



MEC FOR FINANCE

CONSOLIDATED STATEMENT ON THE MUNICIPAL BUDGET PERFORMANCE FOR THE MONTH ENDING 30 JUNE 2012

1. PURPOSE

To provide a consolidated statement on the performance of municipalities in the Province against the approved budgets as at 30 June 2012.

2. SUMMARY

2.1 This consolidated statement covers the in-year financial performance for the period ended 30 June 2012.

2.2 The in-year financial performance of municipalities against their budgeted revenue and expenditure are assessed and the assessment focuses on the following indicators:

- Capital & Operating budgets;
- Cash Flow;
- Outstanding Debtors & Creditors.

2.3 It covers an analysis of the month under review i.e. June 2012, a year-to-date analysis and year-on-year comparative analysis.

2.4 Provincial Treasury is concerned about the reliability of budget and revenue figures published by National Treasury as submitted by municipalities. It was noted in the past that there has been discrepancies in the data submitted to the Local Government Database by municipalities.

2.5 To ensure that the figures published by National Treasury are reliable, it was imperative that each municipality scrutinise, verify and sign-off the verifications schedules on the 'Statement of Operating Revenue' sent to them by National Treasury

3. BACKGROUND

3.1 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 requires accounting officers to submit such information, returns, documents and motivations as may be required.

3.2 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 MFMA, s71(6).

4. MOTIVATION

4.1 Compliance

4.1.1 The table 1 below indicates the municipalities that failed to submit the annual and monthly reports timeously as required by section 71 of the Municipal Finance Management Act.

4.1.2 The month to month submission of returns improved from 28 returns outstanding from May 2012 to 18 returns outstanding up to June 2012.

Table 1: Submission of Appendix B Returns

Municipality	Capital Acquisition	Cash Flow Budget	Financial Performance Budget	Age Creditors	Age Debtors	Capital Acquisition Actual	Cash Flow Actual	Financial Performance Actual	Total Outstanding June 2012	Total Outstanding Previous Months
Xhariep	✓	✓	✓	✓	✓	✓	x	✓	1	0
Letsemeng	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Kopanong	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Mohokare	✓	✓	✓	✓	✓	✓	✓	✓	0	5
Naledi	✓	✓	✓	x	x	x	x	✓	4	1
Mangaung	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Mantsopa	✓	✓	✓	x	x	✓	✓	✓	2	0
Lejweleputswa	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Masilonyana	✓	✓	✓	✓	✓	✓	✓	✓	0	1
Tokologo	✓	✓	✓	✓	✓	✓	x	✓	1	5
Tswelopele	✓	✓	✓	✓	x	✓	✓	✓	1	0
Matjhabeng	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Nala	✓	✓	✓	x	x	✓	✓	✓	2	2
Thabo Mofutsanyana	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Setsoto	✓	✓	✓	✓	✓	✓	✓	✓	0	2
Dihlabeng	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Nketoana	✓	✓	✓	✓	✓	✓	x	✓	5	5
Maluti a Phofung	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Phumelela	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Fezile Dabi	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Moqhaka	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Ngwathe	✓	✓	✓	✓	✓	✓	✓	✓	2	2
Metsimaholo	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Mafube	✓	✓	✓	✓	✓	✓	✓	✓	0	5
Total Outstanding	0	0	0	3	4	1	4	0	18	28

Source: NT Database

* ✓ Indicates documents submitted

* x Indicates documents outstanding

4.1.3 In addition to the above, municipalities are required to submit monthly reports on the conditional grants as per the Division of Revenue Act. Table 2 below indicates the municipalities that failed to submit the applicable returns.

4.1.4 The month to month submission of the grant returns improved from 21 returns outstanding in May 2011 to 14 returns outstanding up to June 2012.

Table 2: Submission of Conditional Grant Returns

Municipality	Energy Efficiency & Demand Management Grant	Finance Management Grant	Integrated National Electrification Program Grant	Municipal Infrastructure Grant	Municipal Systems Improvement Grant	Neighbourhood Development Partnership Grant	Public Transport Infrastructure & Systems Grant	Water Services Operating Subsidy	Total Outstanding June 2012	Total Outstanding Previous Months
Xhariep	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	0	0
Letsemeng	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Kopanong	N/A	✓	x	x	x	N/A	N/A	N/A	2	2
Mohokare	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	4
Naledi	N/A	✓	N/A	x	x	N/A	N/A	N/A	2	0
Mangaung	✓	✓	✓	N/A	✓	N/A	✓	N/A	0	0
Mantsopa	N/A	✓	✓	x	✓	N/A	N/A	N/A	1	0
Lejweleputswa	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	0	0
Masilonyana	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Tokologo	N/A	x	x	x	x	N/A	N/A	N/A	4	4
Tswelopele	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Matjhabeng	N/A	✓	✓	✓	✓	✓	N/A	N/A	0	0
Nala	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Thabo Mofutsanyana	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	0	0
Setsoto	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Dihlabeng	N/A	✓	N/A	✓	✓	✓	N/A	N/A	0	0
Nketoana	N/A	✓	N/A	✓	x	N/A	N/A	N/A	1	3
Maluti a Phofung	N/A	✓	✓	✓	✓	N/A	N/A	✓	0	0
Phumelela	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	1
Fezile Dabi	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	0	0
Moghaka	N/A	✓	✓	✓	x	N/A	N/A	N/A	1	1
Ngwathe	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	2
Metsimaholo	N/A	✓	✓	✓	✓	N/A	N/A	✓	0	0
Mafube	N/A	✓	x	✓	x	N/A	N/A	N/A	2	4
Total Outstanding	0	1	3	4	6	0	0	0	14	21

Source: NT Database

- * ✓ Indicates documents submitted
- * x Indicates documents outstanding

4.2 Capital Budget

4.2.1 Table 3 below shows the actual sources of finance and capital expenditure as at 30 June 2012 compared to the actual reported as at 30 June 2011.

