



Financial and Fiscal Commission  
Submission to the Free State Provincial  
Legislature: Finance Committee  
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Analysis of Local Government  
Revenue and Expenditure:  
The Case of Free State Municipalities

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## List of Acronyms

CU	Consumer Units
FBS	Free Basic Services
FFC	Financial and Fiscal Commission
LES	Local Equitable Share
LGTAS	Local Government Turnaround Strategy
RSC	Regional Service Council

## 1. Introduction

As part of its Submission on the Division of Revenue 2012/13, the Financial and Fiscal Commission (FFC) carried out a general assessment of the trends and performance of local government revenue and expenditure in South Africa (FFC, 2011). At the request of the Free State Provincial Legislature, this general analysis has been disaggregated to focus specifically on Free State municipalities.

The overarching aim of the paper is to highlight changes in the behaviour of revenues and expenditures and propose specific issues that the Free State Legislature may wish to monitor more closely in its municipalities. In the main, the paper paints a picture of broad changes in revenues and expenditures in the Free State, while the appendices contain information on individual municipalities on specific issues of interest such as municipal consumer debt, repairs and maintenance and capital spending.

This report is based on the pre-2011 configuration of municipalities<sup>1</sup> as summarised in Table 1.

**Table 1: Categorisation of Free State municipalities used in analysis**

Category	Description	Number
Secondary Cities	Local municipalities with the highest operating budgets and a large urban spatial pattern	2
Large Towns	Local municipalities that consist of a large town	3
Medium to Smaller Towns	Local municipalities that consist of several smaller, urban settlements	15
Districts Without Major Powers and Functions	Category C municipalities without the water and sanitation service powers and functions	5
Total		25

### 1.1. Data Underpinning Analysis

Initially, financial data (outcomes from 2004/05 up until 2009/10) was requested from the Free State Provincial Treasury. The Provincial Treasury obliged; however, due to gaps (for example no figures recorded with respect to the drivers of operating expenditure for 2007/08, 2008/09 and 2009/10) and certain discrepancies (for example differences in own revenue figures, particularly for 2009/10) within the data-set, it was decided to use National Treasury data to inform the analysis. As a result, the analysis is based on six years of financial data (original budgets and outcomes), from 2004/05 to 2009/10. It should also be noted that the figures have been converted to real terms, that is, taking into consideration the effects of inflation in each year<sup>2</sup>. Additional sources of data include the 2010 State

<sup>1</sup> This approach was adopted as a result of financial and other data not being updated at the time of writing.

<sup>2</sup> The following deflators were used to convert from nominal to real figures: 2004/05= 95.84, 2005/06= 101.47, 2006/07= 108.77, 2007/08=117.77, 2008/09=128.19, 2009/10=137.22.

of the Population Report for the Free State Province, Statistics South Africa's Non-Financial Census and 2009/10 audit outcomes as reported by the Auditor General.

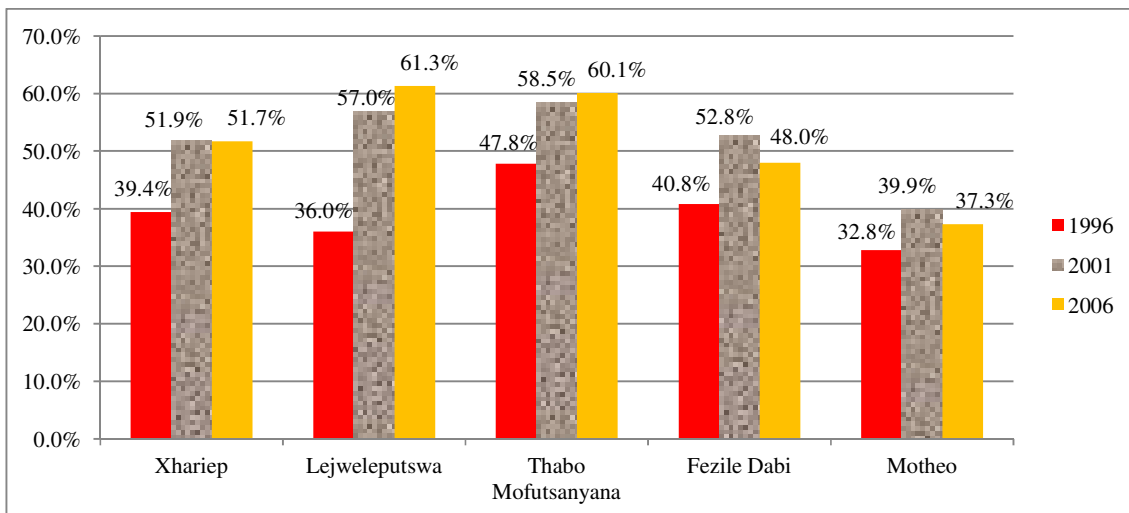
## 2. Contextualising Free State Municipalities

The Free State contains 6.2% of South Africa's population. According to the 2010 State of the Population Report, population growth in this province has been marginal increasing from 2.940 million people in 2001 to 2.977 million in 2008 (Free State Department of Social Development (FSDSD), 2010). Despite having the slowest population growth relative to the other eight provinces, the Free State showed significant growth in the total number of households. This is due to a decline in household size from 4.2 in 1996 to 3.3 in 2007. This implies additional pressure on municipalities in this province to provide basic services such as water and sanitation, electricity and refuse removal.

Of the 2.9 million people in the Free State, less than half of the potential working population (which equates to 1.86 million people), were able to find employment. In terms of household income, the percentage of households earning no income has declined from 12.1% in 1996, to 7.6% in 2008. Slower growth was also recorded for households earning lower below R400 and R800 per month.

Despite progress in this regard, the 2010 State of the Population Report (FSDSD, 2010) cautions that the overall population remains poor with approximately 50% of households earning less than R21 708 per annum (about R1800 per month) as at 2008. Figure 1 below depicts the poverty rate per municipal district as at 1996, 2001 and 2006. As evident from Figure 1, poverty is most severe in the Lejweleputswa, Thabo Mofutsanyana and Xhariep districts where, as at 2006, 61.3%, 60.1% and 51.7% of households respectively were classified as poor. In addition, 19 of the 25 municipalities in the Free State Province can be described as rural. These trends imply significant implications for municipalities in terms of impact on own revenue-raising ability (with respect to households being able to afford to pay for municipal services) and the provision of free basic services (FBS) (in terms of municipalities having sufficient resources to provide FBS to all eligible households).

**Figure 1: Poverty<sup>3</sup> rate per Free State district, 1996, 2001 and 2006**



<sup>3</sup> The poverty rate is determined using household size and household income. Households which fall below a certain threshold are then classified as poor.

Source: FSDSD, 2010.

Given this brief contextualisation of the socio-economic profile of the Free State, the rest of the analysis focuses on revenue and expenditure trends within Free State municipalities.

### 3. Overview of Municipal Revenue Trends in Free State Municipalities

Municipalities rely on two main sources of revenue: own revenue and intergovernmental fiscal transfers. Own revenue sources include property rates as per the Municipal Property rates Act (MPRA), user charges for municipal services (such as water and sanitation, electricity, refuse removal) as per sections 75 and 96 of the Municipal Systems Act and other local taxes.<sup>4</sup> Intergovernmental transfers on the other hand, are aimed at supplementing own revenue sources so as to enable municipalities to deliver on their constitutional mandates. The main intergovernmental transfers in the local government sphere are the local equitable share (LES) allocation and conditional grant funding.

Table 2 provides information on changes to the proportional contribution of the main revenue sources to total municipal revenue whilst Figure 2 illustrates the real growth in these revenue sources for the period 2004/05 up until 2009/10.

**Table 2: Contribution of various revenue sources to total municipal revenue for the Free State, 2004/05-2009/10**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Own Revenue	86.8%	74%	63.5%	63.8%	69.7%	54.1%
Equitable Share	13.2%	16%	24.1%	17.9%	19.8%	34.4%
Conditional Grants		10%	12.4%	18.3%	10.5%	11.5%

Source: FFC calculations based on National Treasury data, 2011.

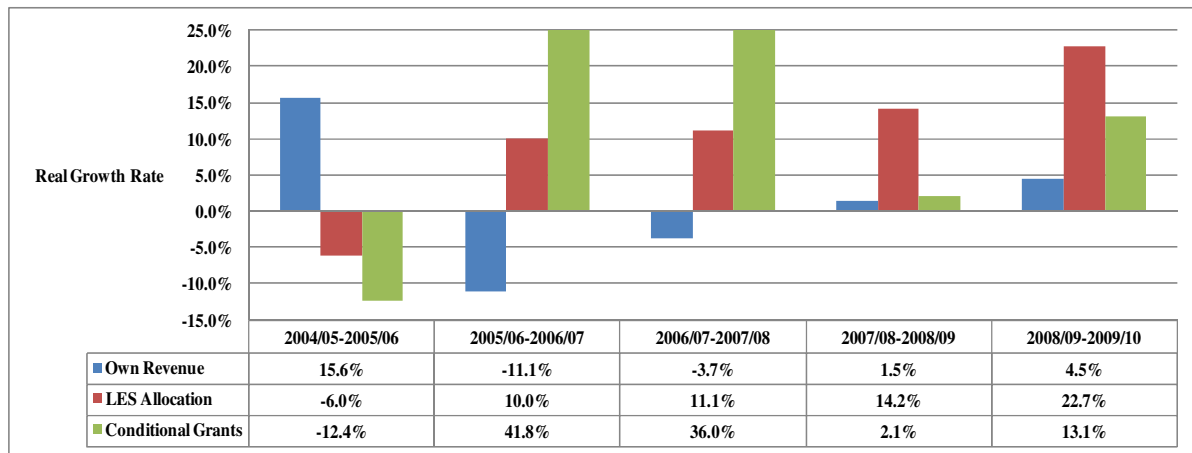
Whereas the contribution of own revenue starts out significantly dominant in 2004/05, by 2009/10, this component contributes just over half of total municipal revenue in Free State municipalities. The equitable share on the other hand has shown significant increase in terms of contribution to total municipal revenue, increasing from 13.2% in 2004/05 to 34.4% in 2009/10.

Over the period reviewed, total municipal revenue in the Free State has increased by a real annual average of 5.1%. Generally, this increase has been driven by increases in intergovernmental transfers, particularly consistent increases in the LES allocation. Between 2004/05 and 2009/10, own revenue performed poorly, illustrating either declining or marginal growth in real terms. As will be explained in Section 3.3 below, non-payment for municipal services, particularly water, may be one cause for slower growth in own revenue. In addition, the slow growth in own revenue generation as depicted in Figure 2 can also be partially explained by the financial crisis of 2008. Traditional sectors such as mining and agriculture were impacted by the recession, therefore also driving lower revenue collection (Free State Provincial Treasury, 2011). Whereas growth in own revenue appears relatively

<sup>4</sup> Municipalities are also accorded borrowing powers as per Section 230 of the Constitution.

stronger in 2009/10, deeper analysis indicates that the increase is in fact as a result of increased borrowing for capital projects and, unfortunately not the result of improvements in own revenue.

