



treasury
Department of
Treasury
FREE STATE PROVINCE

Ref. no.: MFMA 9

**MEC for Finance
Free State Province**

**CONSOLIDATED STATEMENT ON THE MUNICIPAL BUDGET PERFORMANCE FOR THE
MONTH ENDING 31 MARCH 2012**

1. PURPOSE

To provide a consolidated statement on the performance of municipalities in the Province against the approved budgets as at 31 March 2012.

2. SUMMARY

2.1 This consolidated statement covers the In-year financial performance for the period ending 31 March 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. March 2012, a year-to-date analysis and year-on-year comparative analysis.

3. BACKGROUND

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.

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 Submissions

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. Submission has improved from 50 outstanding up to February 2012 to 17 at the end of March 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 March 2012	Total Outstanding Previous Months
Xhariep	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Letsemeng	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Kopanong	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Mohokare	✓	✓	✓	x	x	x	x	x	5	5
Naledi	✓	✓	✓	✓	✓	✓	✓	✓	1	7
Mangaung	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Mantsopa	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Lejweleputswa	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Masilanyana	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Tokolope	✓	✓	✓	x	x	✓	x	✓	3	0
Tswelopele	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Matjhabeng	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Nala	✓	✓	✓	x	x	✓	✓	✓	2	11
Thabo Mofutsanyana	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Setsotho	✓	✓	✓	✓	✓	✓	x	✓	1	8
Dihlabeng	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Nketoana	✓	✓	✓	✓	✓	✓	✓	x	2	1
Maluti a Phofung	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Phumelela	✓	✓	✓	✓	✓	✓	✓	✓	0	2
Fzile Dabi	✓	✓	✓	✓	✓	✓	✓	✓	1	1
Moghaka	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Ngwathe	✓	✓	✓	✓	✓	✓	✓	x	2	15
Metsimaholo	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Mafube	✓	✓	✓	✓	✓	✓	✓	✓	0	0
Total Outstanding	0	0	0	3	3	4	4	3	17	50

Source: NT Database

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

In addition to the above, the municipalities were required to submit monthly reports on the conditional grants as per the Division of Revenue Act. Table 2 below indicates that the submission of returns have declined from 3 outstanding up to February 2012 to 6 at the end of March 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 March 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	3	0
Mmshikane	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Naledi	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Mangaung	✓	✓	✓	N/A	✓	N/A	✓	N/A	0	0
Mantzopa	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Lejweleputswa	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	0	0
Mosionyana	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Tsoelike	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
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
Sekoto	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Ditlabeng	N/A	✓	N/A	✓	✓	✓	N/A	N/A	0	0
Nketoana	N/A	✓	N/A	✓	✓	N/A	N/A	N/A	0	0
Matlisa/Phofung	N/A	✓	✓	✓	✓	N/A	N/A	✓	0	0
Phumelele	N/A	✓	x	✓	✓	N/A	N/A	N/A	1	1
Phuthaditjhaba	N/A	✓	N/A	N/A	✓	N/A	N/A	N/A	2	2
Mogalakwena	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Ngwathe	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Milutshane	N/A	✓	✓	✓	✓	N/A	N/A	✓	0	0
Matibeli	N/A	✓	✓	✓	✓	N/A	N/A	N/A	0	0
Total Outstanding	0	1	2	1	2	0	0	0	6	3

Source: NT Database

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

5. Capital Budget

1.1 Capital Sources of Revenue

Table 1 below shows the actual sources of finance and capital expenditure as at 31 March 2012 compared to the actual reported for the same period in the previous financial year.

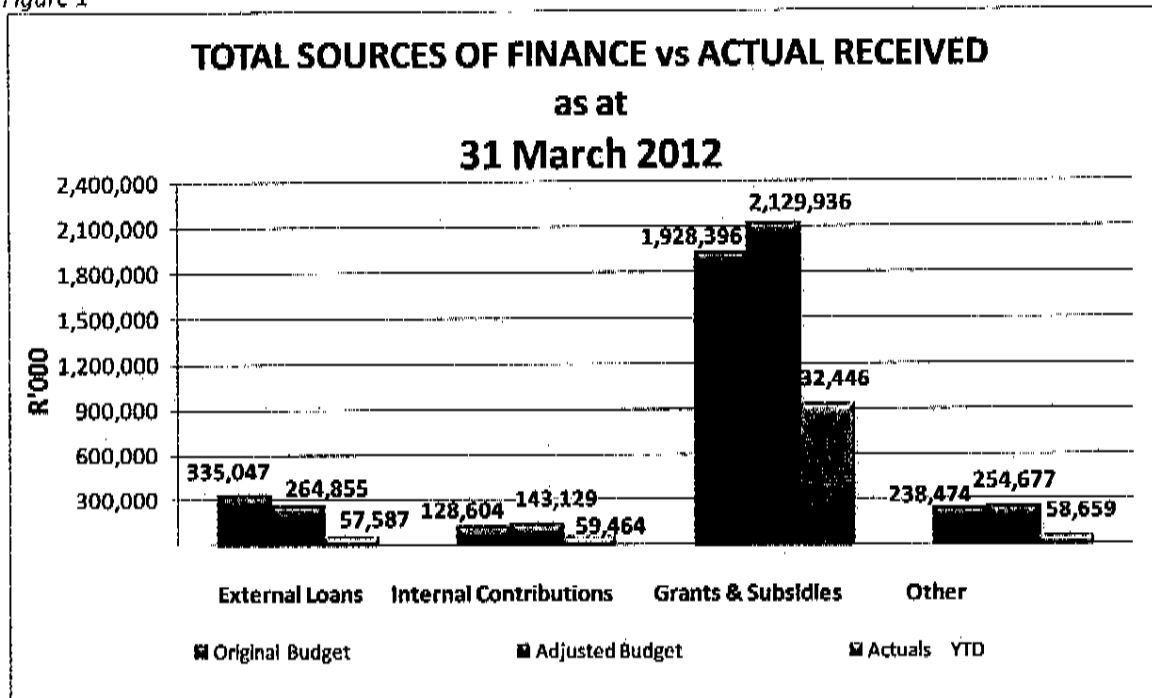
Table 1: Capital Expenditure and Sources: Percentage performance is based on adjustment budget values

	March 2012		Actuals YTD	%	March 2011	
	Original Budget	Adjusted Budget			Actuals YTD	%
CAPITAL EXPENDITURE						
Water	879,587	737,078	490,927	66.6	405,053	58.4
Electricity	311,805	339,141	137,854	40.6	40,218	18.1
Housing	153,245	17,207	4,791	27.8	5,343	20.3
Roads, Pavements, Bridges & Storm Water	646,901	726,168	316,473	43.6	328,278	62.5
Other	638,983	972,929	198,820	20.4	337,469	49.0
Total Capital Expenditure	2,630,521	2,792,523	1,148,866	41.1	1,116,361	51.8
SOURCE OF FINANCE						
External Loans	335,047	264,855	57,587	21.7	11,246	7.4
Internal Contributions	128,604	143,129	59,464	41.5	169,304	91.4
Grants and Subsidies	1,928,396	2,129,936	932,446	43.8	773,994	52.7
Other	238,474	254,677	58,659	23.0	130,181	47.7
Total Financing	2,630,521	2,792,597	1,108,155	39.7	871,851	52.5