Table 3: Capital Expenditure and Sources

	June 2012				June 2011		% Change 2010/11to 2011/12
	Original Budget	Adjusted Budget	Actuals YTD	%	Actuals YTD	%	
CAPITAL EXPENDITURE							
Water	880,000	747,000	719,000	96.3	465,635	67.3	54.4
Electricity	312,000	339,000	202,000	59.6	66,301	30.3	204.7
Housing	153,000	17,000	14,000	82.4	6,629	25.2	111.2
Roads, Pavements, Bridges & Storm Water	647,000	722,000	426,000	59.0	411,098	74.0	3.6
Other	639,000	980,000	310,000	31.6	412,852	64.8	-24.9
Total Capital Expenditure	2,631,000	2,805,000	1,671,000	59.6	1,362,516	64.0	22.6
SOURCE OF FINANCE							
External Loans	335,000	265,000	124,000	46.8	23,970	15.9	417.3
Internal Contributions	129,000	143,000	98,000	68.5	193,228	104.3	-49.3
Grants and Subsidies	1,928,000	2,142,000	1,311,000	61.2	926,175	64.4	41.5
Other	238,000	255,000	81,000	31.8	152,724	54.5	-47.0
Total Financing	2,631,000	2,805,002	1,613,999	57.5	1,296,096	63.1	24.5

Source: NT Database and budget documents

Capital Expenditure

- 4.2.2 The total capital expenditure reported amounts to R1, 671 billion or 59.6% against the total adjusted budget of R2, 805 billion.
- 4.2.3 The highest spending item reported is regarding water and sanitation of which R719 million or 96.3% was spent, followed by housing at R14 million or 82.4% and electricity at R202 million 59.6%.
- 4.2.4 Significant under performance is noted for other expenses of which only 31.6% or R310 million was spent of the adjusted budget of R980 million.
- 4.2.5 According to the Division of Revenue Act, the allocation regarding the Municipal Infrastructure Grant (MIG) amounts to R841,110 million. The report on the MIG funding received from the Department of Cooperative Governance and Traditional Affairs shows that the expenditure reported as at the end of June 2012 amounts to R755,594 million or 90% against the total allocation and as compared to the previous financial there was an improvement of 5% from 85% to 90%.

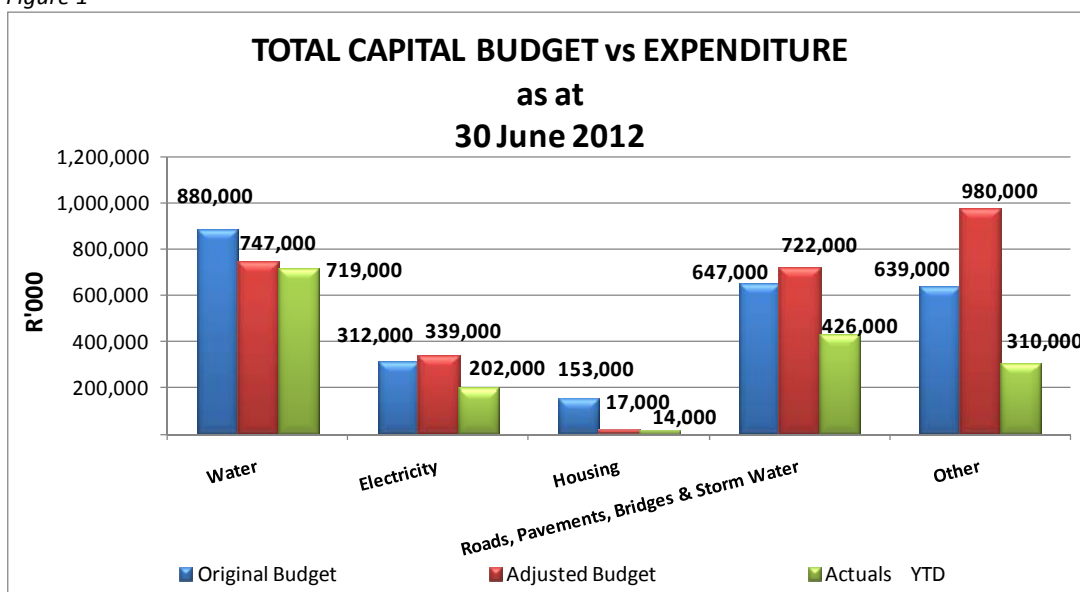
MIG Spending

Municipality	Expenditure vs MIG Allocation				Roll overs (2010/2011)		
	Allocation / Transferred	Expenditure	%	Balance	2010/2011 Roll over amount	Expenditure	Balance
Letsemeng (FS161)	18,210,000.00	18,210,000.00	100%	-			
Kopanong (FS162)	19,390,000.00	19,390,000.00	100%	-			
Mohokare (FS163)	15,532,000.00	3,049,897.30	20%	12,482,102.70	12,487,502.70	12,487,502.70	-
Naledi (FS171)	14,149,000.00	9,313,600.00	66%	4,835,400.00	1,498,657.86	1,498,657.86	-
Xhariep (DC16)	-	-	-	-	-	-	-
Masilonyana (FS181)	30,322,000.00	30,322,000.00	100%	-			
Tokologo (FS182)	17,855,000.00	17,855,000.00	100%	-			
Tswelopele (FS183)	25,015,000.00	25,015,000.00	100%	-			
Matjhabeng (FS184)	164,896,000.00	164,896,000.00	100%	-	24,805,243.92	24,805,243.92	-
Nala (FS185)	45,642,000.00	26,729,033.37	59%	18,912,966.63	7,633,646.24	-	7,633,646.24
Lejweleputswa (DC18)	-	-	-	-	-	-	-
Setsotho (FS191)	62,963,000.00	43,280,523.30	69%	19,682,476.70	28,060,562.87	28,060,562.87	-
Dihlabeng (FS192)	42,647,000.00	42,647,000.00	100%	-			
Nketoana (FS193)	28,044,000.00	22,274,544.63	79%	5,769,455.37			
Maluti-a-Phofung (FS194)	171,336,000.00	171,336,000.00	100%	-			
Phumelela (FS195)	21,947,000.00	21,947,000.00	100%	-			
Mantsopa (FS173)	22,773,000.00	22,773,000.00	100%	-			
Thabo Mofutsanyana (DC19)	-	-	-	-	-	-	-
Moqhaka (FS201)	38,661,000.00	38,661,000.00	100%	-			
Ngwathe (FS203)	41,582,000.00	17,748,795.39	43%	23,833,204.61	7,401,821.94	-	7,401,821.94
Metsimaholo (FS204)	38,843,000.00	38,843,000.00	100%	-			
Matjabe (FS205)	21,303,000.00	21,303,000.00	100%	-			
Fezile Dabi (DC20)	-	-	-	-	-	-	-
Mangaung	-	-	-	-	50,061,404.45	50,061,404.45	-
	841,110,000.00	755,594,393.99	90%	85,515,606.01	131,948,839.98	116,913,371.80	15,035,468.18

* Roll over not approved by National Treasury (Nala & Ngwathe)

4.2.7 Figure 1 below shows the actual capital expenditure against the budget per item.

Figure 1



Sources of Finance

4.2.8 The sources of finance are the funding utilized for capital expenditure and should therefore correspond with the actual expenditure.