**Figure 2: Real growth in components of total municipal revenue for the Free State, 2004/05-2009/10**



Source: FFC calculations based on National Treasury data, 2011.

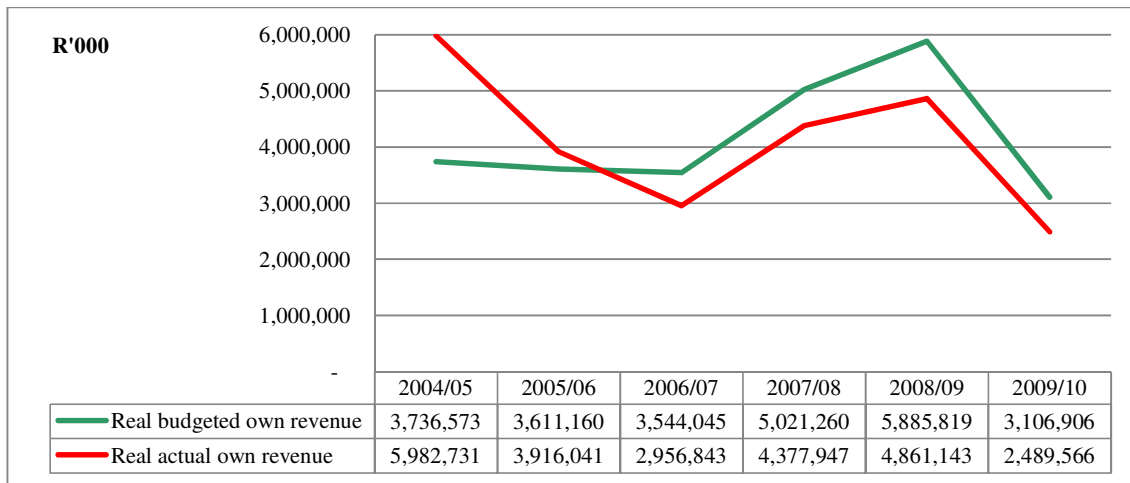
Notwithstanding the rural nature of Free State municipalities there is a need to ensure that own revenue sources are optimally developed and sustained so as to prevent grant dependency and protect municipalities against the effects of declines in government transfers as a result of recessionary effects. Strengthening own revenue can assist in protecting municipalities from these kinds of effects<sup>5</sup>. The Local Government Turnaround Strategy (LGTAS) is aimed at strengthening the ability of municipalities to perform its functions, through identifying practical processes and solutions to resolve underlying problems. The reason for a strategic focus on revenue collection is that service delivery failures are attributed to shortage of funds, from both own revenue and national transfers. On the other hand, intergovernmental transfers, specifically the LES allocation, have shown relative consistency since 2007/08. This is identical to trends for the local government sphere as a whole, where growth in LES transfers were driven mainly by national government priorities aimed at enabling greater access to basic services, the replacement of the RSC levy and preparations for the 2010 FIFA World Cup.<sup>6</sup>

As noted in the FFC’s Submission for the Division of Revenue 2012/13, a credible budget is one that ensures funding of all approved items, with little deviation between budgeted (billed) and actual amounts (FFC, 2011). Figure 3 below illustrates aggregate Free State budgeted (billed) own revenue relative to aggregate Free State actual own revenue between 2004/05 and 2009/10.

<sup>5</sup> The Commission’s Submission for the Division of Revenue 2011/12 and the accompanying technical report, contains insight into how municipalities can maximise the benefits of revenue enhancement strategies and strengthen own revenue.

<sup>6</sup>See page 43 of the FFC’s Submission on the Division of Revenue 2012/13.

**Figure 3: Budgeted versus actual own revenue for the Free State, 2003/04- 2009/10**

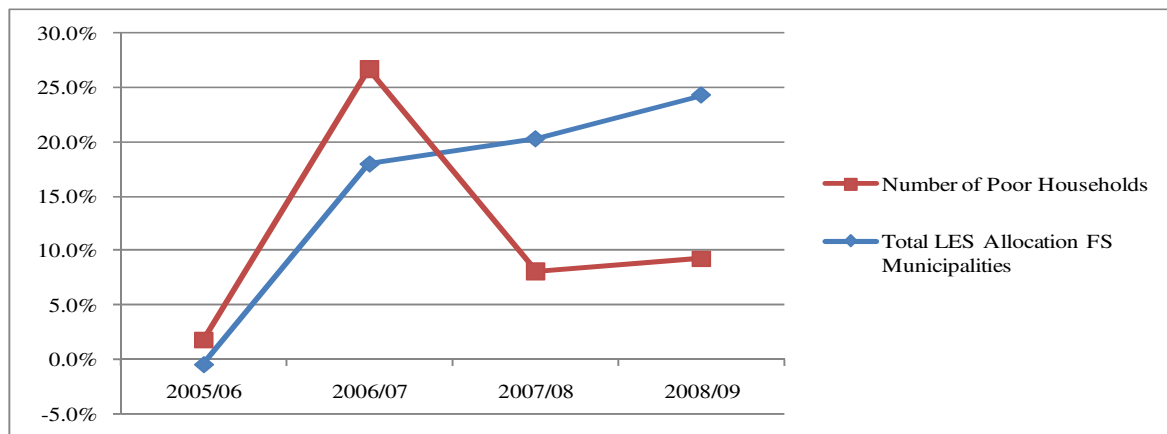


Source: FFC calculations based on National Treasury data, 2011.

As is evident from Figure 3, for most of the years over the period reviewed, actual own revenue is lower than what had been budgeted for. Variations between budgeted and actual amounts can occur for many reasons, including increases in unemployment, poverty and/or general economic downturns. Nevertheless, while municipalities may not have control over these factors, in their planning processes they are expected to be sensitive to extenuating factors and revise budget/spending projections appropriately. It is important that municipalities get this exercise right as big variations in budgeted versus actual amounts, especially in the case of revenue, hampers effective planning.

Deeper analysis of the LES allocation reveals that this funding mechanism has kept pace with and even shown stronger growth relative to growth in the number of poor households. Figure 4 shows real growth in the LES relative to growth in the number of poor households (i.e. households earning less than R800 per month). As is evident, between 2004/05 and 2006/07 growth in poor households was stronger than growth in the LES allocation. In 2007/08, this trend reversed and we see a slowdown in the growth in the number of poor households (this is confirmed by the 2010 State of the Population Report for the Free State as well).

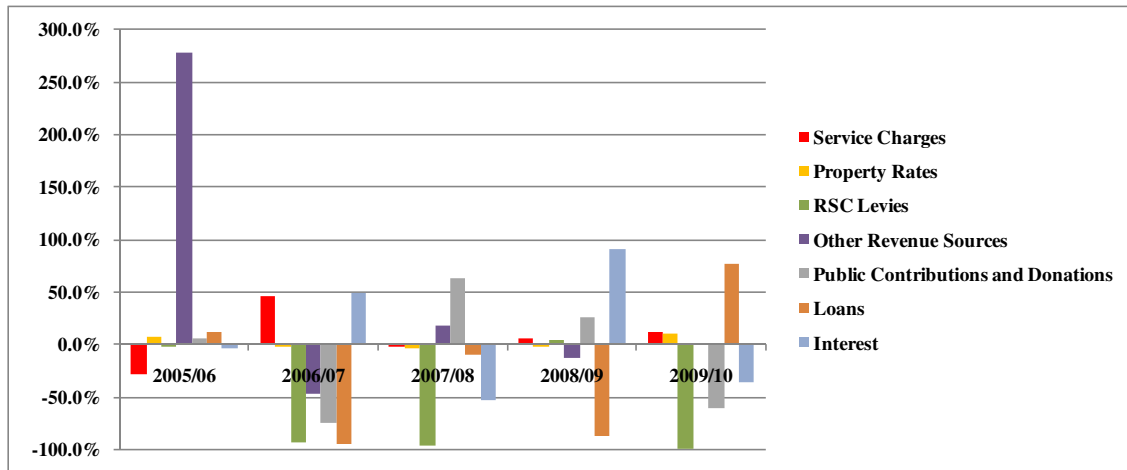
**Figure 4: Real Growth in LES Allocation Relative to Growth in the Number of Poor Households**



Source: FFC calculations based on National Treasury data, 2011.

Figure 5 below provides a bit more detail in terms of the drivers of growth in total municipal own revenue between 2004/05 and 2009/10. As at 2009/10 it is clear that while there was positive growth in revenue generated from service charges and property rates, the driver of own revenue was the result of loan funding and, as mentioned previously, not the result of improved own revenue generation.

**Figure 5: Drivers of Total Municipal Own Revenue**



Source: FFC calculations based on National Treasury data, 2011.

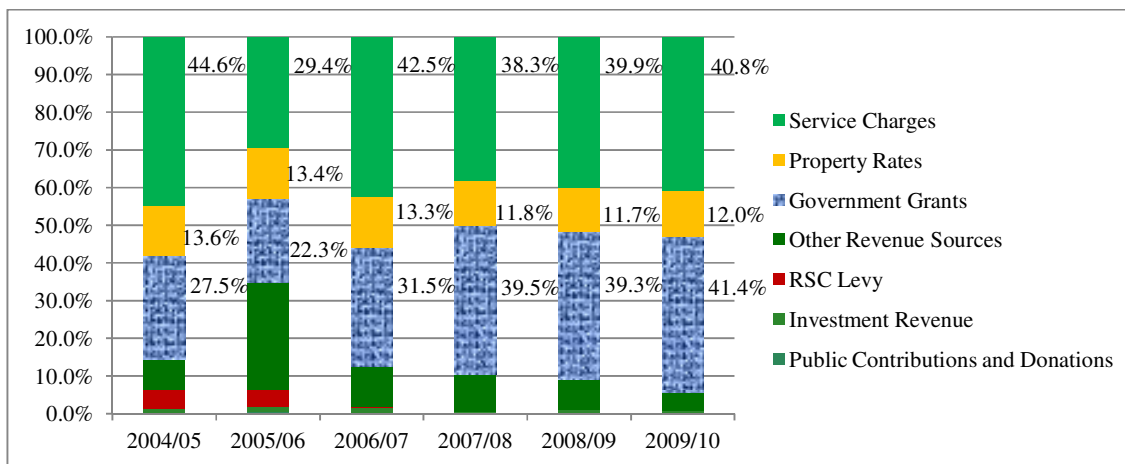
Total municipal revenue can be categorised into two broad types, namely operating and capital revenue. The broad trends for these two categories are discussed below.

### 2.1. Municipal Operating Revenue

Operating revenue is comprised of seven key components: service charges, government grants and subsidies, property rates, other revenue sources, investment revenue (interest), public contributions and donations and regional service council (RSC) levies<sup>7</sup>. Generally, service charges are the dominant source of operating revenue for municipalities. Figure 6 illustrates the proportional decline in service charges and other own revenue sources to total operating revenue – this alongside significant increases in the contribution of government grants over the period. It is also noted that property rates declined from 14.0% to 12% over the period reviewed.