Source: NT Lgdatabase

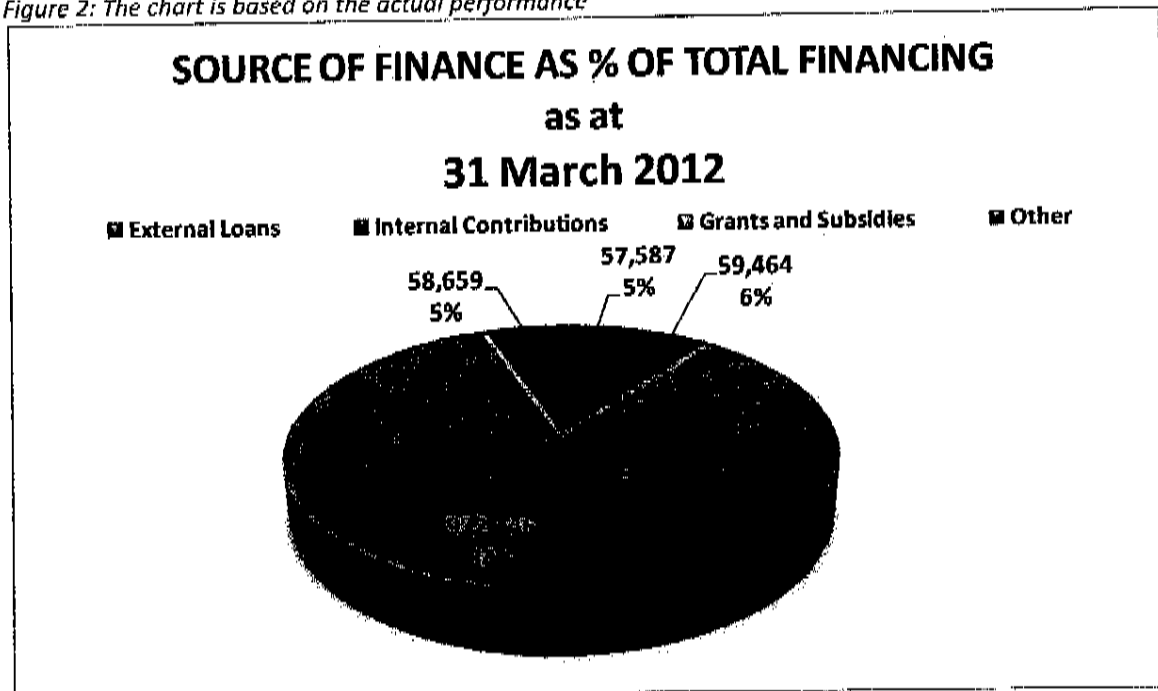
Municipalities have reported expenditure consistent with sources of finance, however the pace of spending indicates that municipalities will not be able to spend their adjustment budget in the 2011/12 financial year.

Figure 1



The graph below indicate that 84% or R932, 446 million of the total financing were sourced from grants and subsidies which were mostly the Municipal Infrastructure Grant, Neighbourhood Development Partnership Grant (Capital) and Integrated National Electrification Programme.

Figure 2: The chart is based on the actual performance



External Loans

These are borrowings in terms of section 46(1) of the MFMA for the purposes of achieving the objectives of local government as set out in section 152 of the Constitution.

A total of R57, 587 million or 21.7 per cent have been received against an adjusted budget of R264, 855 million. Only 2 of the 4 municipalities indicated receipt of borrowings for the period under review, indicating the 2 remaining municipalities may not have secured their borrowing and will impact on the SDBIP deliverables.

Table 2

Municipality	Original Budget	Adjustment Budget	Actuals YTD	%
Mangaung	110,547	71,855	41,502	57.8
Maluti a Phofung	174,000	174,000	16,085	9.2
Phumelela	3,500			0.0
Metsimaholo	47,000	19,000		0.0
TOTAL EXTERNAL LOANS	335,047	264,855	57,587	21.7

The adjusted R19 million loan of Metsimaholo Local Municipality is secured for the 2011/12 financial year as well as the loans for Maluti-a-Phofung (R174 million) and Phumelela (R3.5 million).

Internal Contributions

These are contributions made from the surplus derived from the municipality's operating budget. A total of R59, 464 million (41.5%) was utilized from internal funds against an adjusted budget of R143, 129 million, which is well below the 75% straight line projection for the period under review. It should also be mentioned that the internal contributions is dependent on the collection rate of a municipality and if revenue is not sufficiently collected, it can impact on the funding for the capital projects.

Table 3

Municipality	Original Budget	Adjusted Budget	Actuals YTD	%
Mangaung	95,404	111,398	32,634	29.3
Dihlabeng	25,000	25,000	23,959	95.8
Nketoana	4,950		476	
Phumelela	3,250			
Metsimaholo			387	
Fezile Dabi		6,731	2,007	29.8
TOTAL INTERNAL CONTRIBUTIONS	128,604	143,129	59,464	41.5

Grants & Subsidies

These are allocations made to municipalities from National or Provincial departments following the approval of the Division of Revenue Act, the national budget and provincial budget.

The table below provides detail information per municipality.

Table 4

Municipality	Division of Revenue Act						Provincial Allocations	Total Grants	Total Grants included in Municipal Budget (Section 71 Report)	Variance
	MIG	USDG	NDPG (Capital)	PTIS	INEP	EDSM				
Mangaung	-	411,995	-	15,000	20,000	5,000	-	451,995	585,341	(133,346)
Letsemeng	18,210	-	-	-	594	-	-	18,804	23,805	(5,001)
Kopanong	19,390	-	-	-	800	-	406	20,596	31,122	(10,526)
Mohokare	15,532	-	-	-	627	-	-	16,159	29,098	(12,939)
Naledi	14,149	-	-	-	-	-	-	14,149	15,597	(1,448)
Xhariep	-	-	-	-	-	-	-	-	3,373	(3,373)
Masilonyana	30,322	-	-	-	-	-	-	30,322	30,322	0
Tokologo	17,855	-	-	-	-	-	-	17,855	67,391	(49,536)
Tswelopele	25,015	-	-	-	-	-	1,900	26,915	41,205	(14,290)
Matjhabeng	164,896	-	5,000	-	2,286	-	-	172,182	515,772	(343,590)
Nala	45,642	-	-	-	-	-	-	45,642	45,642	0
Setsoto	62,963	-	-	-	-	-	2,629	65,592	73,605	(8,013)
Dihlabeng	42,647	-	4,000	-	-	-	-	46,647	42,647	4,000
Nketoana	28,044	-	-	-	-	-	-	28,044	-	28,044
Maluti a Phofung	171,336	-	-	-	19,600	-	-	190,936	307,576	(116,640)
Phumelela	21,947	-	-	-	2,640	-	3,016	27,603	51,993	(24,390)
Mantsopa	22,773	-	-	-	810	-	-	23,583	13,411	10,172
Thabo Mofutsanyana	-	-	-	-	-	-	-	-	1,500	(1,500)
Moqhaka	38,661	-	-	-	3,360	-	-	42,021	87,133	(45,112)
Ngwathe	41,582	-	-	-	5,183	-	-	46,765	74,746	(27,981)
Metsimaholo	38,843	-	-	-	2,000	-	5,431	46,274	52,834	(6,560)
Mafube	21,303	-	-	-	12,100	-	-	33,403	35,823	(2,420)
Fezile Dabi	-	-	-	-	-	-	20,000	20,000	-	20,000
TOTAL	841,110	411,995	9,000	15,000	70,000	5,000	33,382	1,385,487	2,129,936	(744,449)

The table above shows that 17 municipalities overstated the grants for capital funding with R744, 449 million.

The table below indicates the actual transfers as per the payment schedule against the grants utilized during the period under review.

Municipality	NT Payment Schedule						Total Grants Transferred	Total Grants Included in S71 report	Variance
	MIG	USDG	NDPG (Capital)	PTIS	INEP	EDSM			
Mangaung	-	411,995	-	15,000	20,000	5,000	451,995	252,960	199,035
Letsemeng	18,210	-	-	-	594	-	18,804	11,511	7,293
Kopanong	19,390	-	-	-	800	-	20,190	28,728	(8,538)
Mohokare	15,532	-	-	-	627	-	16,159	18,417	(2,258)
Naledi	14,149	-	-	-	-	-	14,149	7,823	6,326
Xhariep	-	-	-	-	-	-	-	995	(995)
Masilonyana	30,322	-	-	-	-	-	30,322	16,192	14,130
Tokologo	17,855	-	-	-	-	-	17,855	59,685	(41,830)
Tswelopele	25,015	-	-	-	-	-	25,015	23,037	1,978
Matjhabeng	164,896	-	5,000	-	2,286	-	172,182	139,677	32,505
Nala	45,642	-	-	-	-	-	45,642	13,126	32,516
Setsoto	62,963	-	-	-	-	-	62,963	37,763	25,200
Dihlabeng	42,647	-	4,000	-	-	-	46,647	22,470	24,177
Nketoana	28,044	-	-	-	-	-	28,044	14,733	13,311
Maluti a Phofung	171,336	-	-	-	19,600	-	190,936	176,123	14,813
Phumelela	21,947	-	-	-	2,640	-	24,587	24,354	233
Mantsopa	22,773	-	-	-	810	-	23,583	18,728	4,855
Thabo Mofutsanyana	-	-	-	-	-	-	-	-	0
Moqhaka	38,661	-	-	-	3,360	-	42,021	10,125	31,896
Ngwathe	41,582	-	-	-	5,183	-	46,765	-	46,765
Metsimaholo	38,843	-	-	-	2,000	-	40,843	23,431	17,412
Mafube	23,009	-	-	-	12,100	-	35,109	32,568	2,541
Fezile Dabi	-	-	-	-	-	-	-	-	0
TOTAL	842,816	411,995	9,000	15,000	70,000	5,000	1,353,811	932,446	421,365

The current format of the section 71 reports requires the total capital sources of finance to be equal to the total capital expenditure. Therefore, the funding utilized for capital expenditure will not correspond to the total capital grants transferred to the municipalities.