4.2.9 The variance between the capital expenditure and sources of finance is due to the following municipalities submitting incomplete returns (i.e the sources of finance are not completed or the sources of finance do not correspond to the expenditure on the relevant returns):

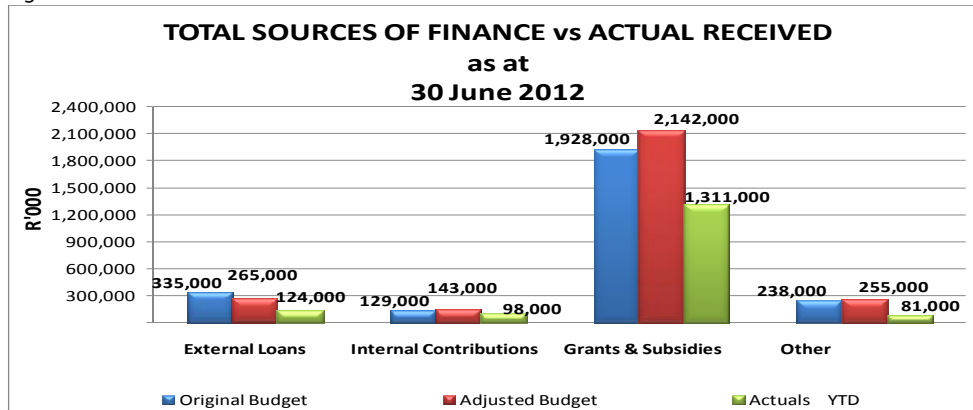
Municipality	Discrepancy
Moqhaka	Sources of finance does not correspond to expenditure on monthly returns
Ngwathe	Sources of finance does not correspond to expenditure on monthly returns
Nala	Sources of finance does not correspond to expenditure on monthly returns
Tswelopele	Sources of finance does not correspond to expenditure on monthly returns
Dihlabeng	Sources of finance does not correspond to expenditure on monthly returns
Nketoana	Sources of finance does not correspond to expenditure on monthly returns
Kopanong	Sources of finance does not correspond to expenditure on monthly returns

4.2.10 Municipalities are required to amend all applicable returns and resubmit to the database.

4.2.11 The individual sources of finance reflects the following year-to-date performances:

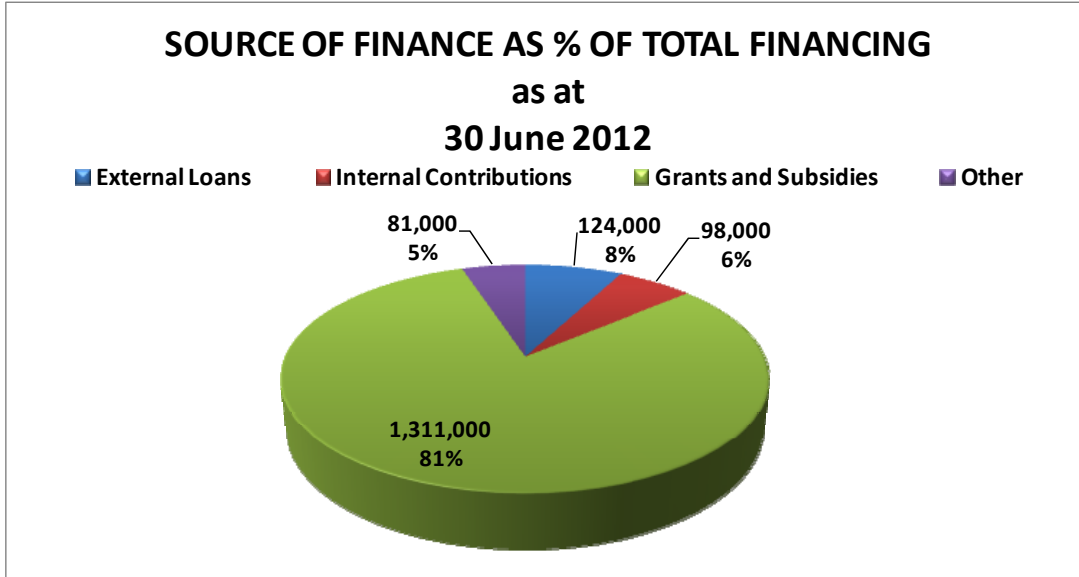
- **External Loans** comprise of 9.4% of the total capital revenue and the amount utilized to date is R124 million or 46.7% of the adjusted budget of R265 million.
- **Internal Contributions** comprise of 5.1% of the total capital revenue and the amount realized to date is R98 million or 68.2% of the adjusted budget of R143 million.
- **Grants and Subsidies** comprise of 76.4% of the total capital revenue and the amount realized to date is R1,928 billion or 61.2% of the adjusted budget of R2,142 billion.
- **Other** sources comprise of 9.1% of the total capital revenue and the amount realized to date is R81 million or 31.7% of the adjusted budget of R255 million.

Figure 2



4.2.12 Figure 3 below provides an indication of the municipalities' dependence on grants and subsidies versus external loans and internal contributions.

Figure 3



4.2.13 It is clear from the above figure that municipalities are still highly dependent on grants and subsidies as a source of finance with the latter representing a total of 82% of the sources of finance.

4.3 Operating Budget

4.3.1 Table 4 below shows the actual revenue generated and the operating expenditure as at 30 June 2012 compared to the actual reported as at 30 June 2011.