<sup>7</sup> The RSC Levy was a local government tax afforded to category A and C municipalities and was abolished as of the 2006/07 financial year. It was replaced by an interim grant up until 2009/10; whereupon Category A municipalities were given a share of the general fuel levy (also supplemented by the VAT zero-rating of municipal property rates) and the grant continues for Category C municipalities.

**Figure 6: Contribution of main revenue sources to total municipal operating revenue over the period 2004/05-2009/10**

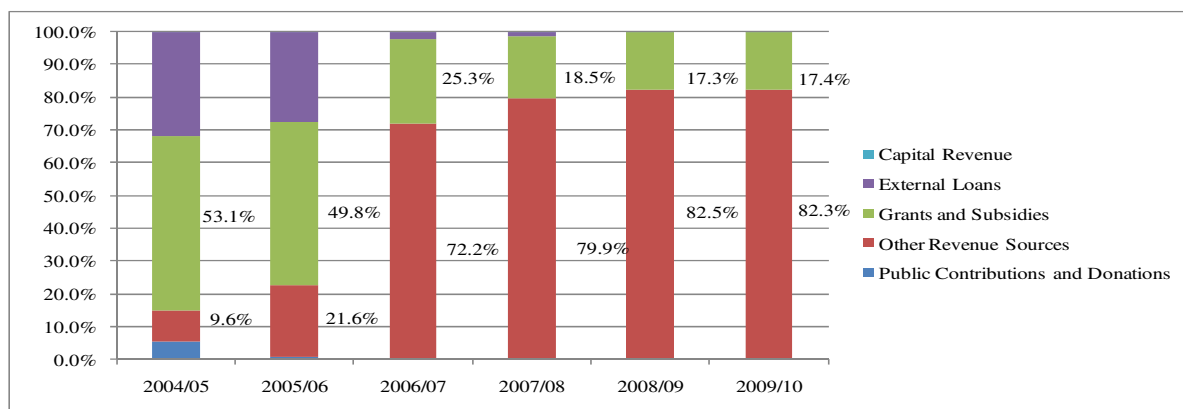


Source: FFC calculations based on National Treasury data, 2011.

## 2.2. Municipal Capital Revenue

Capital revenues are derived from four main sources: government grants and subsidies, other own revenues, loans (borrowing) and public contributions and donations. Figure 7 illustrates the contribution of these various sources to aggregate capital revenue. The contribution of government grants has declined significantly over the period reviewed – from 53.1% in 2004/05 to 17.4% in 2009/10. Since 2006/07, the dominant source of capital revenue is other revenue sources, which contributes over 80% of capital revenue as at 2009/10. As noted in the FFC’s Submission for the Division of Revenue, 2012/13, municipalities need to be explicit about what the term ‘other’ entails (FFC, 2011:45). The use of loans, which was prominent during 2004/05 (contributing 31.9% to total capital revenue), showed significant decline over most of years reviewed. In 2009/10 however, there is a reversal of this trend where borrowing increased and actually served to buoy total municipal revenue. However, as at 2009/10 this component still contributed less than 1% of total capital revenue. Whether the poor state of municipal own revenue is leading to unwillingness of lenders to borrow funds to municipalities is probable, however this is an aspect that requires further interrogation.

**Figure 7: Contribution of main revenue sources to total municipal capital revenue over the period 2004/05-2009/10**



Source: FFC calculations based on National Treasury data, 2011.

### ***2.3. Performance of Revenue Collection and the Challenge of Municipal Consumer Debt<sup>8</sup>***

Municipal consumer debt refers to non-payment of property rates, fees for municipal services (for example, water and sanitation, electricity, refuse removal<sup>9</sup>) and various other financial obligations to municipalities (this includes, for example, traffic fines or rental housing payments). The type of non-payment described above emanates from households, businesses, government and the category termed ‘other’ (the specific components of this category vary from municipality to municipality). One example of what might be listed under this category is debt from insolvent estates.

For each of the six years under review, the composition of municipalities differ, but the number that have been reporting has consistently increased. In 2004 for example, only one municipality, Mangaung, is listed as providing data on consumer debt. This increased to 19 municipalities in 2005/06. Since 2006/07, 22 municipalities have been consistently reporting figures on consumer debt. There are two municipalities that have shown persistent challenges with reporting, namely Thabo Mofutsanyana and Fezile Dabi. Based on the database, these two municipalities have not reported in any the six years under review. Whilst it should be noted that both municipalities do not have the water and sanitation functions, they should still be reporting on non-payment for other municipal services. Such cases of non-compliance with reporting requirements need to be addressed.

Table 3 provides an overview of total real municipal consumer debt within the Free State between 2004/05 and 2009/10. Up until 2007/08 consumer debt across the Free State municipalities showed consistently slower year on year growth. In 2008/09, consumer debt recorded a sizable decline of 23%. Most of the debt is concentrated in Mangaung (24% of total debt), Matjhabeng (17% of total debt) and Maluti-a-Phofung (12% of the total). In all probability, the 2008 economic crisis and the subsequent impact on employment and poverty, negatively affected the ability of consumers to pay for municipal services, thus reversing the in-roads made against this challenge and resulting in the 39.5% growth in consumer debt between 2008/09 and 2009/10.

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<sup>8</sup> Given gaps in data from the Free State Provincial Treasury, official National Treasury data was used to complete the analysis of municipal consumer debt.

<sup>9</sup> These are key sources of own revenue.

**Table 3: Overview of total municipal consumer debt across Free State municipalities, 2004/05-2009/10 (R'000)**

Period Debt							Average Growth
Outstanding For	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2004/05-2009/10
0-30 days	17,970	289,519	277,146	303,854	207,810	367,507	82.9%
31-60 days	29,299	104,036	116,219	163,125	129,302	167,308	41.7%
61-90 days	14,528	110,788	88,784	99,738	95,355	123,386	53.4%
Over 90 days	383,862	1,784,892	2,294,054	2,718,985	2,097,239	2,870,609	49.5%
<b>TOTAL</b>	<b>445,658</b>	<b>2,289,236</b>	<b>2,776,203</b>	<b>3,285,702</b>	<b>2,529,705</b>	<b>3,528,810</b>	<b>51.3%</b>
<i>Real year on year growth</i>							
0-30 days		1511.1%	-4.3%	9.6%	-31.6%	76.8%	
31-60 days		255.1%	11.7%	40.4%	-20.7%	29.4%	
61-90 days		662.6%	-19.9%	12.3%	-4.4%	29.4%	
Over 90 days		365.0%	28.5%	18.5%	-22.9%	36.9%	
<b>Debt:Free State</b>		<b>413.7%</b>	<b>21.3%</b>	<b>18.4%</b>	<b>-23.0%</b>	<b>39.5%</b>	

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

An indicator that can be used to assess the severity of consumer debt is the size of the debt relative to municipal operating revenue. Figure 8 illustrates this for Free State municipalities. As at 2009/10 it is estimated that the proportion of consumer debt to operating revenue is 54.1%. This represents revenue that could be utilised to fund and/or enhance service delivery across Free State municipalities. Whereas a municipality such as Mangaung may have, in absolute terms, the largest amount of consumer debt, relative to the size of its operating revenue budget, the extent of non-payment may not be as severe as say the situation in Metsimaholo where the debt amount is smaller but is equal to over 80% of the total operating budget of that municipality. It should be noted that if municipalities were to improve debt management and start writing off irrecoverable amounts, this picture will improve. For a more detailed analysis, Appendix A and B illustrate real debt per municipality and real debt as a percentage of total municipal operating revenue respectively.

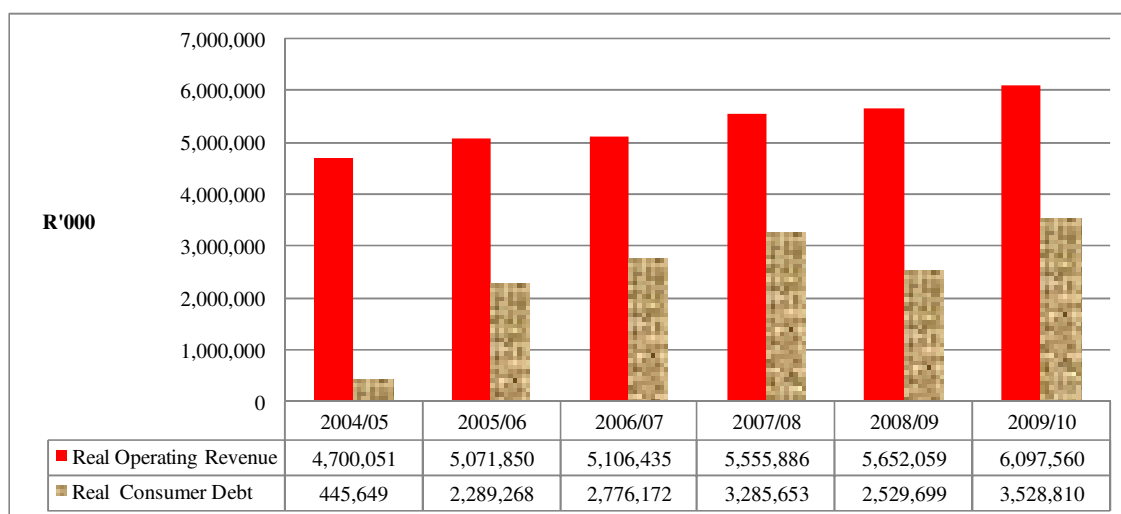
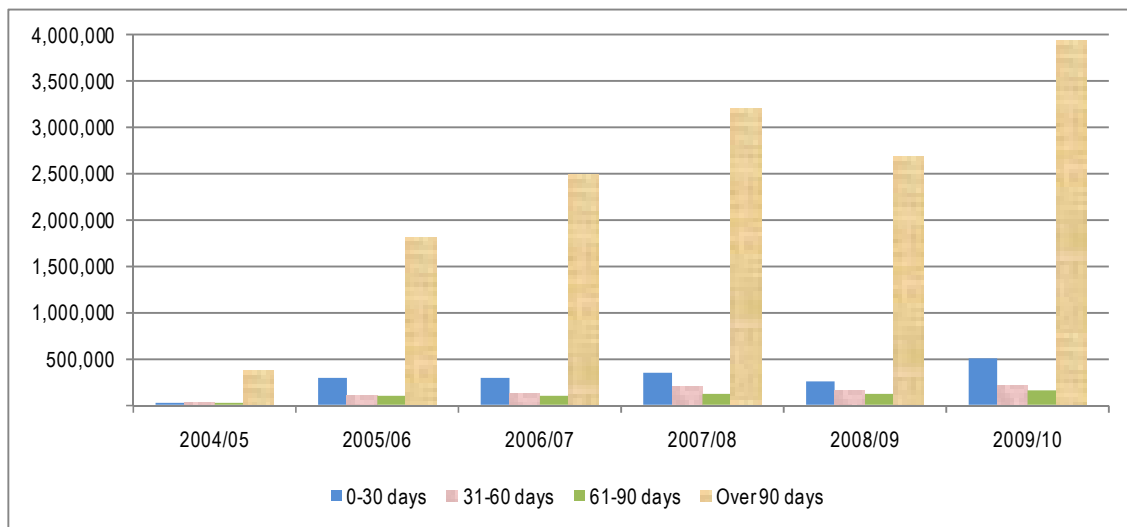
**Figure 8: Municipal consumer debt relative to total municipal operating revenue, 2004/05-2009/10**

Figure 9 graphically illustrates the period for which debt is outstanding in each of the six years. It should be noted that debt management is a key challenge experienced by most municipalities. As identified in the Commission’s 2012/13 Submission, the provision for bad debts, the writing off of irrecoverable debts and ultimately the recovery of outstanding amounts is weak across most categories of municipalities. To this end the FFC has recommended that basic norms and standards be devised to assist municipalities in better managing this challenge and importantly to bring about uniformity with respect to municipal practices.