Other Revenue

A total of R58, 659 million or 23.0 percent was reported against an adjusted budget of R254, 677 million.

Table 7

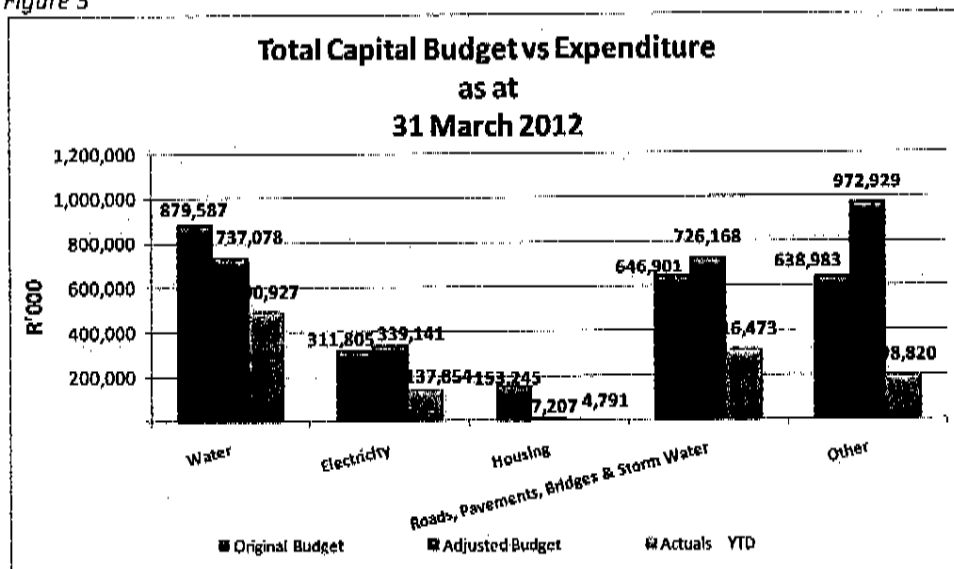
Municipality	Original Budget	Adjusted budget	Actuals YTD	%
Mangaung	46,452	46,452	28,418	61.2
Letsemeng	1,290	1,788	225	12.6
Kopanong	2,100	1,850		0.0
Mohokare	13,282			0.0
Masilonyana	3,820	3,820		0.0
Tswelopele	14,800	1,000	131	13.1
Matjhabeng	12,286	41,450	2,959	7.1
Lejweleputswa	8,175	10,704	3,758	35.1
Setsoto	3,045	3,045		0.0
Dihlabeng			856	0.0
Nketoana	5,500	46,626	1,612	3.5
Maluti a Phofung	14,575	12,350	10,504	85.1
Phumelela	2,050	5,300		0.0
Mantsopa	18,633	16,678	3,320	19.9
Moqhaka	22,874	22,874		0.0
Ngwathe	8,682	8,682		0.0
Metsimaholo	52,560	30,143	1,467	4.9
Mafube	1,915	1,915	5,250	274.2
Fezile Dabi	6,435		159	0.0
TOTAL OTHER REVENUE	238,474	254,677	58,659	23.0

Other revenue consists of surplus cash, public contributions/donations and other.

5.2 Capital Expenditure

5.2.1 The total capital expenditure reported amounts to R1, 149 billion or 41.1% against an adjusted budget of R2, 793 billion.

Figure 3



5.2.2 The highest spending item reported is regarding Water of which R490, 927 million or 66.6% was spent, followed by Storm Water of which R316, 473 million or 43.6% was spent and Electricity spending amounts to R137, 854 million or 40.6%. Other consists of:

Car parks, bus terminals and Taxi Ranks	Security Measures
Sportsfields	Civic Land & Buildings
Other motor vehicles	Other Land & Buildings
Security Measures	Other

5.2.3 The lowest percentage spending is recorded for other at 20.4% and housing at 27.8%.

5.2.4 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 March 2012 amounts to R516, 681 million or 61% against the total allocation of R841, 110 million, therefore constitutes 45% of the total actual capital expenditure.

The following 12 municipalities did not meet the MIG expenditure target of 72% at the end of March 2012

- Letsemeng
- Kopanong
- Mohokare
- Naledi
- Masilonyana
- Matjhabeng
- Nala
- Setsoto
- Nketoana
- Phumelela
- Ngwathe
- Metsimaholo

5.2.5 The following municipalities under spend on the Neighbourhood Development Partnership Grant (NDPG) and Integrated National Electrification Grant (INEP) and therefore National Treasury has stopped the funds as indicated below:

Municipality	Grant	Allocation	Scheduled	Transferred	Spending as at 31 Dec 11	Funds stopped
Matjhabeng	INEP	2 286	2 286	300	-	1 986
	NDPG	5 000	5 000	-	300	4 500
Dihlabeng	NDPG	4 000	4 000	-	-	4 000

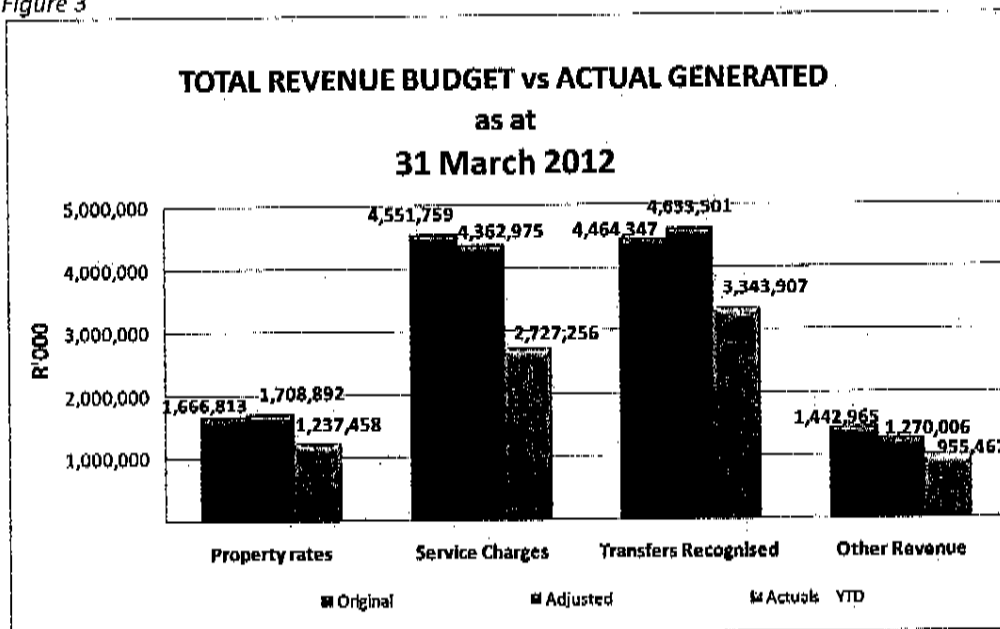
6. Operating Budget

The table below shows the actual revenue generated and the operating expenditure as at 31 March 2012 compared to the actual reported for the same period in the previous financial year.