Table 4: *Operating Revenue and Expenditure*

	June 2012				June 2011		% Change 2010/11 to 2011/12
	Original Budget	Adjusted Budget	Actuals YTD	%	Actuals YTD	%	
OPERATING REVENUE							
Property rates	1,667,000	1,707,000	1,691,000	99.1	1,480,850	90.0	14.2
Service Charges	4,552,000	4,348,000	3,800,000	87.4	3,905,159	89.9	-2.7
Other Revenue	5,907,000	5,903,000	4,938,000	83.7	3,447,171	75.9	43.2
Total Operating Revenue Generated	12,126,000	11,958,000	10,429,000	87.2	8,833,180	83.9	18.1
OPERATING EXPENDITURE							
Employee Related Costs	3,060,000	3,059,000	2,825,000	92.4	2,656,631	97.4	6.3
Provision for Working Capital	770,000	358,000	170,000	47.5	131,334	19.9	29.4
Bulk Purchases	2,859,000	2,853,000	2,533,000	88.8	1,919,626	86.6	32.0
Other Expenses	3,671,000	4,321,000	2,861,000	66.2	2,351,344	62.4	21.7
Total Operating Expenditure	10,360,000	10,592,000	8,389,001	79.2	7,058,935	75.3	18.8

Source: NT Database and budget documents

Revenue Generated

4.3.2 For the period under review the operating revenue amounts to R10, 429 billion or 87.2% against the adjusted budget of R11, 958 billion. The revenue against the budget is higher when compared to the end of the 2010/11 financial year.

4.3.3 The performance of individual items under operating revenue is as follows:

- **Property Rates** comprise of 16.2% of the actual operating revenue generated as at 30 June 2012. The amount realized is R1, 691 billion or 99% of the adjusted budget of R1, 707 billion.

It should also be noted that the revenue due to the implementation Municipal Property Rates Act (MPRA) has not yet reached its full potential. This is as a result of numerous appeals and consumer objections to the valuation of property

- **Service Charges** comprise of 36.4% of the actual operating revenue generated as at June 2012. The amount realized is R3, 800 billion or 87.5% of the adjusted budget of R4, 348 billion.

Municipal revenues from trading services are a large source of municipal revenue. However, a large percentage of this income is for sales of bulk purchases i.e *water and electricity* which flows to Eskom and Water Boards, thus diminishing the gross margin and sustainability of the trade accounts.

Historically, many municipalities have been generating a surplus from trading services, more specifically *Electricity* to cross subsidise other services. The significant escalation of tariffs in Multi-Year- Price Determination (MYPD) 1 and 2 have squeezed these surplus.

Eskom proposed a 25.9 per cent average price increase through the facilitation by government NERSA approved for the 2012/13 financial year tariff to be reduced by 9.9 per cent to 16 per cent. This will impact on the re-phasing of equity returns; and the over recovery held in the regulatory clearing account on Multi-Year- Price Determination (MYPD) 2 period. Eskom has proposed a longer period than the three years for MYPD 3.

However, for *Water*, the pricing structure seems to be more affordable, however distribution losses because of aged infrastructure and legislation compliance impacts on the gross margin recovered.

- **Other Revenue** comprise of 47.3% of the actual operating revenue generated as at June 2012. The amount realized is R4, 938 billion or 83.6% of the adjusted budget of R5, 903 billion. Not much certainty and

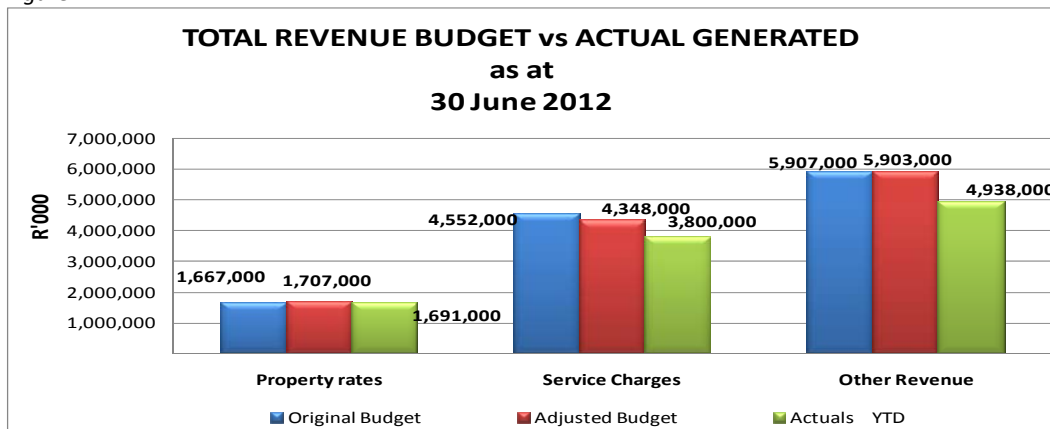
predictability can be placed on the collection from these sources, hence they are considered secondary.

Other revenue consists of:

- Rent of facilities and Equipment
- Interest Earned – External Investments
- Interest Earned – Outstanding debtors
- Dividends Received
- Fines
- Licenses and Permits
- Agency Services
- Other Revenue

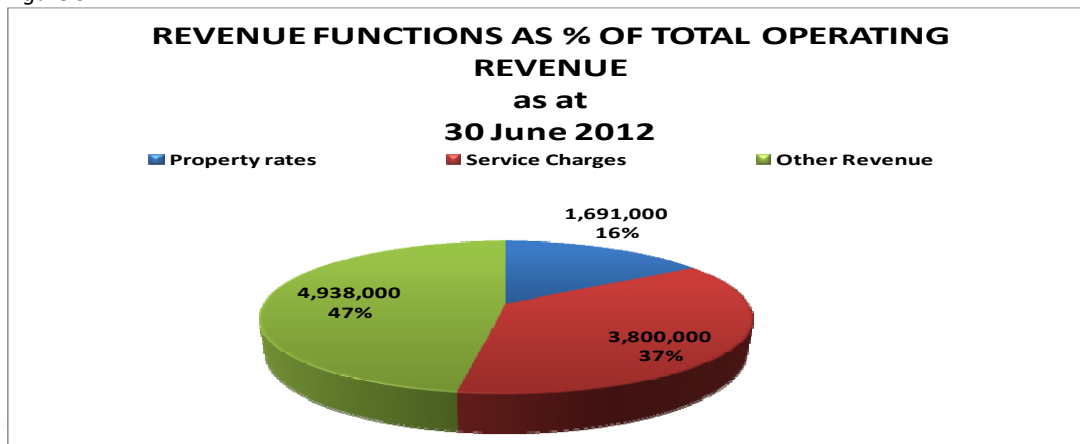
4.3.4 Figure 4 below indicates the revenue generated against the budget per main revenue sources:

Figure 4



4.3.5 As indicated in figure 5 below 47% (R4, 938 billion) of the total revenue reported is derived from other revenue, followed by 37% (R3,800 billion) for property service charges.