In the case of Free State municipalities, the category of ‘debt outstanding for over 90 days’, dominates during the entire period. As at 2009/10 this category of debt, which can be termed irrecoverable, amounted to 81% of total debt. The fact that the largest portion of existing debt can be termed historical, indicates that municipalities are experiencing challenges with debt management. It could be the case that irrecoverable debts are not being adequately written off and thereby artificially inflating the extent of the debt in each of the years reviewed. Municipalities that should be closely monitored with respect to this include Mangaung, Matjhabeng, Maluti-a-Phofung and Metsimaholo. Appendix C contains municipal specific information regarding real consumer debt outstanding for over 90 days.

**Figure 9: Time Period for which debt is outstanding for, 2004/05-2009/10**



Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

According to the Free State Provincial Treasury, the significant amount of debt older than 90 days, is the result of lack of internal control processes to manage debt. This is due to a combination of human and technical experienced in municipalities. It was also indicated that whilst municipalities adopt debt control policies, the implementation thereof is insufficient. In addition, not all municipalities have promulgated the policies into by-laws, which further impacts on the legal enforcement of policies. According to the provincial treasury (Free State, 2011), the following reasons have contributed to the existing debt position within Free State municipalities:

- Poor maintenance of the debtor database;
- Late and inaccurate billing;
- Poor collection processes;
- Culture of non-payment in communities;
- Indigent register not kept or updated;
- Inefficient payment processes resulting in unallocated payments in suspense accounts that are not regularly reconciled;
- Access to grants to fund operating expenditure, leading to a lack of attention to outstanding debts;
- Ratepayer boycotts due to deteriorating service delivery;
- Councillors' interference in the enforcement of municipal credit control policy.

The provincial treasury is of the opinion that the following strategies could assist in reducing the extent of outstanding debtors:

- Data cleansing and verification of debtors;
- Validation of the debt;
- Issuing letters of demand;
- Payment arrangements with those debtors who cannot pay the full outstanding amount, whilst servicing the current debt;
- Continuous focus on collecting current debtors;
- Maintaining the integrity of the debtors database (Free State Provincial Treasury, 2011).

In terms of the sectors where consumer debt is most prevalent, non-payment for water dominates (See Table 4). This is not surprising given that water is viewed as an essential basic service and so cannot be totally disconnected/cut in response to non-payment. Again it is clear that non-payment across the majority of these sectors was declining in 2008/09 but rose sharply in 2009/10. It is pertinent for municipalities to be explicit as to what is contained under the term 'other' as it constitutes the second largest debt category. A similar challenge exists when viewing municipal consumer debt from the point of view of the sphere as a whole. Appendices D, E and F provide a more detailed municipal-specific analysis of non-payment for water, electricity and 'other'.

**Table 4: Non-payment in Free State municipalities disaggregated by sector, 2004/05-2009/10 (R'000)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Water	195,902	739,450	905,452	1,082,972	837,539	1,605,877
Electricity	42,089	169,936	248,959	235,753	241,799	380,279
Property Rates	163,098	504,116	531,126	753,429	663,831	686,827
RSC Levies		43,801	29,444	1,773	683	637
Other	44,569	831,936	1,061,215	1,211,771	785,852	855,191
<b>TOTAL</b>	<b>445,657</b>	<b>2,289,238</b>	<b>2,776,196</b>	<b>3,285,698</b>	<b>2,529,705</b>	<b>3,528,810</b>
<i>Real year on year growth</i>						
Water		277.5%	22.4%	19.6%	-22.7%	91.7%
Electricity		303.8%	46.5%	-5.3%	2.6%	57.3%
Property Rates		209.1%	5.4%	41.9%	-11.9%	3.5%
RSC Levies			-32.8%	-94.0%	-61.5%	-6.8%
Other		1766.6%	27.6%	14.2%	-35.1%	8.8%
<b>TOTAL</b>		<b>413.7%</b>	<b>21.3%</b>	<b>18.4%</b>	<b>-23.0%</b>	<b>39.5%</b>

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

Unfortunately, the dataset used in this analysis, is not disaggregated to show where the municipal consumer debt across the Free State municipalities, emanates from. Generally however, households are responsible for the bulk of this type of debt. The most common reason to explain non-payment appears to be the inability to pay, due to poverty (Booyesen, 2001; Botes and Pelsler, 2001; Burger, 2001). The term ‘inability to pay’ indicates that there is an income level below which people are unable to pay for the delivery of services. This raises the central question of affordability. Milne (2004) suggests using core “affordability” indicators, which if properly monitored can warn policy-makers of early indications of changes in the affordability of services. A range of possible indicators are proposed (Milne, 2004:5):

- Consumption-related indicators, such as percentage of total household expenditure devoted to a commodity or per capita consumption/expenditure on a commodity
- Price-related indicators, for example unit prices paid for a commodity
- Payment-related indicators, which would include the use of arrears statistics, alternative payment schemes and disconnections owing to debt.

However, monitoring trends in affordability indicators represents what can be termed an ex post approach. McPhail (1993) suggests incorporating assessments of affordability and willingness to pay at the planning stage of public goods such as water or electricity, especially if the intention is to recover costs. The information from an affordability assessment can provide insight into potential service usage patterns and, therefore, the tariff to be charged in order to maximise cost recovery.

Although the need for municipalities to collect outstanding debts have been highlighted, it is as noted by the Free State Provincial Treasury, also important to pay attention to all aspects of the revenue management value chain in order to ensure completeness of revenues. This includes the following three aspects:

- Integrity of billing information: Municipalities should regularly update its information with regards to the property deeds register. This will ensure that the accounts are sent out correctly.
- Accuracy of billing system: All consumers must be billed accurately according to the market value of the properties and for services consumed.
- Ability to collect: The accounts must be sent to the correct addresses or else the municipality cannot enforce payment.

A municipality needs to have sound policies, practices and processes in place for managing revenue.

#### 4. Overview of Municipal Expenditure in Free State Municipalities

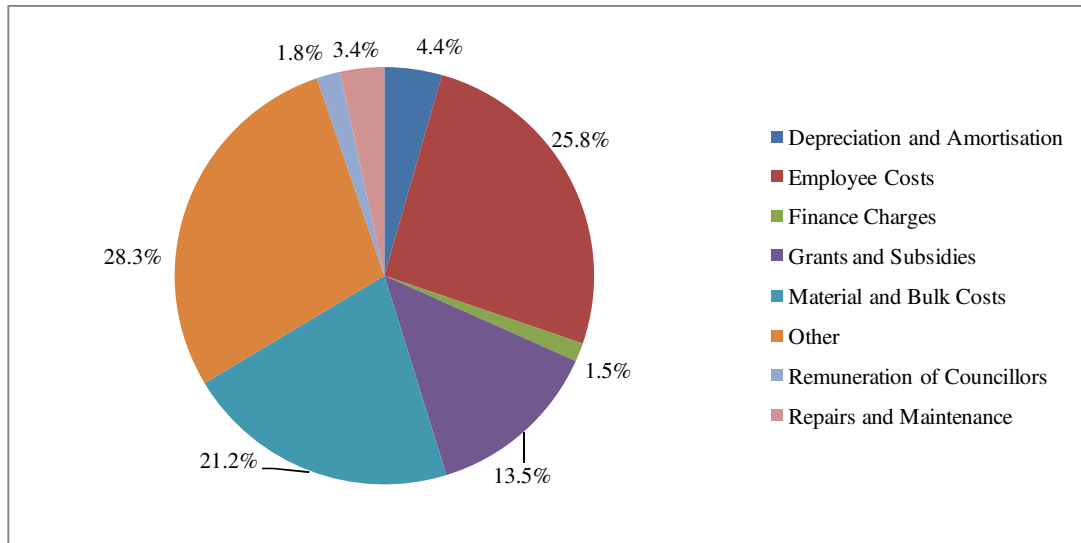
As with total municipal revenue, total municipal expenditure can also be divided into two categories: operating and capital expenditure. These components are discussed below.

##### 4.1. Municipal Operating Expenditure

Municipal operating expenditure represents recurrent costs that a municipality incurs in providing constitutionally mandated basic services to its constituencies. Figure 10 provides a picture of the composition of total municipal operating expenditure for all Free State municipalities for the 2009/10 financial year.

The bulk of municipal operating expenditure is driven by ‘other’ – in 2009/10, 28.3% of total operating expenditure was dedicated to this item. As required in terms of National Treasury’s new economic reporting format which attempts to encourage greater transparency, clarity and accessibility into municipal reporting, municipalities should do away with ambiguous terminology such as ‘other’. Whereas the municipality may be aware of what is contained under the term ‘other’, those responsible for oversight may not understand what the concept entails. The second largest operating expenditure component is employee costs (accounting for 25.8% of total operating expenditure in 2009/10).

**Figure 10: Composition of municipal operating expenditure for all Free State municipalities, 2009/10**



Source: FFC calculations based on National Treasury data, 2011.

One aspect of concern when it comes to municipal operating expenditure, is the low expenditure on repairs and maintenance. In terms of National Treasury guidelines municipalities are advised to allocate between 8-10% of total operating budgets to this component. As is evident in Table 5, the proportion of total operating expenditure dedicated to repairs and maintenance within Free State municipalities has never exceeded 5%. This endangers the existing infrastructure base within municipalities as low spending on repairs and maintenance can lead to decay/rapid depreciation assets. FFC analysis of this component for the local government sphere as a whole, indicates a similar

trend where all categories of municipalities have failed to spend adequately on repairs and maintenance<sup>10</sup>.

In terms of real growth in spending, performance has been very unstable ranging from a real decline of 21% in 2004/05 to an increase of 12.4% in 2008/09. Given that the maintenance of new/existing infrastructure is critical to ensuring sustainable delivery of quality services, municipalities are encouraged to rethink their approach to planning for and spending on repairs and maintenance.