Table 8: Operating Revenue and Expenditure

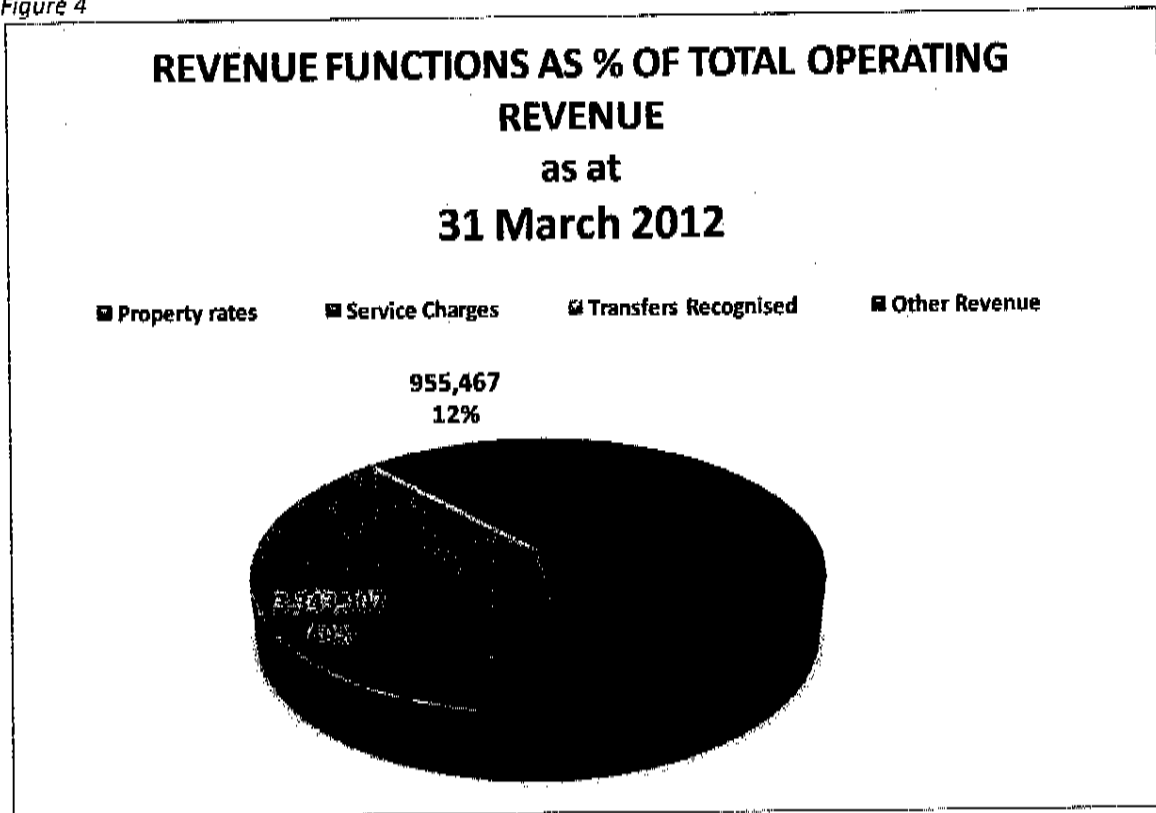
	March 2012		YTD	%	March 2011	
	Original Budget	Adjusted Budget			YTD	%
OPERATING REVENUE						
Property rates	1,666,813	1,708,892	1,237,458	72.4	1,142,550	71.5
Service Charges	4,551,759	4,362,975	2,727,256	62.5	2,800,292	69.3
Transfers Recognised	4,464,347	4,633,501	3,343,907	72.2	3,002,744	85.5
Other Revenue	1,442,965	1,270,006	955,467	75.2	1,72,839	15.8
Total Operating Revenue Generated	12,125,883	11,975,374	8,264,088	69.0	7,118,425	69.5
OPERATING EXPENDITURE						
Employee Related Costs	2,860,482	2,850,661	1,969,557	69.1	1,880,827	75
Provision for Working Capital	770,245	359,765	135,061	37.5	107,385	16.7
Bulk Purchases	2,858,696	2,870,441	1,938,055	67.5	1,541,203	69.8
Other Expenses	3,870,712	4,519,128	2,154,972	47.7	1,760,028	43.6
Total Operating Expenditure	10,360,135	10,599,995	6,197,645	58.5	5,289,442	56.3

Figure 3



The graph below indicate that 40% or R3, 344 billion of the revenue reported were received from transfers i.e. Equitable Share, FMG, MSIG etc.

Figure 4



Property Rates

Property Rates amounts to R1, 237 billion or 72.4% against a total adjusted budget of R1, 709 billion.

The following municipalities reported actual billing of property rates less than 75% for the period under review:

Municipality	Original Budget	Adjustment budget	Actuals YTD	%
Letsemeng	5,106	5,106	2,794	54.7
Kopanong	15,185	15,185	6,465	42.6
Tswelopele	21,409	21,409	679	3.2
Matjhabeng	136,325	200,362	88,150	44.0
Nala	12,830	12,830		0.0
Setsoto	24,674	24,674	18,397	74.6
Mantsopa	10,919	10,795	8,073	74.8
Ngwathe	39,390	39,390	1,179	3.0
Mafube	8,695	8,695	4,007	46.1

Although returns were submitted for Nala municipality, the information submitted is incorrect as no property rates have been reported.

Furthermore, the following municipalities reported a high percentage billing for property rates for the period under review. This could be that the municipality reported incorrectly or under estimated its budget.

Municipality	Original Budget	Adjusted Budget	Actuals YTD	%
Tokologo	1,749	1,749	3,218	184.0
Naledi	2,547	2,547	15,451	606.6

Service Charges

The service charges amounts to R2, 727 billion or 62.5% against an adjusted budget of R4, 363 billion.

The following municipalities reported actual billing of service charges less than 75% for the period under review:

Municipality	Original Budget	Adjustment Budget	Actuals YTD	%
Letsemeng	34,055	34,055	23,433	68.8
Kopanong	54,872	58,234	27,807	47.8
Masilonyana	63,282	63,282	25,122	39.7
Mangaung	2,023,408	2,023,408	1,458,555	72.1
Matjhabeng	855,264	657,988	323,992	49.2
Nala	119,265	119,265	22,046	18.5
Maluti a Phofung	-85,531	-80,029	-153,455	191.7
Mantsopa	79,242	72,685	47,692	65.6
Moqhaka	266,567	266,567	191,094	71.7
Ngwathe	237,611	237,611	2,228	0.9
Metsimaholo	354,009	354,009	225,021	63.6
Mafube	82,345	82,345	36,910	44.8

The negative amounts reported for Maluti a Phofung is a capturing error and the relevant returns should be amended by the municipality.

Transfers Recognized

The municipalities reported a total of R3, 344 billion or 72.2% against an adjusted budget of R4, 634 billion was transferred during the period under review.

Transfers Recognised	Original Budget	Adjusted Budget	Actuals YTD	%
Operating	3,126,540	3,165,617	2,617,579	82.7
Capital	1,337,807	1,467,884	726,328	49.5
TOTAL TRANSFERS RECOGNISED	4,464,347	4,633,501	3,343,907	72.2

Operating transfers include the equitable share, FMG and MSIG while the capital grants include the MIG, NDPG, INEP, etc.

According to NT transfer schedule the total transfers to municipalities during the period under review amounts to R4, 332 billion and therefore municipalities have understated the transfers recognized with R1, 675 billion.

Municipality	NT Payment schedule	Actual Reported			Variance
		Operating	Capital	Total	
Mangaung	999,862	412,687	5,000	417,687	582,175
Letsemeng	66,256	47,795	6,752	54,547	11,709
Kopanong	101,764	81,472	20,202	101,674	90
Mohokare	64,081	45,365		45,365	18,716
Naledi	49,677	33,428	709	34,137	15,540
Xhariep	22,669	62,045		62,045	(39,376)
Masilonyana	104,714		16,505	16,505	88,209
Tokologo	58,647	36,379	59,685	96,064	(37,417)
Tswelopele	82,638	37,476	21,849	59,325	23,313
Matjhabeng	565,081	349,873	173,302	523,175	41,906
Nala	168,852	124,862	52,642	177,504	(8,652)
Lejweleputswa	95,775	95,153	91	95,244	531
Setsoto	213,078	143,876	5,969	149,845	63,233
Dihlabeng	163,738	117,097	61,328	178,425	(14,687)
Nketoana	99,851	40,285	6,810	47,095	52,756
Maluti a Phofung	498,629	358,827	266,021	624,848	(126,219)
Phumclela	76,576	46,204	-	46,204	30,372
Mantsopa	85,340	62,540	17,057	79,597	5,743
Thabo Mofutsanyana	74,439	73,309	-	73,309	1,130
Moqhaka	189,442	139,264	-	139,264	50,178
Ngwathe	186,316	54,729	12,380	67,109	119,207
Metsimaholo	131,208	85,866	24	85,890	45,318
Mafube	104,424	69,469		69,469	34,955
Fezile Dabi	129,172	99,578	-	99,578	29,594
TOTAL TRANSFERS	4,332,229	2,617,579	726,326	2,657,157	1,675,072

With regard to the municipalities which indicated actual reported higher than what was received is due to incorrect reporting

Other Revenue

The total other revenue reported amounts to R955, 467 million or 75.2 percent against an adjusted budget of R1, 270 million which is above the straight line projection of 66.7%.