Figure 5

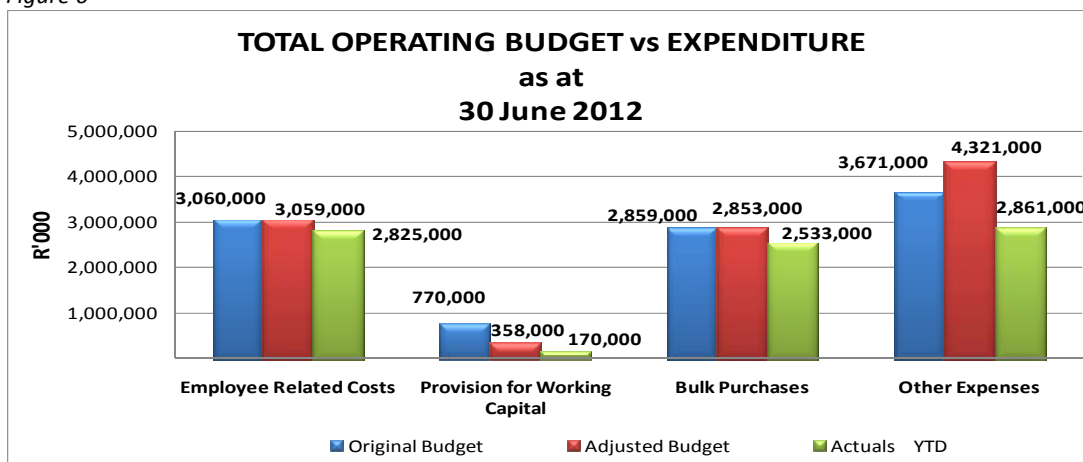


Operating Expenditure

4.3.6 The total operating expenditure amounts to R8, 388 billion or 79.2% against the adjusted budget of R10, 592 billion.

4.3.7 The figure below show the expenditure against the budget per main items:

Figure 6



4.3.8 The spending reported for 'Bulk Purchases' amounts to 88.8% or R2, 533 billion against an adjusted budget of R2, 211 billion.

4.3.9 The highest spending reported is on 'Employee Related Costs' which amounts to R2,825 billion or 92.3% of the adjusted budget of R3,059 billion. The expenditure on employee related cost also amounts to 34% of the total operating expenditure as at the end of June 2012

4.4 Debtors

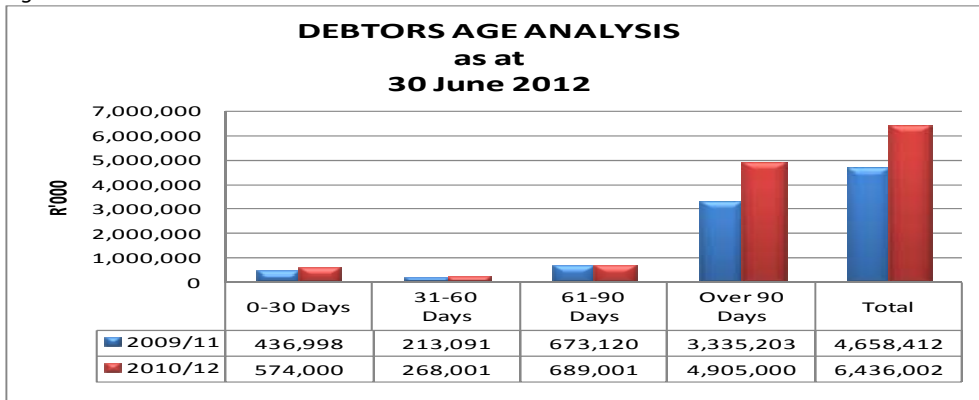
4.4.1 The total outstanding debtors reported at the end of June 2012 amounts to R6, 433 billion. The highest outstanding account is for water which accounts for 34% of outstanding debts.

4.4.2 The year-on-year comparison show that the total debtors increased with R1, 774,588 from the same period in the previous financial year.

4.4.3 Debt collection still raises concern as it impacts negatively on the future sustainability of budgets and ultimately service delivery. Municipalities need to intensify their collection strategy to motivate consumers to pay debt timeously to enhance and maintain a sustainable budget. Whilst it is acknowledged that the issue of municipal debt is complex, effective debt collection policies and strategies should be put into place to reduce outstanding debt.

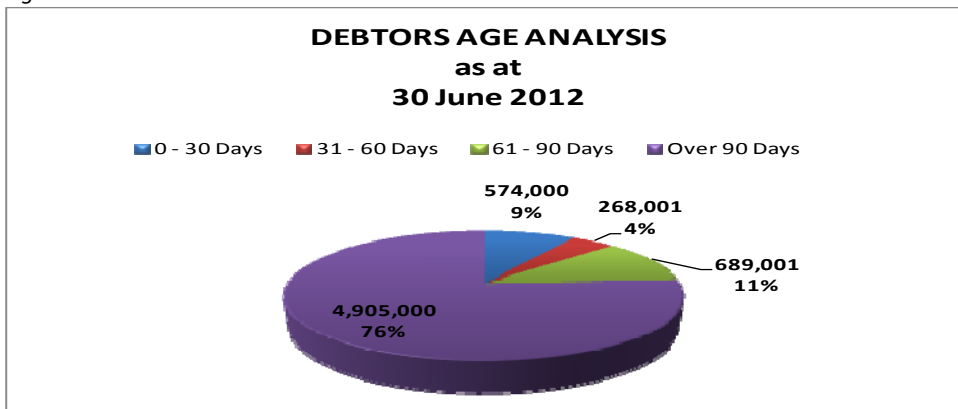
	0-30 Days R'000	31-60 Days R'000	61-90 Days R'000	Over 90 Days R'000	Total R'000
2010/11	436,998	213,091	673,120	3,335,203	4,658,412
2011/12	573,000	268,000	689,000	4,904,000	6,433,000
Increase / (Decrease)	136,002	54,909	15, 880	1,568,797	1,774,588

