,302	36.8	2,800,002	1,075,651	38.4
Total Lejweleputswa District	342,642	33,778	9.9	1,517,812	631,818	41.6
Total Thabo Mofutsanyana District	410,204	106,692	26.0	1,381,940	659,388	47.7
Total Fezile Dabi District	229,084	21,915	9.6	1,135,477	414,522	36.5
TOTAL	1,828,973	466,338	25.5	7,050,567	2,878,369	40.8

Capital Revenue: Sources of Finance

8. It should be noted that capital revenue represents the sources of finances utilized to fund capital expenditure. It therefore does not necessarily reflect actual financing (grants, loans, etc) receipts as required by Section 71 of the MFMA. Actual receipts in terms of the cash flow statement could therefore exceed the reflected amount. The current IYM format does not allow for the capital revenue to exceed expenditure.
9. Budgeted capital sources of finance amounts R1,829 billion and the actual received reported is R466,338 million or 25.5 per cent of the budget.
 - a. The graph below shows where large percentage of sources of finance emanates.



10. The individual sources of finance reflected the following year-to-date performance:

SOURCE OF FINANCE	ORIGINAL BUDGET	ACTUALS YTD	%
External Loans	214,561	2,867	1.3
Internal Contributions	305,506	116,910	38.3
Grants & Subsidies	1,231,895	337,464	27.4
Other	77,011	9,100	1.0
TOTAL	1,828,973	466,340	

- i. External loans amounts to R2,867 million or 1.3 per cent of a total original budget of R214,561 million,
 - ii. Internal Contributions amounts to R116,910 million or 38.3 per cent of a total original budget of R305,506 million,
 - iii. Grants and Subsidies amounts to R337,464 million or 27.4 per cent of a total original budget of R1,232 billion, and
 - iv. Other sources of finance amounts to R9, 100 million or 11.8 per cent of a total original budget of R77, 011 million.
11. For the same period in the previous financial year, the sources of finance amounted to R796, 568 million or 44.8 per cent of the original budget of R1.8 billion.

Operating Revenue

12. For the month under review the operating revenue amounts to R2, 878 billion or 40.8 per cent of the total original budget of R7, 051 billion.
- a. The graph below shows where large percentage of operating revenue emanates.



Operating Revenue and Expenditure

13. The table below shows the in-year performance of the individual items are as follow to date:

Summary	Original Budget	Actuals YTD	%
Property Rates	991,795	369,659	37.3
Service Charges	2,846,428	1,214,027	42.7
Regional Service Levies	20,000	1,658	8.3
Other Revenue	3,192,344	1,293,022	40.5
Total Operating Revenue Generated	7,050,568	2,878,367	40.8

- i. Property Rates: The actual revenue generated amounts to R370 million or 37.3 per cent of a total budget of R991, 795 million.
- ii. Service Charges: The actual revenue generated amounts to R1, 21 billion or 42.7 per cent of a total budget of R2, 846 billion.
- iii. Regional Service Levies: The actual revenue generated amounts to R1, 7 million or 8.3 per cent of a total budget of R20 million.
- iv. Other Revenue: The actual revenue generated amounts to R1, 29 billion or 40.5 per cent of a total budget of R3, 192 billion.

14. For the same period in the previous financial year, the revenue generated amounted to R2,4 billion or 49.1 per cent of the total original operating revenue budget of R4,8 billion.