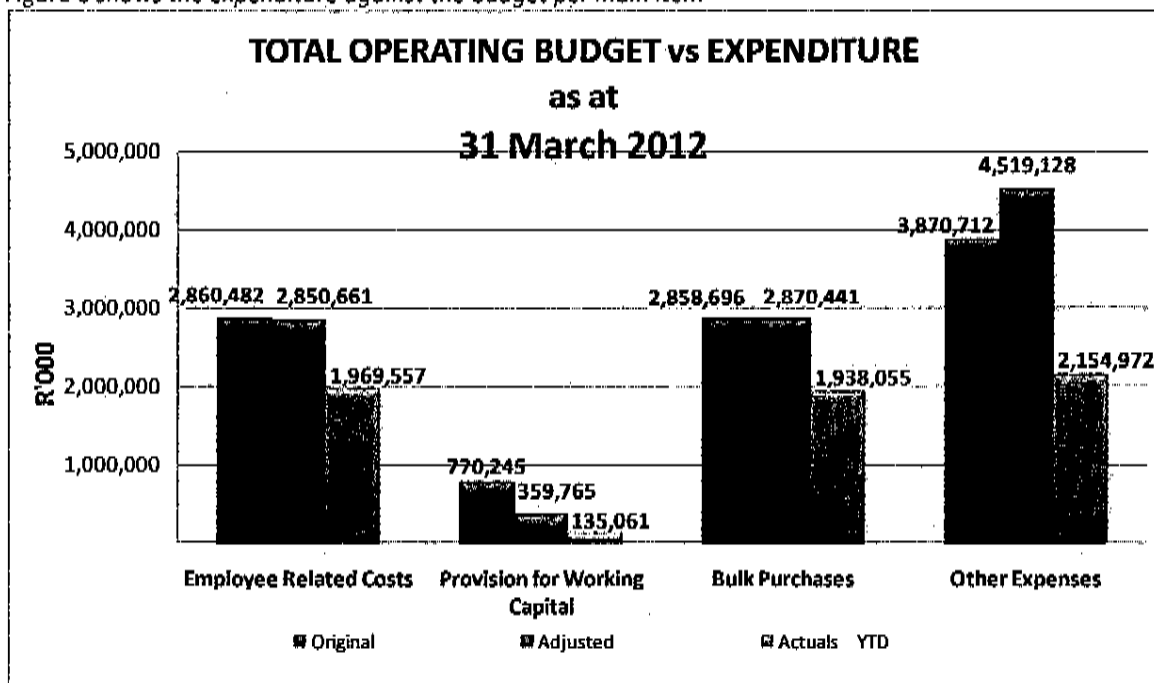
Other revenue consists of:

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

6.2 Operating Expenditure

The total operating expenditure amounts to R6, 198 billion or 58.5% against the adjusted budget of R10, 600 billion.

Figure 6 shows the expenditure against the budget per main item



Spending reported for Employee Related Costs amounts to R1, 970 billion or 69.1% against the adjusted budget of R2, 851 billion.

The spending reported for 'Bulk Purchases' amounts to 67.5% or R1, 938 billion against an adjusted budget of R2, 870 billion, other expenses amounts 47.7% or R2, 155 billion and provision for working capital amounts to 37.5% or R135, 061 million against an adjusted budget of R359, 765 million.

7. Cash Flow

The following three municipalities reported negative closing cash balances on the cash flow statements at the end of March 2012:

- Maluti-a-Phofung
- Nketoana
- Setsoto

8. Debtors

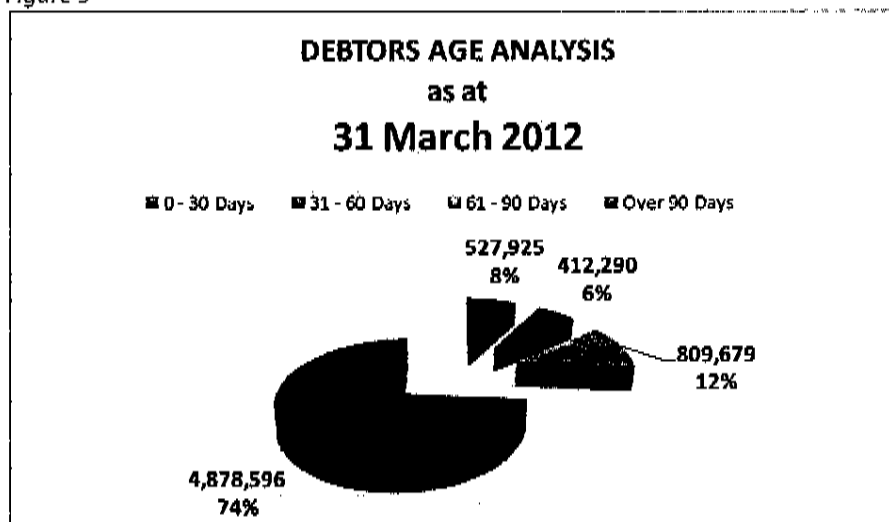
The total outstanding debtors reported at the end of March 2012 amounts to R6, 628 billion which represents an increase of R147 million from R6, 481 billion in February 2012.

The year-on-year comparison show that the total debtors increased with R1, 839 billion from the same period in the previous financial year.

	0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total
2010/11	485,623	214,495	175,413	3,914,333	4,789,864
2011/12	527,925	412,290	809,679	4,878,596	6,628,490
Increase/(Decrease)	42,302	197,795	634,266	964,263	1,838,626

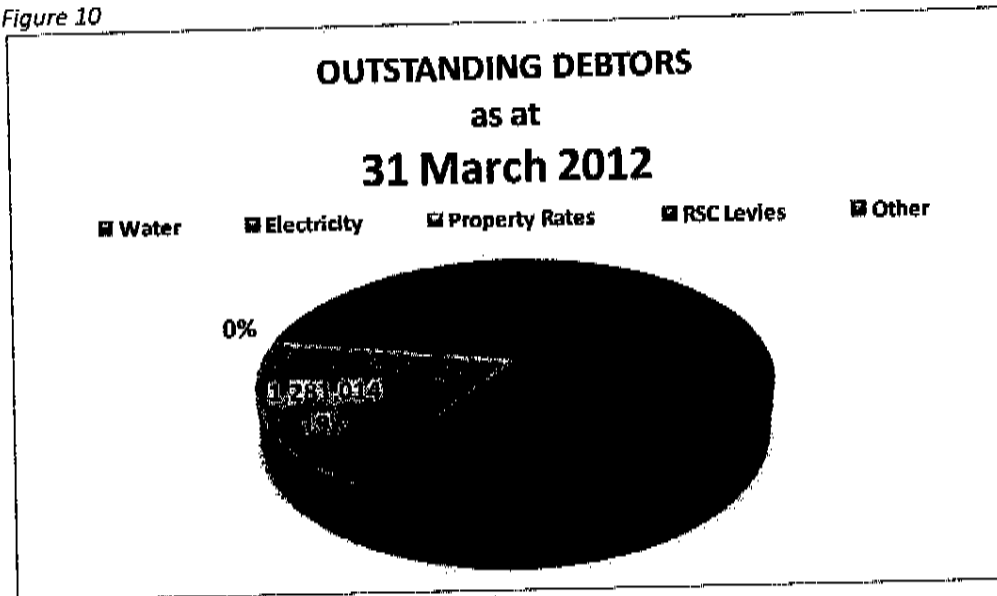
The debtors' age analysis indicates that 74% or R4, 879 billion of the total debt is outstanding for more than 90 days. This is a reflection of the failure by the municipalities to enforce credit control policies and intensified collection measures.