Figure 7



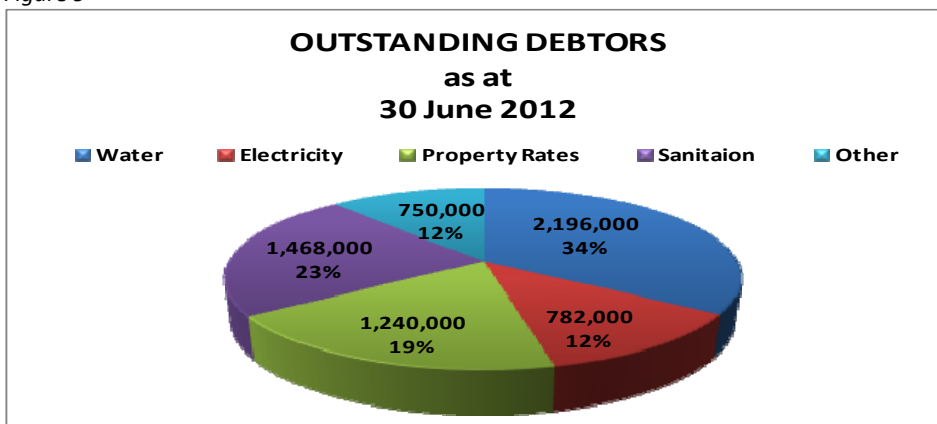
The debtor's age analysis indicates that 76.2% or R4, 905 billion of the total debt is outstanding for more than 90 days. This is a reflection of the failure by the municipalities to enforce credit control policies and intensified collection measures.

Figure 8



4.4.4 Furthermore the debtors per function indicate that 34% (R1, 196 billion) is regarding water debt followed by property rates debt at 19% (R1, 240 billion) and sanitation at 23% (R1, 240 billion).

Figure 9

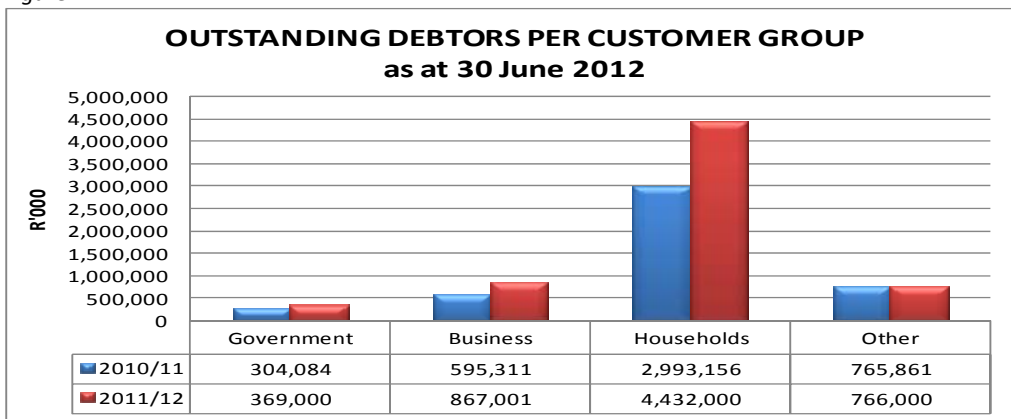


4.4.6 The outstanding debt per households increased with R1, 438, 844 from the previous financial year, and it remains the biggest portion of the outstanding debt per customer group. Households accounts for 64.3% of the total outstanding debts.

Figure 10



Figure 11



4.5 Intergovernmental Debt

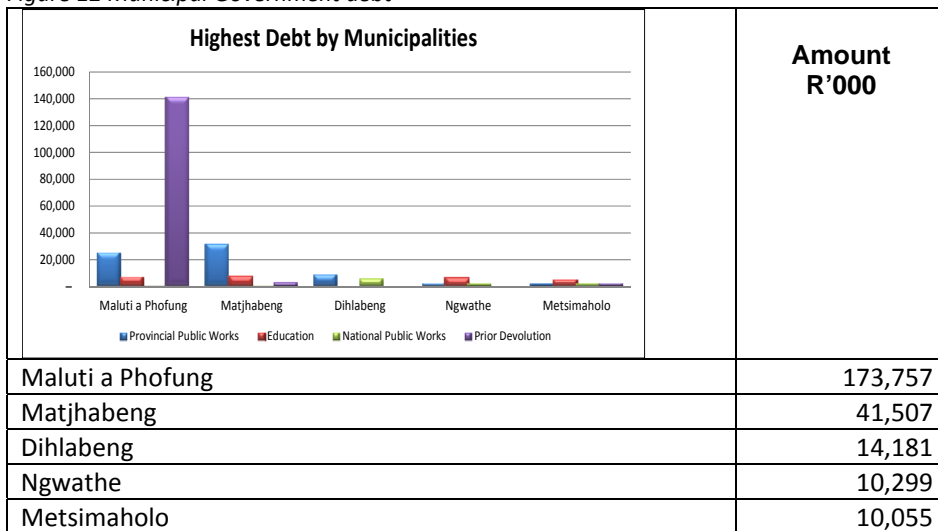
Based on the debt return submitted by municipalities, the total outstanding intergovernmental debt reported at 30 June 2012 amounted to R295,066 million of which 53 per cent or R155,001 million is outstanding for property rates prior devolution. 30 Per cent or R89,240 million is outstanding from Provincial Public Works, Education owes R29,142 million or 10 per cent whilst National Public Works owes R21,683 million or 7 per cent of the total debt.

The prior devolution debt is currently in the process of verification by National Public Works. Once the amount is identified, the National Treasury will distribute these amounts per province per municipality over the MTEF.

From the inception of the Intergovernmental Debt Steering Committee the intergovernmental debt has been decreasing, notably the government debt decreased in June 2012 by R7,742 million (3 per cent) from R302,808 million in May 2012. However,

challenges are still experienced with municipalities not providing detailed invoices and credible information.