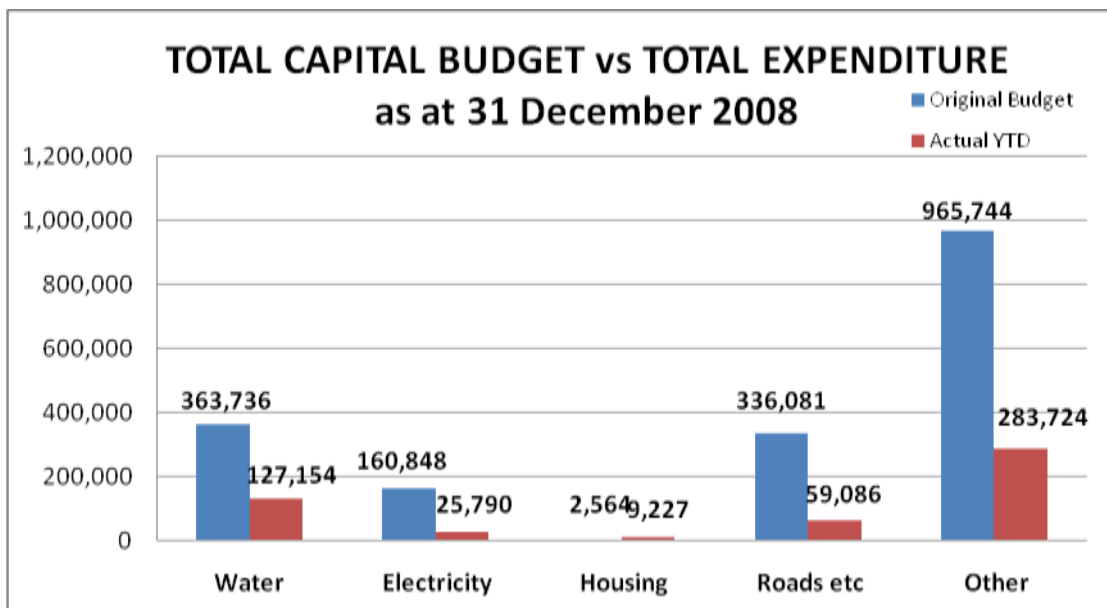
CAPITAL AND OPERATING EXPENDITURE BUDGETS

Capital Expenditure

The table below shows the performance of the items to this date.

Summary	Original Budget	Actual YTD	%
Water	363,736	127,154	35.0
Electricity	160,848	25,790	16.0
Housing	2,564	9,227	359,9
Roads, Pavements	336,081	59,086	17.6
Other	965,744	283,724	29.4
Total Capital Expenditure	1,828,973	504,981	27.6

15. The total capital expenditure amounts to R505 million or 27.6 per cent of the total original budget of R1, 829 billion.
16. The highest spending item reported is 'Housing' which amounts to R9, 227 million or 359.9 per cent of the total original budget of R2, 564 million.
17. Chart 3 below shows the actual capital expenditure against the original budget per item.

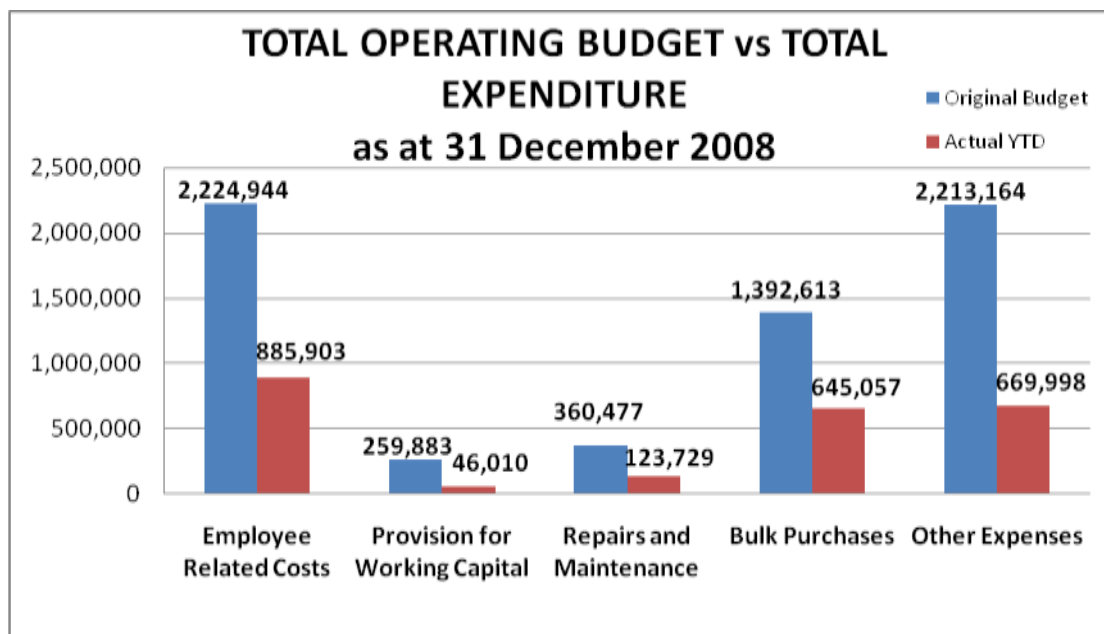


Operating Expenditure

18. The total operating expenditure amounts to R2, 371 billion or 36.7 per cent of the total original budget of R6, 451 billion.