Figure 9



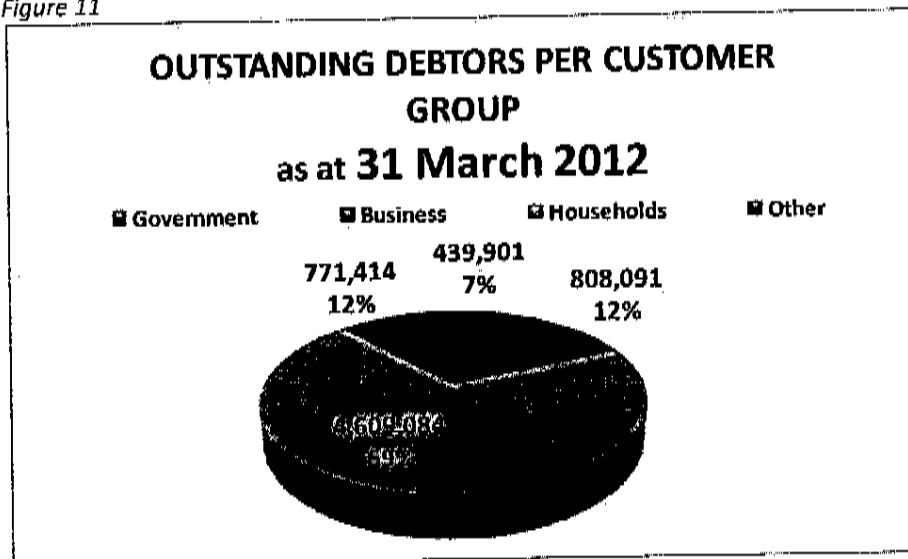
Furthermore the debtors per function indicate that 46% (R3, 034 billion) is regarding water debt followed by other at 22% (R1, 433 billion) and property rates at 19% (R1, 281 billion).

Figure 10



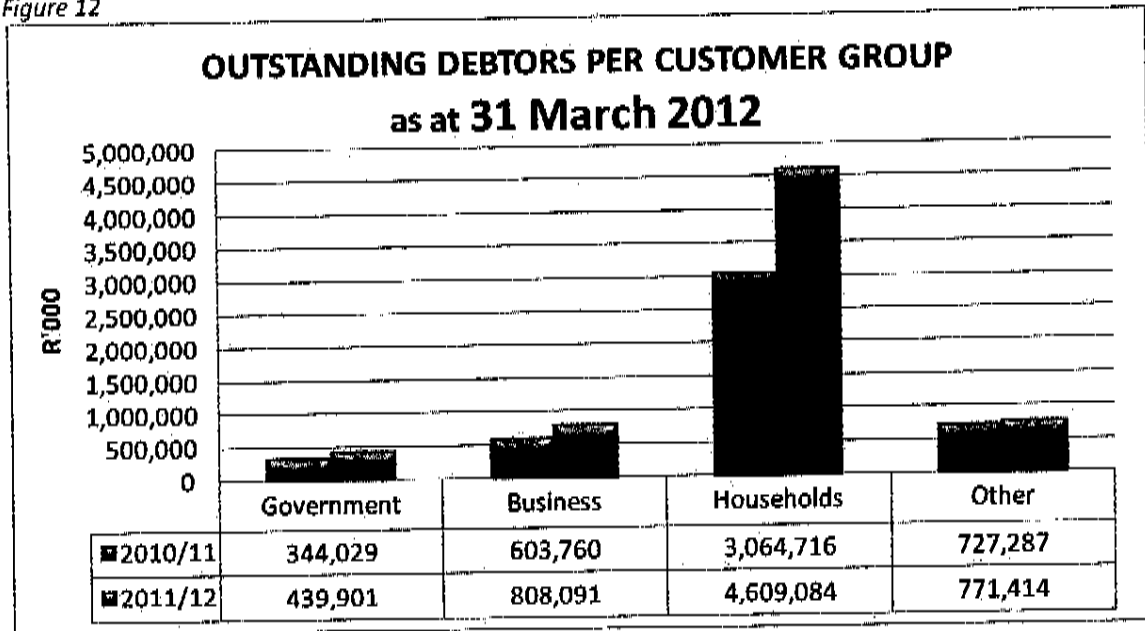
The debt for households is 69% or R4, 609 billion while outstanding debt from government departments only amounts to 7% (R439, 901 million) of the total outstanding debt.

Figure 11



The table below further indicates that there was an increase in the outstanding business, household and other debt from the same period in the previous financial year as well as debts for government.

Figure 12



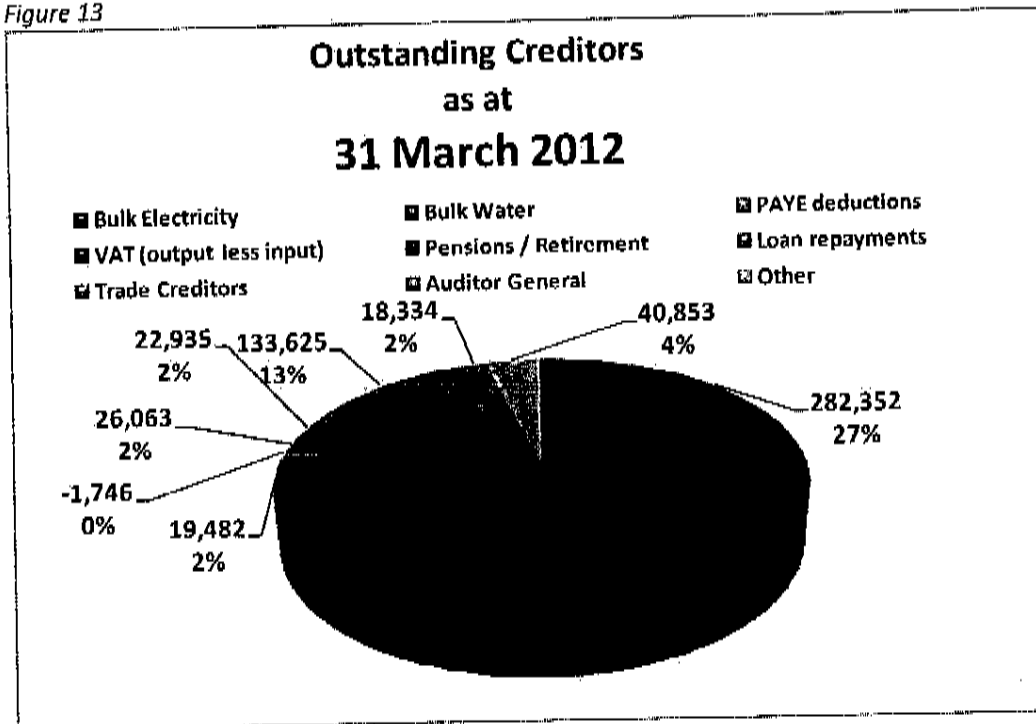
Debt collection still raises concern as it impacts negatively on the future sustainability of budgets and ultimately service delivery. Municipalities need to intensify their collection strategy to motivate consumers to pay debt timeously to enhance and maintain a sustainable budget.

9. Creditors

The total reported for outstanding creditors' amounts to R1, 051 billion and R811, 944 million of the total is outstanding for longer than 30 days. The outstanding creditors impact negatively on the financial sustainability of the municipalities. The biggest account is for bulk water which accounts for 48.3% of the total outstanding creditors and bulk electricity accounts for 26.8%.