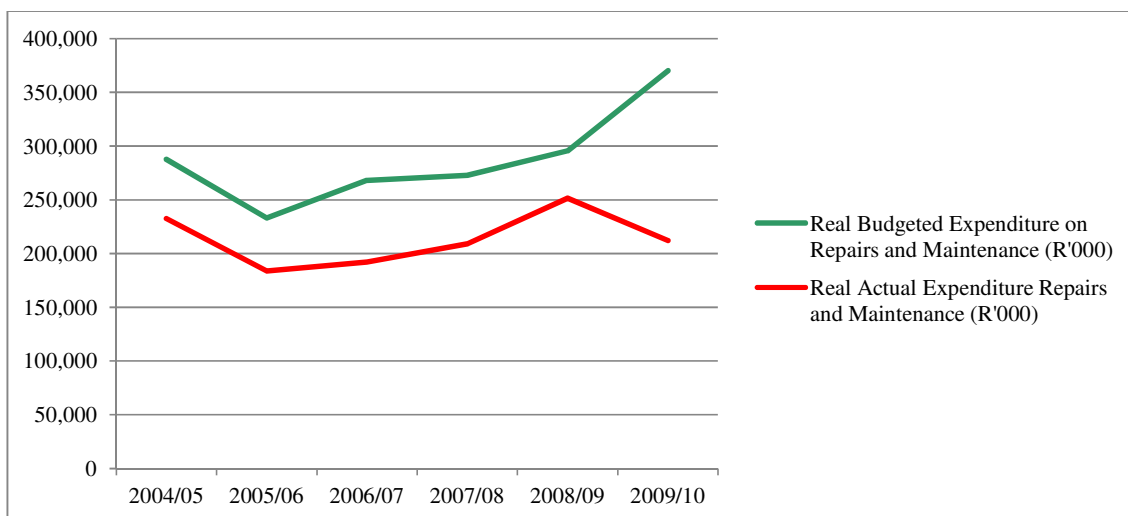
**Table 5: Performance of repairs and maintenance expenditure, 2004/05-2009/10**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Actual Expenditure on Repairs and Maintenance (R'000)	232,558	183,836	192,182	209,062	234,962	214,786
Real Year on Year Growth (%)		-21.0%	4.5%	8.8%	12.4%	-8.6%
Actual Expenditure on Repairs and Maintenance as % of Total Operating Expenditure	5.0%	4.5%	3.7%	3.3%	4.1%	3.4%

Source: FFC calculations based on National Treasury data, 2011.

In addition to poor planning around repairs and maintenance it also appears that this item is easily sacrificed when budgets are under pressure. Figure 11 shows budgeted expenditure on repairs and maintenance, relative to actual expenditure. The deviation between the two is significant and is growing wider towards the end of the period. Matjhabeng, Mohokare, Kopanong and Letsemeng are four municipalities in particular who demonstrate very poor actual spending on repairs and maintenance relative to budgeted amounts. Annexure G contains information per municipality regarding the extent to which budgeted and actual expenditure on repairs and maintenance match.

**Figure 11: Budgeted versus actual expenditure on repairs and maintenance expenditure, 2004/05-2009/10**



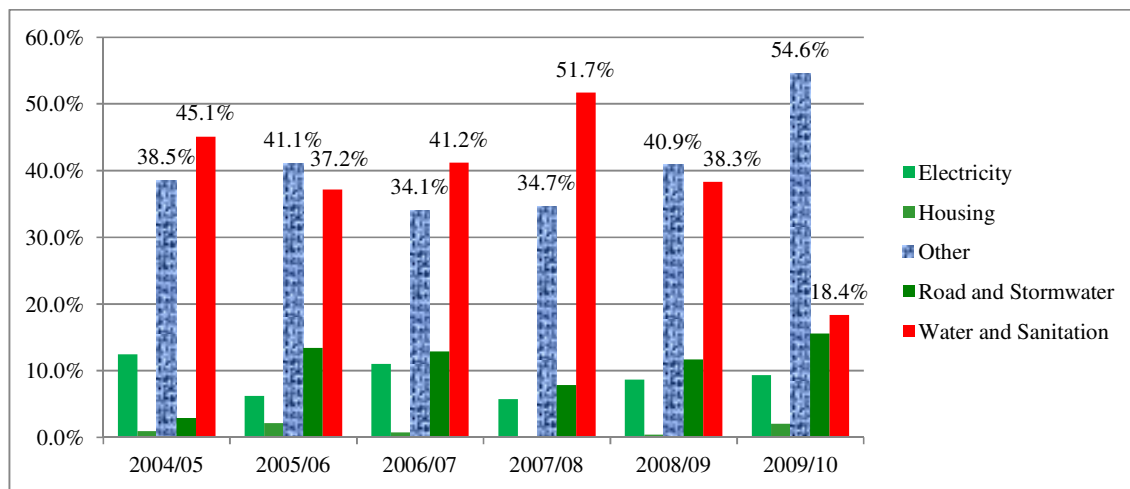
Source: FFC calculations based on National Treasury data, 2011.

<sup>10</sup> See page 50 of the FFC Submission for the Division of Revenue 2012/13

#### 4.2. Municipal Capital Expenditure

Municipal capital expenditure constitutes a municipality’s investment in social and economic infrastructure projects. Based on aggregate local government trends, this type of expenditure is generally dominated by three items, namely water and sanitation, roads and storm water and other (this category refers to expenditure on land, buildings, vehicle fleets). Figure 12 illustrates the proportion of expenditure allocated to each of various items that compose total municipal capital expenditure. Expenditure by Free State municipalities is dominated by allocations in respect of other capital expenditure and water and sanitation.

**Figure 12: Composition of municipal capital expenditure for all Free State municipalities, 2004/05-2009/10**

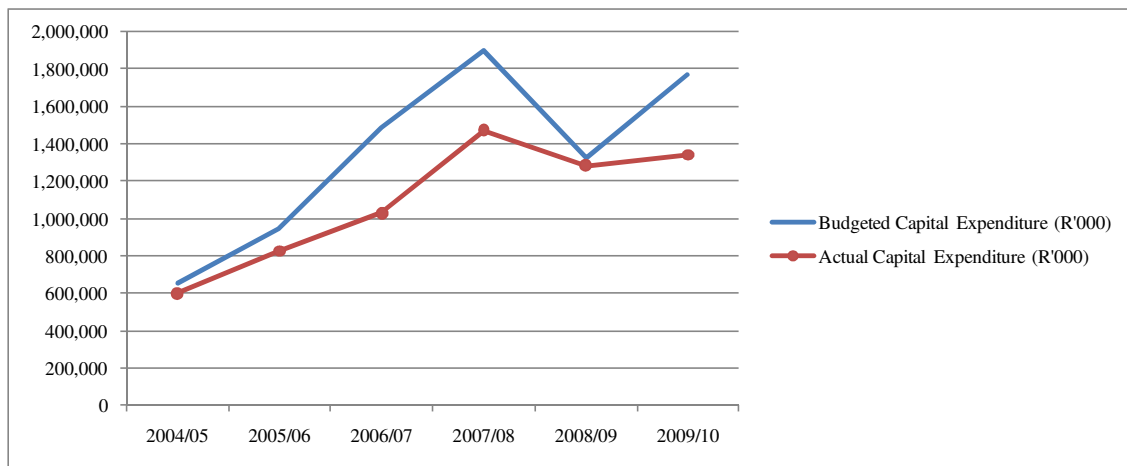


Source: FFC calculations based on National Treasury data, 2011.

Based on poor municipal capital performance identified in the FFC’s Submission for the Division of Revenue for 2012/13 (FFC, 2011), Figure 13 below illustrates performance of planned versus actual, capital expenditure over the period 2003/04 to 2008/09. If a score is less than 100%, the actual amount (or outcome) is smaller than the budgeted amount, meaning that there was underspending. The reverse is also true: if the measurement is greater than 100%, it means the budget was exceeded. Ideally, the deviation between budgeted and actual amounts should be minimal or zero, which is rarely the case. The Department of Co-operative Governance and Traditional Affairs (DCoGTA) has defined a credible budget as “one with a variance of less than 20 per cent” (DCoGTA, 2009:62).

Over most of the period reviewed, actual capital expenditure falls short of planned capital expenditure. There appears to be relative synergy between the two in 2008/09, however as at 2009/10, actual capital expenditure amounted to 76% of what had been planned for in that particular financial year. Individual municipalities that have performed consistently well in this aspect include Mangaung and Ngwathe. On the other hand, Thabo Mofutsanyana, Naledi and Metsimaholo seem to be facing real challenges with respect to capital spending. Appendix H shows the performance of budgeted versus actual capital expenditure for each of the Free State municipalities.

**Figure 13: Budgeted versus actual capital expenditure for total Free State municipalities, 2004/05-2009/10**



Source: FFC calculations based on National Treasury data, 2011.

## 5. Performance Outcomes

This section reports on the service delivery outcomes associated with municipal expenditure in the Free State municipalities and importantly, performance with respect to financial management.

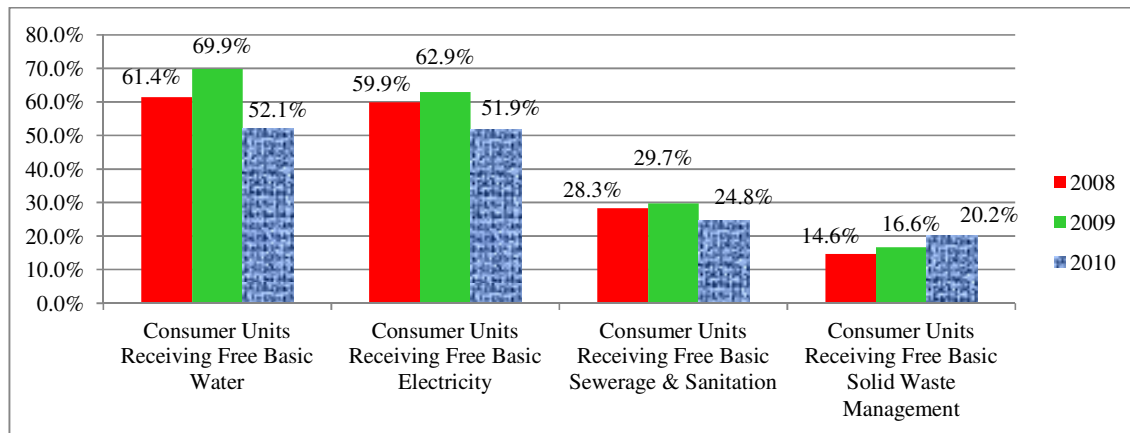
### 5.1. Service Delivery

According to Section 152(1)(b) of the Constitution, one of the key objectives of municipalities is to ensure the provision of services to communities in a sustainable manner (RSA, 1996). Figure 14 below illustrates consumer units<sup>11</sup> receiving free basic services as a proportion of total consumer units receiving these services. The following is noted:

- As at 2010, over half of all consumer units receiving water, are recipients of free basic services. A similar situation exists with respect to electricity,
- The proportion of consumer units receiving free basic services in respect of water, electricity, and sanitation declined between 2008 and 2010; sewerage and sanitation requires attention as only 24.8% of all consumer units receiving this service are categorised as free basic services,
- Although provision of free basic solid waste management services improved between 2008 and 2010, only 20% are currently classified as households receiving this service as part of the free basic services package.