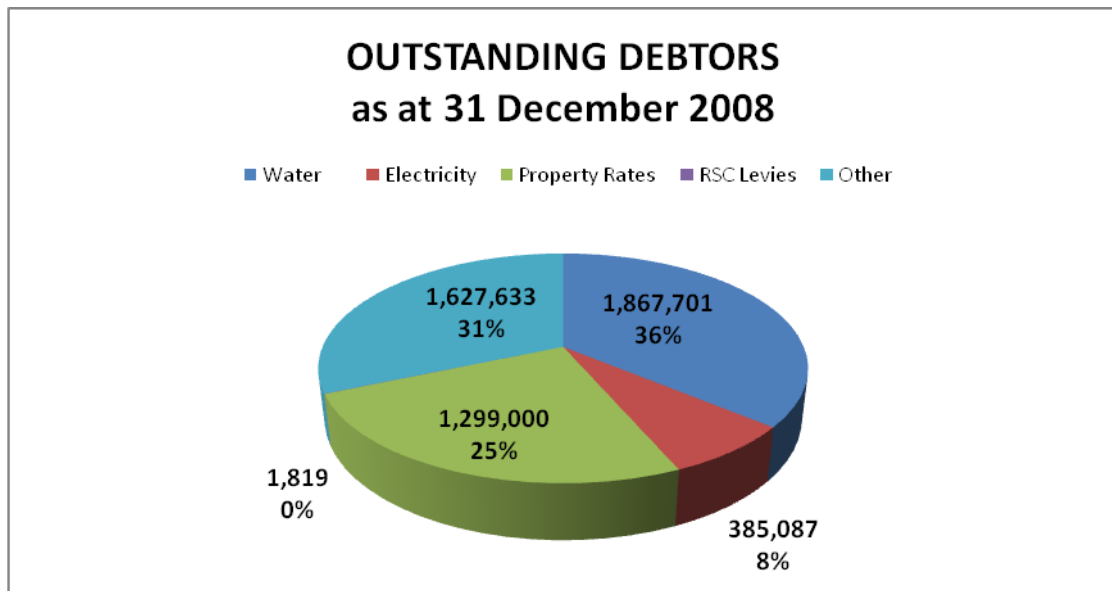
Summary	Original Budget	Actual YTD	%
Employee Related Costs	2,224,944	885,903	39.8
Provision for Working Capital	259,883	46,010	17.7
Repairs and Maintenance	360,477	123,729	34.3
Bulk Purchases	1,392,613	645,057	46.3
Other Expenses	2,213,164	669,998	30.3
TOTAL OPERATING EXPENDITURE	6,451,080	2,370,695	36.7

19. The highest spending items reported are 'Bulk Purchases' of which the actual expenditure amounts to R645,057 million or 46.3 per cent of the total original budget of R1,393 billion, followed by 'Employee Related Costs' of which the actual expenditure amounts to R885,903 million or 39.8 per cent of the total original budget of R2,225 billion.
20. Chart 4 shows the actual operating expenditure against the original budget per item.



DEBTORS

21. The total outstanding debtors, which include current debtors for the municipalities in the Province as at 31 December 2008, amounts to R5, 181 billion.
22. The high outstanding amount of debtors impacts negative on the cash flows of the municipalities.
23. The month-on-month trend for total outstanding debtors reflects an increase from November 2008. Due to several reports not submitted during the previous and current month, the actual increase/decrease in debtors is less than reported.
24. Debt collection remains an area of concern to municipalities since R4, 468 billion is outstanding for a period over 90 days, and whilst according to section 64 of the MFMA, municipalities must collect all money due to them.
25. 31.4 Per cent of the total outstanding debtors are related to other types of debtors, e.g. study loans, telephone debt, councilors/employee debt, etc.