	0 - 30 Days		31 - 60 Days		61 - 90 Days		Over 90 Days		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Bulk Electricity	128,249	45.4	27,496	9.7	31,874	11.3	94,733	33.6	282,352	26.8
Bulk Water	14,258	2.8	15,447	3.0	32,778	6.4	146,607	87.7	509,090	48.3
PAYE deductions	6,604	33.9	1,876	9.6	2,050	10.5	8,952	45.9	19,482	1.8
VAT (output less input)	209	-12.0	-443	25.4	-324	18.6	-1,117	68.0	-1,746	-2.0
Pensions / Retirement	14,361	55.1	805	3.5	723	2.8	10,072	38.6	26,083	2.5
Loan repayments	16,878	73.6	21	.1	2,517	11.0	3,521	15.4	22,936	2.2
Trade Creditors	51,533	38.6	18,978	14.2	13,288	9.9	49,826	37.3	133,625	12.7
Auditor General	2,429	13.2	926	5.1	936	5.1	14,043	76.6	18,334	1.7
Other	4,524	11.1	845	2.1	215	.5	35,200	88.3	40,853	3.9
Total	239,044	22.7	66,052	6.3	84,056	8.0	661,836	63.0	1,050,988	100.0

Figure 13



Outstanding Accounts for bulk purchases

ESKOM reported the following Municipalities are still in arrears as at 17 May 2012:

Municipality	Total Outstanding	Total Arrears	0 - 30	31- 60	60+	90+
Mangaung	70 555 532	1 694 241	70 555 532	-	-	-
Dihlabeng	18 150 186	18 150 186	6 011 345	5 836 446	6 302 394	-
Mafube	42 430 742	1 727 613	40 703 129	26 852	1 700 760	-
Maluti a Phofung	50 570 476	28 647 415	41 652 533	8 917 942	-	-
Mantsopa	3 393 685	1 664 917	1 728 767	1 664 917	-	-
Matjhabeng	100 911 262	78 713 373	22 197 888	21 908 414	21 095 594	35 709 364
Moqhaka	42 506 667	32 170 110	10 336 556	10 949 360	10 263 667	10 957 083
Nala	10 362 200	7 020 499	3 341 700	3 577 850	3 442 648	-
Ngwathe	64 100 658	64 100 658	8 674 134	7 735 286	-	47 691 237

Kindly note the following meetings/agreements were concluded with defaulting municipalities and Eskom with regards to outstanding debt:

Mafube Local Municipality

The municipality has made the following proposal to Eskom which is currently being considered by Eskom:

- The outstanding account will be serviced over a period of 36 months whereby the municipality will pay R300 000 on a monthly basis and approximately R3 million of equitable share payments which will be received over the period of which the first payment of R3.8 million was made from the March equitable share;
- The municipality has appointed Rural Maintenance to assist with electricity issues and since the appointment, the municipality is paying the account timeously;
- A penalty recalculation by Eskom has resulted in a R1.5 million which will be deducted from the outstanding account. The amount is already approved by Eskom;
- Another possible R6.5 million out of good gesture from Eskom will be deducted from the outstanding account once approved by Eskom Head Office.

Ngwathe Local Municipality

- There is a debit order of R500 000 which goes off monthly;
- Since November 2011, the municipality has paid R55 million to date; and the
- Current account is serviced on a monthly basis.

Dihlabeng Local Municipality

The municipality does not have any arrangements in place with Eskom but paid the account up to March 2012 and was suppose to settle the account in March 2012 of which no payments were received to date.

Matjhabeng Local Municipality

The municipality does not have any arrangements in place with Eskom and does not pay the current account. The following payments were made from the equitable share portions:

- November 2011 – R114 million;

- March 2012 – R87 million.

Nala Local Municipality

The municipality did not bill consumers for the last 18 months (because of the change in financial systems) and since the administrator was appointed in 2012 the municipality has commenced billing consumers as follows:

- R13 million for February 2012 of which R4 million was received;
- R12 million for March 2012 of which R3 million was received;
- The arrears billing will be implemented by July 2012;
- The municipality is regarded as a potential problem.

Emanating from a meeting held with the municipality on 17 May 2012, the following resolutions were taken:

- The municipality will service the current account;
- Frequent meetings will take place to monitor the financial status of the municipality with regard to progress relating to the revenue of the municipality and therefore a proper plan will be compiled on settling the outstanding account;
- The municipality also indicated that payments will flow from the equitable share.

Moghaka Local Municipality

The municipality does not have any arrangements in place with ESKOM and does not pay the current account. The municipality paid R30 million from the March equitable share portion.

Water Boards

The following arrears were reported by the water boards as at 30 April 2012:

Municipality	Current	30 days	60 days	90 days	120 days+	Total
Mangaung	32 724 416	88 183	81 779	86 610	9 270 634	42 251 625
Naledi	694 499	102 024	180 831	193 051	20 448 564	21 618 970
Kopanong	2 014 459	1 928 896	2 095 634	2 042 703	15 775 584	23 857 277
Matjhabeng	25 771 652	28 891 548	24 566 018	24 845 426	347 727 445	451 802 089
Nala	2 917 605	3 273 616	2 803 492	2 803 125	37 312 839	49 110 677

Meetings held with Municipalities

Provincial Treasury arranged meetings with the three of the defaulting municipalities on the 13 April 2012 to discuss the issue relating to the outstanding water board accounts. Members of the water boards also attended the meeting. The Department of Cooperative Governance and Traditional Affairs as well as National Treasury were also invited to attend, but was not available for the set meetings. The discussions at this meeting are communicated below:

Naledi

The municipality agreed to pay the current account as billed by Bloemwater. The outstanding amount will be paid once the problem with regard to the funds allocated to the municipality from the disbanded Motheo District Municipality to pay Bloemwater has been finalised between the district municipality and CoGTA.

Subsequently a meeting took place on 11 May 2012 to clarify an amount of R29 million (Disbandment of Motheo) that was transferred to Xhariep District Municipality. The meeting was attended by HOD of COGTA, Provincial Treasury, Naledi and Xhariep Municipalities and the meeting resolved that another meeting must take place with the mayors of the two municipalities, which took place on 17 May 2012 and the meeting resolved that the Naledi Municipality must provide the District Municipality with a written indication of the priorities of the municipality which must take preference if any monies will flow from the allocation.

Kopanong

A meeting was arranged by Provincial Treasury on 19 March 2012 with the municipality and Bloem Water whereby the meeting resolved that the municipality must provide the following:

- A proposal on the settlement of current and arrears accounts;
- A proposal to pay when the equitable share is received;
- In the event that the current account exceeds R6 million over a period of 3 months, that the difference be settled as well;
- Allocation of payment will be allocated towards the current financial year accounts;
- To investigate and present a proposal on the outstanding accounts by September, when a meeting will be scheduled.

The municipality provided Bloem Water with the following proposal on 28 March 2012:

- | | |
|--------------------|------------|
| • 31 March 2012 | R3 000 000 |
| • 31 July 2012 | R6 000 000 |
| • 05 December 2012 | R6 000 000 |
| • 31 March 2013 | R6 000 000 |

Matjhabeng

The water account of Matjhabeng Municipality has been in arrears since January 2008, due to the municipality disputing amounts with regard to loan repayment and insurance costs on the monthly statements. The municipality's is awaiting an opinion from the state law advisors on the insurance amount and loan interest portion. A meeting took place on 7 May 2012 with the State Law Advisors to clarify the dispute and the meeting was attended by the municipality, Provincial Treasury and Sedibeng Water which resolved that Matjhabeng Municipality must provide in writing their arguments by 11 May 2012 to all parties of which Sedibeng Water must respond by 18 May 2012 and then the State Law Advisors will formulate an opinion by 25 May 2012 but since to date no written arguments were received from the municipality.

Nala Local Municipality

The municipality did not bill consumers for the last 18 months and has started billing consumers as follows:

- R13 million for February 2012 of which R4 million was received;
- R12 million for March 2012 of which R3 million was received;
- The arrears billing will be implemented by July 2012;
- The municipality is regarded as a potential problem.

Emanating from a meeting held with the municipality on 17 May 2012, the following resolutions were taken:

- The municipality will service the current account;
- Frequent meetings will take place to monitor the financial status of the municipality with regard to progress relating to the revenue of the municipality and therefore a proper plan will be compiled on settling the outstanding account;

- The municipality also indicated that payments will flow from the equitable share.

10. Revenue and Debt Management

10.1 Policies

In terms of Circular 54 paragraph(4.3) read together with Municipal Budget and Reporting Regulations, a municipality must prepare a range of budget related policies, or any necessary amendments to such policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21(1)(b) of the MFMA. Such reviewed policies must be submitted together with budget to both National and Provincial treasury.

A total of 63 Municipal Revenue and Debt management related policies being credit control, debt collection, indigent, rates and tariff policy were assessed using minimum legislated requirements and municipal best practice standards.

Municipalities without policies and or with policies that do not meet the legislative requirement have been forwarded generic policies. Furthermore, letters were forwarded to Mayors from the office of the MEC requesting municipalities to promulgate their policies to bylaws.