Figure 12 Municipal Government debt



The biggest portion of the debt owed to Maluti a Phofung is regarding the outstanding property rates prior 1 April 2008 when National Public Works was still responsible for the payment of property rates for all government owned buildings. Maluti a Phofung indicated that R141,260 million of the R173,757 million reported is outstanding for this period. Maluti a Phofung also appointed a service provider to assist with the reconciliation of prior devolution amount the outstanding amount has thus far reduced with R18 million. The challenge remains at Maluti a Phofung is to provide detailed invoices for the amount of R32 million which it claims is outstanding by Provincial Departments.

Furthermore, of concern is the high tariff rate that is charged by Maluti a Phofung on government owned properties. This matter was addressed during the IDP/Budget hearings and subsequently the council indicated that the reduction of the tariffs with one cent will be considered. This reduction is still not sufficient as the rates charged by the municipality are still much higher compared to other municipalities in the province. At the last IDSC meeting consensus was reached for the HOD for Provincial Public Works to write a letter requesting a more significant reduction failing which an EXCO Memo has been prepared considering the following 2 options:

- Option 1
To consider a standardized tariff for rates & taxes on government owed properties for the next MTEF.
- Option 2
- National Treasury to increase the budget allocation of Provincial Public Works, consistent with higher than market related rates levied by municipalities.

4.5.1 Property Rates Outstanding Prior Devolution

As from 1 April 2008, Provincial Public Works is responsible for the payment of property rates for all provincially owned properties. However, the property rates outstanding as at 1 April 2008 are still the responsibility of National Public Works.

National Treasury requested municipalities to submit detail regarding the outstanding property rates prior 1 April 2008 during July 2011. This information was then provided to National Public Works which is currently in the process of verifying and reconciling the information.

The outstanding balances submitted to National Treasury amounted to R204 million and consists of the following municipalities:

Table 5

Municipality	Outstanding Property Rates – Prior 2008	Comments
Mangaung	24,498,873.82	
Letsemeng	-	Municipality confirmed – No outstanding debt
Kopanong		Information not submitted
Mohokare	1,311,954.89	
Naledi	939,608.05	
Masilonyana	3,069,691.10	
Tokologo	939,541.38	
Tswelopele	-	Municipality confirmed – No outstanding debt
Matjhabeng	2,459,758.39	
Nala		Information not submitted
Setsoto	4,530.83	
Dihlabeng	1,918,228.90	
Nketoana	4,392,538.01	
Maluti a Phofung	160,774,369.33	
Phumelela		Information not submitted
Mantsopa	1,458,761.45	
Moqhaka	111,476.30	
Ngwathe	-	Municipality confirmed - No outstanding debt
Metsimaholo	2,122,294.40	
Mafube		Information not submitted
TOTAL	204,001,626.85	

**Amounts subject to verification/reconciliation by National Public Works*

Only 8 municipalities (Kopanong, Mohokare, Naledi, Masilonyana, Matjhabeng, Maluti a Phofung, Moqhaka, Metsimaholo) provided the information regarding the outstanding property rates prior devolution on the monthly debt return. During evaluation of the returns it was found that Masilonyana, Maluti a Phofung and Metsimaholo are the only

municipalities that provided information consistent with information previously submitted to National Treasury.

Although Kopanong and Matjhabeng reported amounts outstanding for prior the devolution, amounts for services (water, electricity, sanitation and refuse removal) and other was also included.

4.6 Creditors

4.6.1 The total reported for outstanding creditor's amounts to R1, 520 billion and R1, 030 billion of the total is outstanding for longer than 30 days. The outstanding creditors impact negatively on the financial sustainability of the municipalities.