26. The outstanding total outstanding debt per municipality is as follow:

DEBTOR AGE ANALYSIS					
Municipality	0-30 Days R'000	31-60 Days R'000	61-90 Days	Over 90 Days	TOTAL R'000
Xhariep	0	0	0	126	126
Letsemeng	2,151	719	487	8,649	12,005
Kopanong	1,223	136	1,238	48,436	51,033
Mohokare	968	828	740	43,297	45,833
Total Xhariep District	4,342	1,683	2,465	100,508	108,997
Motheo	608	0	0	924	1,532
Naledi	126	1,285	1,377	42,406	45,195
Mangaung	101,031	54,122	37,975	631,778	824,905
Mantsopa	4,186	3,602	2,997	60,586	71,371
Total Motheo District	105,951	59,009	42,349	735,694	943,003
Lejweleputswa	0	0	0	7,689	7,689
Masilonyana	3,536	1,158	3,823	55,586	64,104
Tokologo	342	797	635	20,977	22,750
Tswelopele	1,856	1,059	819	30,750	34,484
Matjhabeng	95,875	47,398	36,047	2,042,903	2,222,222
Nala	38,487	6,983	8,382	85,737	139,589
Total Lejweleputswa District	140,096	57,395	49,706	2,243,642	2,490,838
Thabo Mofutsanyana	0	0	0	0	0
Setsoto	7,295	5,636	5,102	149,247	167,279
Dihlabeng	15,930	8,636	6,003	140,632	171,201
Nketoana	3,398	3,650	11,415	97,259	115,722
Maluti a Phofung	18,738	16,565	14,899	411,544	461,745
Phumelela	620	1,041	2,585	52,703	56,949
Total Thabo Mofutsanyana District	45,981	35,528	40,004	851,385	972,896
Fezile Dabi	0	0	0	0	0
Moqhaka	14,645	6,582	8,869	156,911	187,007
Ngwathe	16,631	7,394	6,313	71,070	101,408
Metsimaholo	22,741	34,298	11,461	248,316	316,816
Mafube	-6,593	3,747	2,294	60,827	60,276
Total Fezile Dabi District	47,424	52,021	28,937	537,124	665,507
TOTAL	343,794	205,636	163,461	4,468,353	5,181,241

CREDITORS

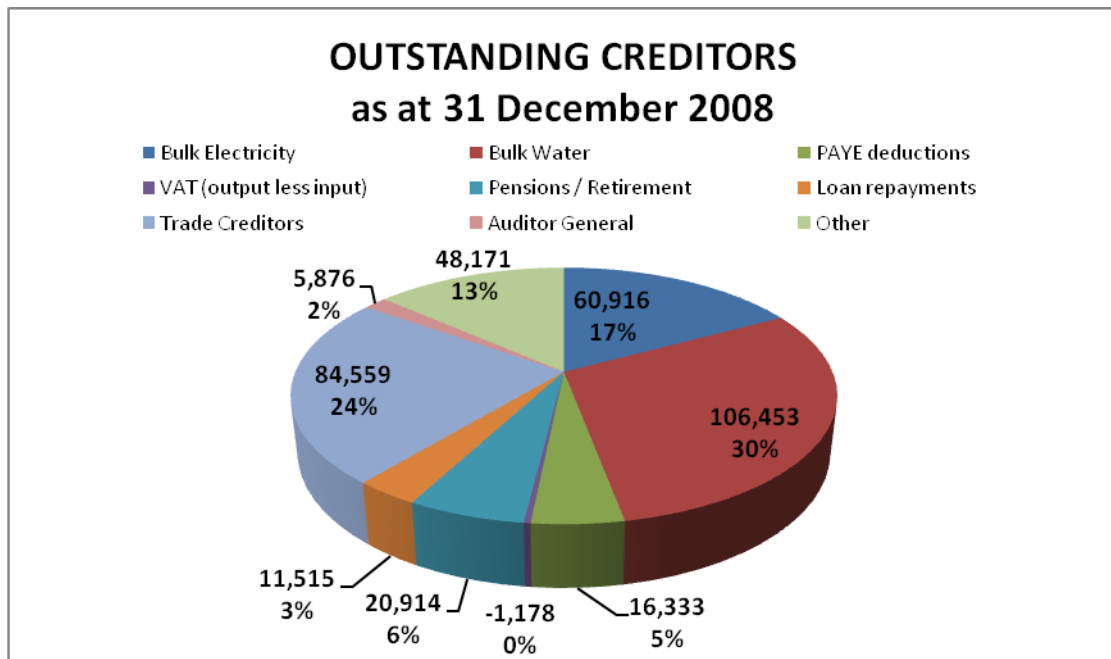
27. The total reported for outstanding creditors amounts to R353, 557 million and R216, 148 million of the total is outstanding for longer than 30 days. This is in contravention with MFMA section 65 which states that all money owing by the municipality must be paid within 30 days of receiving the relevant invoice. The outstanding creditors impact negatively on the financial sustainability of the municipalities.