10.2 Intergovernmental Debt steering committee

The object of the committee is to promote and facilitate intergovernmental relations, cooperative governance and implement reform initiatives between the Free State Provincial Treasury, SALGA, Departments of Public Works, Education and Cooperative Governance and Traditional Affairs, including:

- To seek unity of purpose and co-ordination of effort in the settlement of disputes, and
- To ensure effective and efficient payments for services.

The working sessions between January and March 2012 at the five municipalities regarding the reconciliation of intergovernmental debt took place as per schedule below:

Municipalities	Dates
Maluti a Phofung	9-10 February and 2 March 2012
Mathjhabeng	1-2 February 2012
Mohokare	2 February 2012
Kopanong	29 February 2012
Setsoto	9 March 2012

The progress at the five municipalities is indicated below:

10.2.1 Maluti a Phofung Municipality

The municipality received the following payments:

Amount R'000	Department	Month(s)
2,720	Provincial Public Works	November & December 2011
41,000	Provincial Public Works	January 2012
321	Education	
R44,041		

The following issues are still outstanding and will be addressed with follow up meetings:

- LPI (Land Property Indicator) Codes

The initial total LPI (Land Property Indicator) codes that had to be verified was 961 and currently 140 properties still need to be verified during March 2012.

- Outstanding property rates prior April 2008

Supporting documentation to the amount of approximately R160 million regarding outstanding property rates prior April 2008 was submitted to the National Treasury for payment. National Public Works is currently in process to verify the information.

10.2.2 Matjhabeng Municipality

The following invoices were submitted for payment:

Amount R'000	Department	Month(s)	Payment Status
974	National Public Works	December 2011	To be paid by 10 Feb 2012
922	National Public Works	January 2012	To be paid by 18 Feb 2012
536	National Public Works	January – March 2012	To be paid by 3 Feb 2012
1,234	Provincial Public Works	December 2011	Paid during January 2012
14,824	Provincial Public Works	January 2012 (rates & taxes)	Paid on 30 January 2012

The following issues are still outstanding and will be addressed with follow up meetings:

- Outstanding balances on service charges

Supporting documents for the outstanding balance of R492,567.62 must be submitted to the department in order for payment to be effected.

- Outstanding balances on rates & taxes

The remaining balance of R4, 941, 252.78 will be reconciled and budgeted for by Provincial Public Works.

- Prior outstanding balances on rates and taxes

The municipality will provide National Public Works with information by latest 20 February 2012 where after verification and reconciliation will be done by the National Public Works department. It will then be referred to National Public Works Head Office for final processing and the municipality will be informed of the outcome on 20 March 2012.

10.2.3 Mohokare Municipality

During the first meeting with the municipality, the major contributing finding to the outstanding balances was lack of allocation of payments received from the departments which the municipality has since resolved with the assistance of paying departments.

The following issues are still outstanding and will be addressed with follow up meetings:

- Separation of accounts

The municipality made a commitment to have separation of accounts finalized by the end of financial year where 50 percent of such accounts will be separated by end of March 2012.

- Accounts without supporting documents

The municipality will seek council's approval to write off accounts relating to National Public Works without supporting documents to the value of approximately R250,000.

10.2.4 Kopanong Municipality

Without considering the pre-devolution balance which is being attended to by National Treasury and National Public Works, all accounts were reported to be up to date and reflecting only the current (0-30 days) outstanding balances.

The following issues are still outstanding and will be addressed with follow up meetings:

- Outstanding school accounts

Municipality will provide a list of defaulting schools to the Department of Provincial Public Works.

Status on previous resolutions:

- (a) School account: Albertina account – the meter which was suspected to be faulty was assessed and was found to defective. A journal was processed and the meter is in process of being replaced.
- (b) Erf numbers of the municipality were verified to be corresponding with that of the Department of Public Works.
- (c) Outstanding amounts prior 2008: Still in process at a National Public Works.
- (d) Payment of interest – Mr Eksteen will discuss with CFO & MM and will provide feedback by 15 March 2012.

10.2.5 Setsotho Municipality

Before any reconciliation process the municipality indicated that Departments (Provincial and National Public Works) has an outstanding debt of R9 million from 2008 to February 2012.

The committee made resolutions on the findings as follows:

- For all bulk payments made and unallocated: The municipality will allocate all amounts and reconcile after Public Works has provided a detailed list of reference numbers by latest 16 March 2012 to the municipality for all bulk payments made.
- The municipality together with Public Works will have a working session from the 12 March 2012 to verify properties that do not correspond.
- Rates and Taxes were not paid for the current financial year as information was not submitted to Public Works: Invoices will be submitted on 16 March 2012 so that Public Works can pay before the end of the financial year. Should the municipality fail to submit invoices on 16 March 2012, PW will only be able to pay the outstanding balance in the new budget provided that there will be sufficient funds available.
- The municipality will consider reversal of interest on service charges until end of March 2012 on government accounts and this will also be included in the Policy for adoption by Council.
- The municipality must separate service charges and property rates accounts. This will be finalised in the new municipal financial year, beginning July 2012.
- Schools with credit balances and huge/abnormal accounts will be investigated by the municipality. The municipality to arrange with the schools during school holidays for meter readers to have access at the schools.

10.3 Guide on Municipal Revenue and Debt Management

The Municipal Revenue & Debt Management component in the Provincial Treasury developed a guide to support municipal officials in the execution of their revenue and debt management functions.

As part of a consultation process, on the 8 February 2012, Provincial Treasury arranged for a working session from which provincial stake-holders (COGTA and SALGA) and municipalities were invited to provide inputs to strengthen the contents of the guide.

A lengthy process of building and refining the information was under-taken to the extent that version 8 of the guide was being worked on.

The Revenue and Debt management Guide is currently submitted to National Treasury for final review, where after the MEC for finance will distribute the final guide to Mayors and Municipal Managers.

10.4 WAY FORWARD

- 4.1 A total of **76** policies will be assessed as municipalities submit draft budgets in terms of Section 16 of MFMA. Furthermore, a post-assessment will be done on policies to determine adoption and implementation of recommendations provided.
- 4.2 Provincial Treasury will compile an EXCO-MEMO in May 2012 on differing tariff threshold at municipalities which is being applied to government properties with the aim to recommend a standard tariff to be applied in the province
- 4.3 Provincial Treasury will monitor the status of the tasks as agreed to during the intergovernmental debt steering committee meetings

The next meetings will take place as per schedule below.

Municipality	Date of the Meeting
Masilonyana	17 Apr 2012
Tswelopele	22 May 2012
Nala	12 April 2012
Phumelela	11 Apr 2012
Ngwathe	10 May 2012
Metsimaholo	11 May 2012
Mafube	25 Apr 2012

11. IMPLICATIONS: FINANCIAL AND CONSTITUTIONAL

Financial Implication

None

Legal Implication

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

12. RECOMMENDATION

It is recommended that:

- Municipalities must rectify differences between the Igdatabase and approved budgets;
- Municipalities must rectify budgets during the adjustment budget process and submit all adjustments budget returns that is in line with the approved adjustment budgets;
- Municipalities must submit all outstanding returns as a matter of urgency and submit future reports timeously;
- Municipalities must pay creditors within 30 days from receiving the invoice;
- Must ensure monthly reconciliations on bank, debtors and creditors are done timeously;
- Submit copy of trial balance, bank reconciliation and bank statements monthly to Provincial Treasury;
- Submit the tabled schedule C report with resolutions to Provincial Treasury;
- Ensure prudent cash management practices in compliance with the MFMA and other local government prescripts.

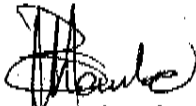
COMPILED BY:



M.S.A Marokane
MANAGER: MUNICIPAL BUDGETS & IYM

Date: _____

SUBMITTED BY



S.W. Bhembe
Acting SENIOR MANAGER: MUNICIPAL BUDGETS AND IYM

Date: 05/08/2012

ENDORSED BY



D. Mokhele
Acting SEM: MUNICIPAL FINANCIAL MANAGEMENT

DATE: 09/06/2012

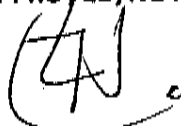
RECOMMENDED BY



H.L. Kgomo
CEO: PROVINCIAL TREASURY

Date: 20/6/2012

APPROVED/NOT APPROVED BY



S.J. Mohai
MEC for Finance

Date: 26/06/2012