4.6.2 The total creditors increased with R515, 138 million from the same period in the previous financial year.

Figure 13

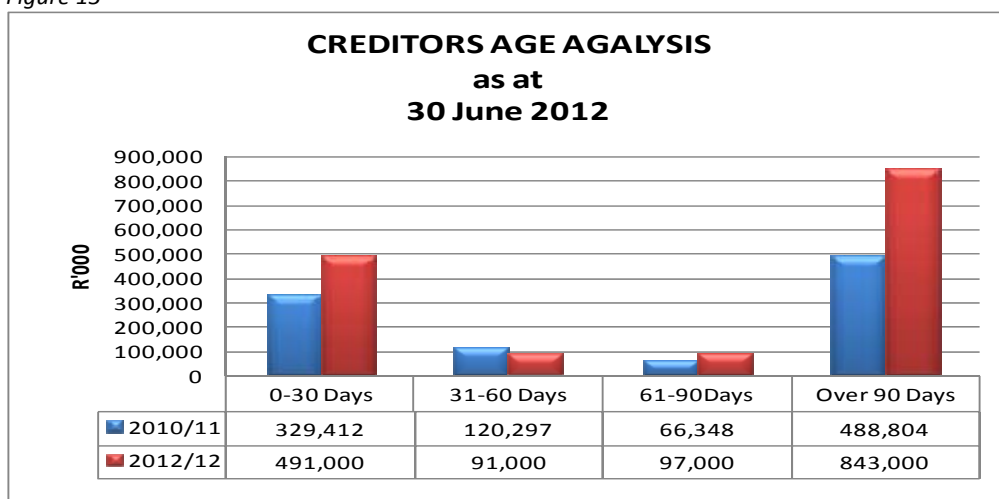
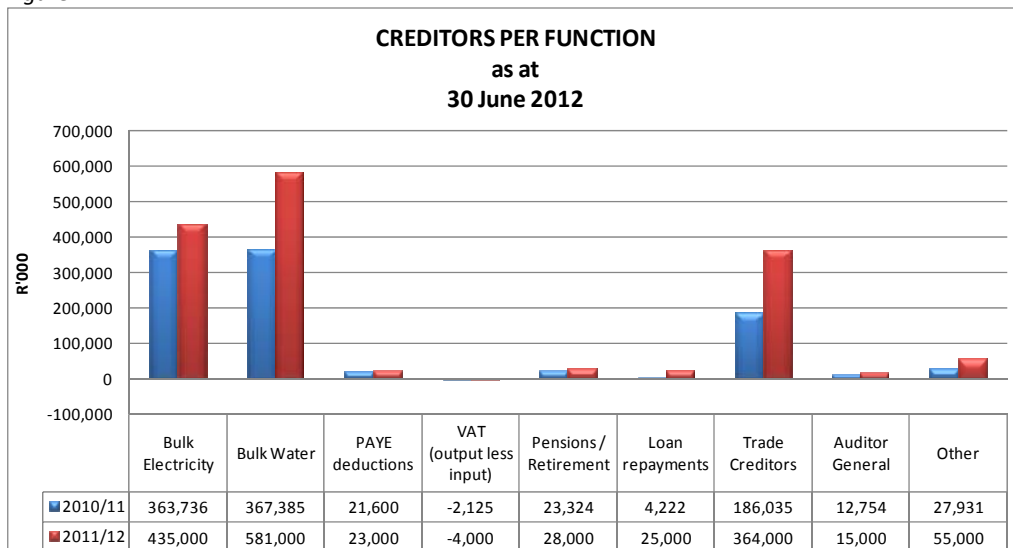
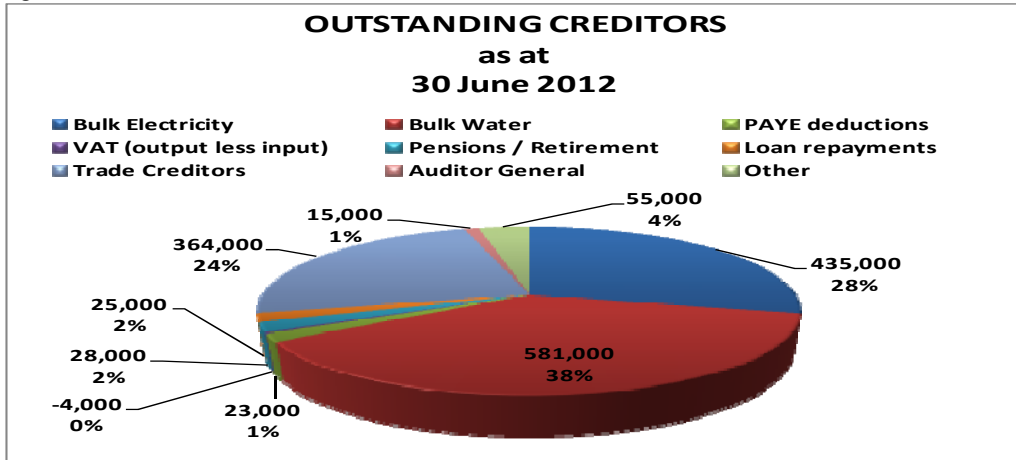


Figure 14



4.6.3 The highest outstanding creditors reported are for 'bulk water and electricity' followed by trade creditors.

Figure 15



4.6.4 The five municipalities with the highest outstanding creditors are:

Municipality	0-30 Days R'000	31-60 Days R'000	61-90 Days R'000	Over 90 Days R'000	Total R'000
Matjhabeng	101,425	32,252	55,292	534,310	723,279
Mangaung	255,582	9,033	2,691	25,183	292,489
Mafube	607	10,567	5,502	77,331	94,007
Ngwathe	23,876	1,309	12,374	69,692	107,251
Moqhaka	45,466	12,030	10,337	56,043	123,876

4.7 Cash Flow

4.7.1 Municipalities are requested to submit bank reconciliations on a monthly basis for verification; however this request is not adhered to by all the municipalities.

4.7.2 The following municipalities reported a negative closing balance on the cash flow statements at the end of the 2012 financial year:

Municipality	Closing Balance R'000
Fezile Dabi	-2,045
Kopanong	-24,694
Maluti a Phofung	-2,126
Mohokare	986
Nala	-1,369
Nketoana	-7,139
Phumelela	-8,634
Setsoto	-31,855
Tokologo	-2,263

4.8 Challenges

- 4.8.1 Compiling the monthly report according to the format prescribed in the municipal budget and reporting regulations.
- 4.8.2 Debt collection still raises concern as it impacts negatively on the future sustainability of budgets and ultimately service delivery.
- 4.8.3 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 depending on grants allocation for the payment of creditors.
- 4.8.4 Compiling and submission of monthly bank reconciliation. The implication of not compiling and/or submitting the bank reconciliation is that financial problems cannot be identified timeously for corrective action.
- 4.8.6 Municipalities are not providing for and do not spend sufficiently on repairs and maintenance which leads to the deterioration of government infrastructure.
- 4.8.7 Due to financial constraints problems are experienced in payment to ESKOM, Water Boards and other creditors, i.e AGSA, which remains a serious concern.

4.9 Improvements

- 4.9.1 The spending on the capital budget has improved from 60.9% in the previous financial year to 90% for in the current financial year.

5. IMPLICATIONS: FINANCIAL AND CONSTITUTIONAL

5.1 Financial Implication

None

5.2 Legal Implication

Refer to section 71(6) & (7) of the Municipal Finance Management Act.

6. RECOMMENDATION

It is recommended that:

- 6.1 The MEC: Finance takes note of this report on the status of municipal revenue and expenditure at 30 June 2012.
- 6.2 The MFMA unit provides technical support to the municipalities on a continuous basis to enhance the information reported monthly and annually.

- 6.3 Revenue collection, debtors, creditors and maintenance and repairs to be a standing item on the agenda of the MMC Finance Forum meetings.
- 6.4 In terms of the Auditor –General Auditor-General findings for Free State municipalities, significant pervasive material misstatement in the 2010/11 Annual Financial Statements was reported.

In light of this, if the trend continues, it is probable that there will be material adjustments to the unaudited 2011/12 AFS as well, in which case even the attempt by Provincial Treasury to provide a reasonable analysis, could be misinterpreted since no reliance can be placed on the figures until the Auditor-General has finalized his audit.

COMPILED AND SUBMITTED BY:

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ACTING SENIOR MANAGER: MUNICIPAL BUDGETING & IYM
Date: _____

ENDORSED BY

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ACTING SENIOR EXECUTIVE MANAGER: MFM
Date: _____

RECOMMENDED BY:

H.L. Kgomongwe
CEO: PROVINCIAL TREASURY
Date: _____

APPROVED/NOT APPROVED/NOTED:

S.J. Mohai
MEC FOR FINANCE
Date: _____