<sup>11</sup> Consumer unit refers to an entity receiving a bill and therefore encompasses households and businesses.

**Figure 14: Consumer Units Receiving Free Basic Services as a % of Total Consumer Units Receiving Basic Services, 2008, 2009, 2010**



Source: FFC calculations based on Statssa data, 2010 and 2011.

## 5.2. Financial Management

Audit outcomes provide a clear indication of the quality of management within an entity. Audit outcomes can be ranked, from best to worst, as follows:

1. Unqualified: This is also known as a clean opinion meaning that the financial statements appear to be presented fairly
2. Unqualified with matters of emphasis/findings: This outcome is generally clean with certain aspects that require improvement
3. Qualified: This means that the auditor has taken exception to certain accounting applications or is unable to establish the potential outcome of a material uncertainty
4. Disclaimer: This is a special type of audit report that should be issued when the auditor permits his or her name to be associated with financial statements that were not examined in accordance with generally accepted auditing standards
5. Adverse: This is a type of audit opinion which states that the financial statements do not fairly present the financial position, results of operations, and changes in financial position, in conformity with generally accepted accounting principles.

Free State municipalities have displayed poor performance in this regard for a number of consecutive years. Table 6 below summarises the audit outcomes for the 2008/09 and 2009/10 financial years.

- In both 2008 and 2009, not a single municipality received the most favourable outcome which is ‘unqualified’
- In 2008 four municipalities received an unqualified report findings – this number declined to three municipalities in 2009.
- The decline mentioned above is indicative of worsening audit outcomes – of the 25 municipalities in the Free State, 18 received disclaimers in 2009.

The trend of poor audit outcomes implies that Free State municipalities are likely to fall short of reaching the goals of Operation Clean Audit by 2014. Whilst financial management is a critical area that needs to be improved upon, it should be noted that there were a few cases of municipalities

turning around poor performance. For example, Thabo Mofutsanyane went from having a disclaimer in 2008/09 to an unqualified with findings in 2009/10. Motheo received a qualified audit opinion in 2008/09, however this improved to a financially unqualified (with findings) opinion in 2009/10. This indicates that municipalities are capable of turning around poor performance. There is thus an opportunity for peer learning where the experience of well performing municipalities can be leveraged to assist those municipalities experiencing challenges.

Audit outcomes per municipality can be found in Annexure I.

**Table 6: Summary of Municipal Audit Outcomes in the Free State, 2008/09 and 2009/10**

<b>Audit Outcome</b>	<b>2008/09</b>	<b>2009/10</b>
Disclaimer	18	9
Adverse	2	1
Qualified	2	6
Financial unqualified with findings on predetermined objectives and/or compliance with laws and regulations	3	4
Financially unqualified with no findings on predetermined objectives or compliance with laws and regulations	0	0
Total number of audits reported on	25	20
Number of audit reports not issued by 31st January 2011	0	5
Total number of audits	25	25

Source: Auditor-General, 2011.

## 6. Concluding Remarks

Based on the above analysis, there are six aspects that are emphasised, namely:

- Intergovernmental transfers dominate over the period reviewed. Notwithstanding the rural nature of a number of municipalities in the Free State, there is a need to ensure that own revenue sources are optimally exploited so that when public resources come under pressure, municipalities are somewhat insulated against declines in equitable share or conditional grant allocations.
- Poor planning with respect to capital and repairs and maintenance as evidenced by the lack of synergy between planned/budgeted and actual spending, needs to be addressed.
- Given the importance of maintaining new/existing infrastructure for sustainable service delivery, spending on repairs and maintenance should be prioritised. Municipalities spending on this item should be commensurate with national guidelines and be linked to the size/value of the asset base within a municipality.
- High quality, accurate data is necessary to support sound decision-making. There is a definite need for municipalities to improve in this regard. We've highlighted the data challenges with respect to the issue of consumer debt, however poor data and reporting is a challenge across the board. Given that accurate and timeous reporting is a legal requirement that municipalities need to comply with cases on non-compliance need to be addressed.
- Poor debt management is a challenge across Free State municipalities. Over 80% of consumer debt as at 2009/10 is attributed to outstanding amounts older than 90 days, thus indicating that

municipalities are not actively and adequately writing off irrecoverable amounts thus unnecessarily inflating the severity of the consumer debt challenge. As a result, better debt management should be prioritised. Municipalities need to find a balance between on the one hand, sending out the message that outstanding amounts will be written off and, on the other hand, applying sound financial and debt management practices.

- Performance is not uniform across Free State municipalities – instances of municipalities turning around poor performance do exist. This provides an opportunity to explore peer learning and support programmes by leveraging the experience of well-performing municipalities.

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<sup>12</sup> The following representatives from the Free State Provincial Treasury commented on the paper – Ms. Anna Fourie, Mr. Floyd Abrahams and Ms. Debbie Smith.

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Appendix A. Real Municipal Consumer Debt per Free State Municipality, 2003/04-2009/10

PDG Category	Municipality	R'000						Municipal Debt as % of 2009/10 Total
		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
B1	Mangaung	445,657	457,087	617,330	613,293	716,766	841,383	24%
B1	Matjhabeng	N/A	897,067	829,787	991,509	N/A	590,840	17%
B2	Dihlabeng	N/A	152,619	154,075	185,897	119,147	145,969	4%
B2	Moqhaka	N/A	N/A	145,831	143,925	156,746	151,534	4%
B2	Metsimaholo	N/A	168,961	187,539	242,775	249,719	292,862	8%
B3	Letsemeng	N/A	12,676	8,700	8,651	10,959	10,369	0.3%
B3	Kopanong	N/A	46,626	51,289	34,774	N/A	41,332	1%
B3	Mohokare	N/A	38,125	34,787	35,980	38,345	42,382	1%
B3	Naledi (Fs)	N/A	28,780	23,968	31,417	46,081	45,248	1%
B3	Mantsopa	N/A	42,642	49,870	59,575	69,924	77,207	2%
B3	Masilonyana	N/A	105,927	118,568	129,112	97,257	103,618	3%
B3	Tokologo	N/A	21,533	23,740	N/A	20,539	46,968	1%
B3	Tswelopele	N/A	20,549	24,889	26,508	28,935	24,980	1%
B3	Nala	N/A	60,566	71,478	74,701	124,562	153,983	4%
B3	Setsoto	N/A	93,691	101,135	120,471	159,105	164,954	5%
B3	Nketoana	N/A	68,276	69,725	84,692	95,689	110,563	3%
B3	Maluti-a-Phofung	N/A	N/A	N/A	322,199	370,279	424,332	12%
B3	Phumelela	N/A	N/A	80,236	44,057	40,970	29,663	1%
B3	Ngwathe	N/A	N/A	119,643	80,989	122,537	154,491	4%
B3	Mafube	N/A	61,166	55,133	45,718	54,463	68,137	2%
C1	Xhariep	N/A	124	102	102	98	N/A	N/A
C1	Motheo	N/A	5,048	31	1,545	691	1,035	N/A
C1	Lejweleputswa	N/A	7,778	8,342	7,809	6,887	6,959	N/A
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>445,657</b>	<b>2,289,239</b>	<b>2,776,197</b>	<b>3,285,698</b>	<b>2,529,701</b>	<b>3,528,808</b>	100%

Appendix B. Municipal Consumer Debt as a Proportion of Total Operating Revenue per Free State Municipality, 2004/05-2009/10

Category	Municipality	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
B1	Mangaung	31.2%	25.8%	37.8%	37.7%	39.5%	42.4%
B1	Matjhabeng	0.0%	117.8%	93.4%	108.5%	0.0%	63.7%
B2	Dihlabeng	0.0%	47.0%	66.7%	76.2%	47.3%	53.9%
B2	Metsimaholo	0.0%	68.0%	67.1%	70.8%	83.9%	87.7%
B2	Moqhaka	0.0%	0.0%	74.9%	63.4%	68.1%	55.8%
B3	Kopanong	0.0%	69.7%	63.8%	31.4%	0.0%	34.5%
B3	Letsemeng	0.0%	27.7%	16.2%	18.0%	20.2%	16.4%
B3	Mafube	0.0%	105.7%	82.8%	77.9%	81.4%	75.6%
B3	Maluti-a-Phofung	0.0%	0.0%	0.0%	70.6%	73.3%	70.8%
B3	Mantsopa	0.0%	44.4%	62.1%	78.6%	70.1%	75.8%
B3	Masilonyana	0.0%	169.9%	179.0%	185.9%	109.8%	105.7%
B3	Mohokare	0.0%	118.1%	105.7%	91.8%	114.8%	89.9%
B3	Nala	0.0%	48.0%	48.4%	38.9%	89.8%	569.4%
B3	Naledi (Fs)	0.0%	147.2%	102.8%	81.0%	93.7%	138.4%
B3	Ngwathe	0.0%	0.0%	71.8%	41.9%	49.2%	60.0%
B3	Nketoana	0.0%	109.0%	66.3%	54.0%	80.4%	88.2%
B3	Phumelela	0.0%	0.0%		103.1%	76.3%	43.1%
B3	Setsoto	0.0%	61.5%	53.7%	45.4%	82.1%	85.8%
B3	Tokolologo	0.0%	84.5%	55.1%	0.0%	63.9%	80.6%
B3	Tswelopele	0.0%	54.1%	60.0%	24.7%	44.4%	32.9%
C1	Fezile Dabi	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C1	Lejweleputswa	0.0%	12.8%	15.0%	12.5%	10.1%	10.1%
C1	Motheo	0.0%	4.0%	0.0%	1.5%	0.6%	0.9%
C1	Thabo Mofutsanyana	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C1	Xhariep	0.0%	0.6%	0.6%	0.8%	0.7%	0.0%
	<b>TOTAL</b>	<b>9.5%</b>	<b>45.1%</b>	<b>54.4%</b>	<b>59.1%</b>	<b>44.8%</b>	<b>57.9%</b>