28. The following municipalities reported creditors outstanding for longer than 30 days:

CREDITOR AGE ANALYSIS					
Municipality	0-30 Days R'000	31-60 Days R'000	61-90 Days R000	Over 90 Days R'000	Total R'000
Xhariep	556	223	0	5	784
Letsemeng	0	0	0	0	0
Kopanong	-258	870	950	8,930	10,492
Mohokare	1,480	746	436	6,051	8,713
Total Xhariep District	1,778	1,839	1,386	14,986	19,989
Motheo	1,217	1,393	0	4,016	6,626
Naledi	1,280	302	359	7,675	9,616
Mangaung	17,762	952	421	371	19,506
Mantsopa	820	0	0	0	820
Total Motheo District	21,079	2,647	780	12,062	36,568
Lejweleputswa	1,181	0	0	0	1,181
Masilonyana	8,260	0	0	0	8,260
Tokoloko	0	0	0	0	0
Tswelopele	0	0	0	0	0
Matjhabeng	45,688	28,266	16,357	102,953	193,264
Nala	0	0	0	0	0
Total Lejweleputswa District	55,129	28,266	16,357	102,953	202,705
Thabo Mofutsanyana	0	0	0	0	0
Setsoto	2,238	0	0	0	2,238
Dihlabeng	2,907	456	385	1,584	5,332
Nketoana	9	23	0	0	32
Maluti a Phofung	16,034	0	0	0	16,034
Phumelela	0	0	0	0	0
Total Thabo Mofutsanyana District	21,188	479	385	1,584	23,636
Fezile Dabi	0	0	0	0	0
Moqhaka	15,953	0	0	0	15,953
Ngwathe	18,776	8,273	7,417	6,975	41,441
Metsimaholo	3,272	961	123	108	4,464
Mafube	235	407	237	7,924	8,803
Total Fezile Dabi District	38,236	9,641	7,777	15,007	70,661
TOTAL	137,410	42,872	26,685	146,592	353,559

29. The highest outstanding creditors are reported for 'Bulk Water' and 'Trade Creditors, followed by 'Bulk Electricity'.



CASH FLOW

30. The overall cash flow position of municipalities shows fairly positive cash flow balances as at the end of December 2008. Although municipalities are requested to submit bank statements and bank reconciliations for verification purposes, 90% of municipalities did not comply and therefore the accuracy of the closing balances could not be verified.

It is also noted with concern not all municipalities are not compiling bank reconciliations on a monthly basis as required. This is a clear indication that the allocation of funds received and expenditure are not done regularly.

GENERAL

31. Training and technical assistance regarding the municipal reporting is provided to municipalities on an ongoing basis to improve the quality of reports received. A Hands-on Support Team was established and will amongst other provide additional support to municipalities on various issues.

CONCLUSION

32. Although the capital expenditure performance is relatively low, it is anticipated that the spending pattern will increase as the financial year progresses.
33. Debt collection still raises concern as it impacts negatively on the future sustainability of budgets and ultimately service delivery and will also be closely

monitored by the Provincial Treasury. Note should also be taken that municipalities still provide free services to households that can afford to pay which also reduces the revenue collection.

34. It is noted with concern that the outstanding creditors are increasing on a monthly basis. The high amount outstanding for creditors is a further indication that the revenue collection at municipal level is not sufficient and municipalities are therefore grant-dependent for the payment of creditors.

MH Leburu
Acting SENIOR MANAGER: NORMS & STANDARDS

DATE: _____