Appendix C. Real Debt Older Than 90 Days

PDG Category	Municipality	R'000					
		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
B1	Mangaung	383,862	301,368	449,803	440,993	546,276	652,175
B1	Matjhabeng	N/A	721,307	708,583	870,117	N/A	486,583
B2	Dihlabeng	N/A	118,337	122,518	168,800	103,552	122,041
B2	Moqhaka	N/A	N/A	128,073	108,703	136,604	135,298
B2	Metsimaholo	N/A	134,030	132,263	131,601	209,052	219,034
B3	Letsemeng	N/A	10,159	6,422	6,532	8,253	5,646
B3	Kopanong	N/A	47,498	51,515	55,776	N/A	40,104
B3	Mohokare	N/A	27,206	32,983	34,277	36,504	39,894
B3	Naledi (Fs)	N/A	N/A	21,668	29,375	44,007	43,876
B3	Mantsopa	N/A	34,498	41,363	51,930	58,342	68,663
B3	Masilonyana	N/A	100,649	112,242	122,240	92,293	107,059
B3	Tokologo	N/A	19,524	21,727	N/A	18,304	45,657
B3	Tswelopele	N/A	18,062	21,927	23,731	25,770	22,487
B3	Nala	N/A	45,758	62,544	65,722	82,547	96,761
B3	Setsoto	N/A	82,864	86,783	99,852	136,610	141,366
B3	Nketoana	N/A	52,481	55,310	66,543	82,968	100,733
B3	Maluti-a-Phofung	N/A	N/A	N/A	283,902	329,333	324,373
B3	Phumelela	N/A	N/A	80,954	42,349	39,111	27,090
B3	Ngwathe	N/A	N/A	94,770	58,770	88,338	127,578
B3	Mafube	N/A	59,420	54,401	48,538	52,151	57,077
C1	Xhariep	N/A	115	102	102	98	N/A
C1	Motheo	N/A	N/A	31	1,436	240	154
C1	Lejweleputswa	N/A	N/A	8,074	7,695	6,887	6,959
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>383,862</b>	<b>1,773,276</b>	<b>2,294,054</b>	<b>2,718,985</b>	<b>2,097,239</b>	<b>2,870,609</b>

Appendix D. Real Water Non-Payment per Municipality, 2004/05-2009/10

PDG Category	Municipality	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10	
		Real Water Non- Payment	Water Non- Payment as % of Total Cons. Debt	Real Water Non- Payment	Water Non- Payment as % of Total Cons. Debt	Real Water Non- Payment	Water Non- Payment as % of Total Cons. Debt	Real Water Non- Payment	Water Non- Payment as % of Total Cons. Debt	Real Water Non- Payment	Water Non- Payment as % of Total Cons. Debt	Real Water Non- Payment	Water Non- Payment as % of Total Cons. Debt
B1	Mangaung	195,902	44.0%	182,092	8.0%	273,916	9.9%	301,963	9.2%	361,557	14.3%	423,469	12.0%
B1	Matjhabeng	N/A	N/A	300,183	13.1%	288,391	10.4%	358,032	10.9%	N/A	N/A	301,900	8.6%
B2	Dihlabeng	N/A	N/A	34,187	1.5%	31,229	1.1%	44,172	1.3%	22,447	0.9%	45,861	1.3%
B2	Moqhaka	N/A	N/A	N/A	N/A	27,339	1.0%	28,053	0.9%	31,034	1.2%	58,521	1.7%
B2	Metsimaholo	N/A	N/A	46,294	2.0%	67,318	2.4%	86,728	2.6%	126,746	5.0%	186,041	5.3%
B3	Letsemeng	N/A	N/A	3,976	0.2%	2,349	0.1%	2,265	0.1%	3,450	0.1%	5,265	0.1%
B3	Kopanong	N/A	N/A	4,966	0.2%	5,630	0.2%	701	0.02%	N/A	N/A	9,298	0.3%
B3	Mohokare	N/A	N/A	8,303	0.4%	8,426	0.3%	9,473	0.3%	11,038	0.4%	17,868	0.5%
B3	Naledi (Fs)	N/A	N/A	9,101	0.4%	7,439	0.3%	10,662	0.3%	20,038	0.8%	28,675	0.8%
B3	Mantsopa	N/A	N/A	12,256	0.5%	14,576	0.5%	12,306	0.4%	18,210	0.7%	43,230	1.2%
B3	Masilonyana	N/A	N/A	79,939	3.5%	89,577	3.2%	92,718	2.8%	70,219	2.8%	78,499	2.2%
B3	Tokologo	N/A	N/A	379	0.02%	457	0.02%	N/A	N/A	399	0.02%	10,906	0.3%
B3	Tswelopele	N/A	N/A	3,614	0.2%	5,235	0.2%	6,139	0.2%	6,664	0.3%	9,666	0.3%
B3	Nala	N/A	N/A	5,402	0.2%	7,031	0.3%	9,089	0.3%	21,878	0.9%	60,093	1.7%
B3	Setsoto	N/A	N/A	14,487	0.6%	15,054	0.5%	18,387	0.6%	31,635	1.3%	44,644	1.3%
B3	Nketoana	N/A	N/A	17,752	0.8%	24,403	0.9%	29,642	0.9%	14,081	0.6%	46,493	1.3%
B3	Maluti-a-Phofung	N/A	N/A	N/A	N/A	N/A	N/A	29,192	0.9%	40,179	1.6%	121,369	3.4%
B3	Phumelela	N/A	N/A	N/A	N/A	1,741	0.1%	10,046	0.3%	8,533	0.3%	14,142	0.4%
B3	Ngwathe	N/A	N/A	N/A	N/A	18,813	0.7%	21,203	0.6%	29,273	1.2%	65,896	1.9%
B3	Mafube	N/A	N/A	16,519	0.7%	16,528	0.6%	12,201	0.4%	20,158	0.8%	34,042	1.0%
C1	Xhariep	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Motheo	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Lejweleputswa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>195,902</b>	<b>44.0%</b>	<b>739,450</b>	<b>32.3%</b>	<b>905,452</b>	<b>32.6%</b>	<b>1,082,972</b>	<b>33.0%</b>	<b>837,539</b>	<b>33.1%</b>	<b>1,605,877</b>	<b>45.5%</b>

Appendix E. Real “Other” Non-Payment Per Municipality, 2004/05-2009/10

PDG Category	Municipality	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10	
		Real Other Non- Payment	Other Non- Payment as % of Total Cons. Debt	Real Other Non- Payment	Other Non- Payment as % of Total Cons. Debt	Real Other Non- Payment	Other Non- Payment as % of Total Cons. Debt	Real Other Non- Payment	Other Non- Payment as % of Total Cons. Debt	Real Other Non- Payment	Other Non- Payment as % of Total Cons. Debt	Real Other Non- Payment	Other Non- Payment as % of Total Cons. Debt
B1	Mangaung	44,569	10.0%	36,875	1.6%	30,240	1.1%	29,353	0.9%	23,282	0.9%	28,779	0.8%
B1	Matjhabeng	N/A	N/A	406,213	17.7%	378,312	13.6%	446,130	13.6%	N/A	N/A	104,461	3.0%
B2	Dihlabeng	N/A	N/A	91,884	4.0%	95,404	3.4%	116,114	3.5%	70,597	2.8%	69,593	2.0%
B2	Moqhaka	N/A	N/A	N/A	N/A	74,839	2.7%	90,832	2.8%	85,586	3.4%	58,111	1.6%
B2	Metsimaholo	N/A	N/A	28,869	1.3%	37,855	1.4%	47,012	1.4%	47,249	1.9%	38,065	1.1%
B3	Letsemeng	N/A	N/A	6,425	0.3%	4,247	0.2%	4,426	0.1%	5,184	0.2%	2,680	0.1%
B3	Kopanong	N/A	N/A	37,799	1.7%	41,207	1.5%	39,286	1.2%	N/A	N/A	19,980	0.6%
B3	Mohokare	N/A	N/A	24,639	1.1%	23,081	0.8%	23,452	0.7%	24,211	1.0%	21,058	0.6%
B3	Naledi (Fs)	N/A	N/A	16,079	0.7%	13,994	0.5%	13,223	0.4%	17,156	0.7%	8,023	0.2%
B3	Mantsopa	N/A	N/A	19,234	0.8%	25,051	0.9%	34,116	1.0%	39,076	1.5%	20,117	0.6%
B3	Masilonyana	N/A	N/A	2,481	0.1%	2,301	0.1%	2,151	0.1%	566	0.02%	635	0.02%
B3	Tokologo	N/A	N/A	15,285	0.7%	16,992	0.6%	N/A	N/A	13,589	0.5%	19,581	0.6%
B3	Tswelopele	N/A	N/A	12,930	0.6%	14,832	0.5%	18,131	0.6%	20,324	0.8%	12,143	0.3%
B3	Nala	N/A	N/A	9,640	0.4%	52,971	1.9%	61,256	1.9%	77,775	3.1%	68,043	1.9%
B3	Setsoo	N/A	N/A	68,506	3.0%	74,160	2.7%	87,941	2.7%	108,307	4.3%	103,094	2.9%
B3	Nketoana	N/A	N/A	18,435	0.8%	19,523	0.7%	29,642	0.9%	69,923	2.8%	51,355	1.5%
B3	Maluti-a-Phofung	N/A	N/A	N/A	N/A	N/A	N/A	68,742	2.1%	76,860	3.0%	155,348	4.4%
B3	Phumelela	N/A	N/A	N/A	N/A	45,764	1.6%	26,257	0.8%	25,101	1.0%	9,196	0.3%
B3	Ngwathe	N/A	N/A	N/A	N/A	74,073	2.7%	40,785	1.2%	47,495	1.9%	39,798	1.1%
B3	Mafube	N/A	N/A	33,314	1.5%	30,862	1.1%	25,239	0.8%	26,576	1.1%	17,773	0.5%
C1	Xhariep	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Motheo	N/A	N/A	N/A	N/A	N/A	N/A	1,072	0.03%	691	0.03%	1,035	0.03%
C1	Lejweleputswa	N/A	N/A	3,325	0.1%	5,507	0.2%	6,610	0.2%	6,302	0.2%	6,321	0.2%
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>44,569</b>	<b>10.0%</b>	<b>831,936</b>	<b>36.3%</b>	<b>1,061,215</b>	<b>38.2%</b>	<b>1,211,771</b>	<b>36.9%</b>	<b>785,852</b>	<b>31.1%</b>	<b>855,191</b>	<b>24.2%</b>

Appendix F. Real Electricity Non-Payment Per Municipality, 2004/05-2009/10

		2004/05		2005/06		2006/07		2007/08		2008/09		2009/10	
PDG Category	Municipality	Real Electricity Non- Payment	Electricity Non- Payment as % of Total Cons. Debt	Real Electricity Non- Payment	Electricity Non- Payment as % of Total Cons. Debt	Real Electricity Non- Payment	Electricity Non- Payment as % of Total Cons. Debt	Real Electricity Non- Payment	Electricity Non- Payment as % of Total Cons. Debt	Real Electricity Non- Payment	Electricity Non- Payment as % of Total Cons. Debt	Real Electricity Non- Payment	Electricity Non- Payment as % of Total Cons. Debt
		Payment	Cons. Debt	Payment	Cons. Debt	Payment	Cons. Debt	Payment	Cons. Debt	Payment	Cons. Debt	Payment	Cons. Debt
B1	Mangaung	42,089	9.4%	59,849	2.6%	108,238	3.9%	89,504	2.7%	106,003	4.2%	155,484	4.4%
B1	Matjhabeng		N/A	39,926	1.7%	29,284	1.1%	32,729	1.0%	N/A	N/A	53,961	1.5%
B2	Dihlabeng		N/A	7,937	0.3%	7,665	0.3%	4,567	0.1%	6,385	0.3%	8,215	0.2%
B2	Moqhaka		N/A	N/A	N/A	26,093	0.9%	9,458	0.3%	18,349	0.7%	18,409	0.5%
B2	Metsimaholo		N/A	19,618	0.9%	19,277	0.7%	30,928	0.9%	39,404	1.6%	31,179	0.9%
B3	Letsemeng		N/A	602	0.03%	635	0.0%	608	0.02%	767	0.0%	821	0.02%
B3	Kopanong		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
B3	Mohokare		N/A	1,345	0.1%	309	0.01%	222	0.01%	186	0.01%	154	0.004%
B3	Naledi (Fs)		N/A	305	0.01%	255	0.01%	222	0.01%	183	0.0%	171	0.005%
B3	Mantsopa		N/A	5,569	0.2%	5,525	0.2%	6,677	0.2%	4,658	0.2%	5,521	0.2%
B3	Masilonyana		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
B3	Tokologo		N/A	2,356	0.1%	2,454	0.1%	N/A	N/A	2,120	0.1%	5,497	0.2%
B3	Tswelopele		N/A	1,272	0.1%	1,464	0.1%	1,333	0.04%	874	0.03%	982	0.03%
B3	Nala		N/A	2,547	0.1%	2,699	0.1%	2,464	0.1%	5,447	0.2%	7,959	0.2%
B3	Setsoto		N/A	3,168	0.1%	3,087	0.1%	6,082	0.2%	4,270	0.2%	5,782	0.2%
B3	Nketoana		N/A	23,214	1.0%	18,825	0.7%	16,092	0.5%	2,742	0.1%	2,842	0.1%
B3	Maluti-a-Phofung		N/A	N/A	N/A	N/A	N/A	17,896	0.5%	26,187	1.0%	52,068	1.5%
B3	Phumelela		N/A	N/A	N/A	6,254	0.2%	1,579	0.05%	1,551	0.1%	1,648	0.05%
B3	Ngwathe		N/A	N/A	N/A	15,225	0.5%	13,032	0.4%	20,555	0.8%	22,602	0.6%
B3	Mafube		N/A	2,226	0.1%	1,671	0.1%	2,362	0.1%	2,119	0.1%	6,984	0.2%
C1	Xhariep		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Motheo		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Lejweleputswa		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Thabo Mofutsanyana		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>42,089</b>	<b>9.4%</b>	<b>169,936</b>	<b>7.4%</b>	<b>248,959</b>	<b>9.0%</b>	<b>235,753</b>	<b>7.2%</b>	<b>241,799</b>	<b>9.6%</b>	<b>380,279</b>	<b>10.8%</b>

**Appendix G. Budgeted Versus Actual Expenditure on Repairs and Maintenance per Free State Municipality, 2004/05-2009/10**

Category	Municipality	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
B1	Mangaung	79.1%	70.1%	103.3%	93.4%	117.8%	90.0%
B1	Matjhabeng	63.0%	88.3%	41.8%	56.9%	42.2%	21.2%
B2	Dihlabeng	82.9%	127.1%	98.2%	48.2%	80.3%	54.8%
B2	Metsimaholo	80.2%	89.8%	88.6%	48.0%	73.0%	67.8%
B2	Moqhaka	85.0%	118.6%	84.9%	74.6%	118.4%	170.6%
B3	Kopanong	81.7%	45.8%	60.9%	74.3%	40.3%	34.6%
B3	Letsemeng	174.3%	48.4%	52.9%	80.8%	73.2%	38.9%
B3	Mafube	63.6%	69.0%	76.7%	77.9%	59.4%	57.6%
B3	Maluti-a-Phofung	197.3%	174.9%	46.7%	91.9%	44.3%	37.6%
B3	Mantsopa	91.3%	92.6%	83.9%	64.9%	74.4%	100.1%
B3	Masilonyana	85.6%	8.6%	54.3%	199.2%	236.2%	123.6%
B3	Mohokare	220.9%	86.9%	71.0%	50.7%	59.0%	28.8%
B3	Nala	91.3%	59.2%	81.4%	113.6%	90.0%	0.0%
B3	Naledi (Fs)	38.4%	31.6%	29.9%	35.0%	58.6%	69.2%
B3	Ngwathe	44.6%	82.0%	55.8%	57.3%	73.0%	76.7%
B3	Nketoana	25.5%	32.9%	32.9%	30.3%	46.5%	55.1%
B3	Phumelela	111.6%	0.0%	0.0%	102.4%	131.4%	83.5%
B3	Setsoto	66.0%	47.4%	60.3%	62.7%	59.2%	43.0%
B3	Tokologo	66.3%	112.3%	91.4%	92.0%	87.1%	74.5%
B3	Tswelopele	76.2%	104.7%	98.7%	92.4%	99.3%	49.1%
C1	Fezile Dabi District Municipality	63.3%	81.6%	99.5%	81.6%	64.4%	57.1%
C1	Lejweleputswa District Municipality	115.6%	107.6%	39.7%	92.2%	52.2%	45.9%
C1	Motheo District Municipality	0.0%	103.1%	100.6%	96.8%	162.1%	74.1%
C1	Thabo Mofutsanyana District Municipality			0.0%	0.0%	10.5%	410.9%
C1	Xhariep District Municipality	58.0%	40.9%	64.2%	104.8%	49.2%	245.7%
	<b>Grand Total</b>	<b>80.9%</b>	<b>78.9%</b>	<b>71.7%</b>	<b>76.6%</b>	<b>79.5%</b>	<b>58.0%</b>

*\*\*Figures larger than 100% indicate instances of over expenditure (where actual expenditure exceeded what was budgeted for). Amounts lower than 100% indicate instances where actual expenditure was less than what had been budgeted for).*

**Appendix H. Budgeted Versus Actual Capital Expenditure Per Free State Municipality, 2004/05-2009/10**

Category	Municipality	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
B1	Mangaung	104.4%	81.1%	75.2%	82.1%	104.7%	82.3%
B1	Matjhabeng	56.7%	74.8%	48.4%	80.6%	45.3%	0.0%
B2	Dihlabeng	60.4%	381.5%	97.0%	101.2%	21.3%	145.0%
B2	Metsimaholo	76.6%	68.4%	125.8%	43.6%	28.9%	20.7%
B2	Moqhaka	121.8%	33.4%	1.9%	19.2%	52.7%	
B3	Kopanong	184.5%	81.1%	107.7%	139.3%	87.6%	89.7%
B3	Letsemeng	179.0%	87.9%	69.4%	0.2%	180.0%	520.9%
B3	Mafube	632.4%	66.5%	47.3%	0.0%	48.1%	150.0%
B3	Maluti-a-Phofung	101.0%	102.5%	53.9%	103.2%	137.1%	73.5%
B3	Mantsopa	38.5%	45.7%	68.9%	103.1%	88.8%	65.1%
B3	Masilonyana	52.3%	44.4%	116.0%	181.1%	153.1%	123.6%
B3	Mohokare	103.8%	38.9%	60.0%	118.3%		
B3	Nala	47.3%	1.3%	0.6%	5.6%	34.4%	22.2%
B3	Naledi (Fs)	4.2%	2.6%	489.2%	87.4%	11.2%	0.0%
B3	Ngwathe	94.9%	117.7%	107.4%	90.7%	141.0%	90.0%
B3	Nketoana	239.7%	74.9%	184.9%	134.7%	111.2%	220.9%
B3	Phumelela	55.2%	0.5%	0.0%	109.7%	25.6%	175.2%
B3	Setsoto	607.7%	80.6%	110.5%	101.8%	236.7%	44.7%
B3	Tokologo	67.4%	35.6%	46.8%	0.0%	110.9%	411.5%
B3	Tswelopele	146.8%	187.4%	79.1%	132.5%	388.2%	108.9%
C1	Fezile Dabi District Municipality	24.5%	53.2%	56.9%	55.2%	78.2%	44.5%
C1	Lejweleputswa District Municipality	124.3%	67.5%	21.2%	40.8%		36.9%
C1	Motheo District Municipality	0.0%	28.0%	111.9%	125.6%		75.5%
C1	Thabo Mofutsanyana District Municipality			0.0%	545.0%	29.4%	0.0%
C1	Xhariep District Municipality			0.0%			331.9%
	<b>Grand Total</b>	<b>91.1%</b>	<b>87.2%</b>	<b>69.2%</b>	<b>77.7%</b>	<b>97.0%</b>	<b>75.9%</b>

*\*\*Figures larger than 100% indicate instances of over expenditure (where actual expenditure exceeded what was budgeted for). Amounts lower than 100% indicate instances where actual expenditure was less than what had been budgeted for).*

**Appendix I. Audit Outcome Per Free State Municipality, 2008/09 and 2009/10**

<b>Category</b>	<b>Municipality</b>	<b>Audit Outcome 2009/10</b>	<b>Audit Outcome 2008/09</b>
B1	Mangaung	Disclaimer	Disclaimer
B1	Matjhabeng	Disclaimer	Disclaimer
B2	Dihlabeng	Qualified	Disclaimer
B2	Metsimaholo	Disclaimer	Disclaimer
B2	Moqhaka	Audit not finalised at legislated date	Disclaimer
B3	Kopanong	Disclaimer	Disclaimer
B3	Letsemeng	Adverse	Disclaimer
B3	Mafube	Disclaimer	Disclaimer
B3	Maluti-a-Phofung	Disclaimer	Disclaimer
B3	Mantsopa	Qualified	Disclaimer
B3	Masilonyana	Audit not finalised at legislated date	Disclaimer
B3	Mohokare	Disclaimer	Adverse
B3	Nala	Audit not finalised at legislated date	Disclaimer
B3	Naledi (Fs)	Audit not finalised at legislated date	Adverse
B3	Ngwathe	Disclaimer	Disclaimer
B3	Nketoana	Qualified	Disclaimer
B3	Phumelela	Disclaimer	Disclaimer
B3	Setsoto	Qualified	Qualified
B3	Tokoloko	Audit not finalised at legislated date	Disclaimer
B3	Tswelopele	Qualified	Financially unqualified with findings
C1	Fezile Dabi District Municipality	Financially unqualified with findings	Financially unqualified with findings
C1	Lejweleputswa District Municipality	Financially unqualified with findings	Financially unqualified with findings
C1	Motheo District Municipality	Financially unqualified with findings	Qualified
C1	Thabo Mofutsanyana District Municipality	Financially unqualified with findings	Disclaimer
C1	Xhariep District Municipality	Qualified	Disclaimer