



treasury

Department of  
Treasury  
FREE STATE PROVINCE



FREE STATE PROVINCE

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

## 1. EXECUTIVE SUMMARY

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

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

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

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

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

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

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

## **2. INTRODUCTION / PURPOSE OF THE REPORT**

The consolidated report provides a review of the implementation of the 2023/24 Medium Term Revenue & Expenditure Framework (MTREF) of the 23 municipalities in Free State as at 31 August 2023 as required per Section 71(6) of the Municipal Finance Management Act (MFMA).

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

## **3. LEGISLATIVE FRAMEWORK**

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

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

## **4. COMPLIANCE**

### **4.1 mSCOA Governance**

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

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
<b>Financial Data</b>					
B	FS161	Letsemeng	In-Year Monthly 02	2023/09/14	Outstanding
B	FS201	Moqhaka	In-Year Monthly 02	2023/09/14	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
<b>Non Financial Data</b>					
B	FS161	Letsemeng	Creditors Monthly-M02	2023/09/14	Outstanding
B	FS161	Letsemeng	Debtors Monthly-M02	2023/09/14	Outstanding
B	FS201	Moqhaka	Creditors Monthly-M02	2023/09/14	Outstanding
B	FS201	Moqhaka	Debtors Monthly-M02	2023/09/14	Outstanding

4.1.2 At Letsemeng municipality the CFO has been suspended and the municipal officials were on strike, which lead to the non-submission of the monthly data strings. The financial system at Moqhaka municipality crashed during May 2023, causing a backlog in the capturing of information.

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

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

Cat Code	Demarc Code	Demarcation Description	CAP	2024				
				ORGB	PROR	M01	M02	MCUM
A	MAN	Mangaung	H					
B	FS161	Letsemeng	M	Yellow			Red	Red
B	FS162	Kopanong	M			Red		Red
B	FS163	Mohokare	L				Yellow	Red
C	DC16	Xhariep	L					Yellow
B	FS181	Masilonyana	L			Yellow		Yellow
B	FS182	Tokologo	L					
B	FS183	Tswelopele	M					
B	FS184	Matjhabeng	H					
B	FS185	Nala	M			Orange		Orange
C	DC18	Lejweleputswa	L					
B	FS191	Setsoto	M					
B	FS192	Dihlabeng	M					
B	FS193	Nketoana	M					
B	FS194	Maluti-a-Phofung	H					
B	FS195	Phumelela	L			Red	Yellow	Red

				2024				
				ORGB	PROR	M01	M02	MCUM
Cat Code	Demarc Code	Demarcation Description	CAP					
B	FS196	Mantsopa	M					
C	DC19	Thabo Mofutsanyana	L					
B	FS201	Moqhaka	H					
B	FS203	Ngwathe	M					
B	FS204	Metsimaholo	H					
B	FS205	Mafube	M					
C	DC20	Fezile Dabi	L					

## 5. OVERVIEW OF PERFORMANCE

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

### 5.1 Operating revenue

5.1.1 The total generated revenue (billed) amounts to R4.625 billion or 18.4 per cent against the adopted budget of R25.163 billion. The total generated revenue is above the straight line projection of 16.7 per cent mainly due to the equitable share tranche paid during July 2023. 45.8 Per cent (R2.119 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc); whilst 53.9 per cent (R2.495 billion) was generated from non-exchange revenue (i.e property taxes, fines and transfers & subsidies). *The revenue relates to the ability of the municipality to raise (generate) revenue, and does not take the actual collection into consideration.*

5.1.2 The majority of exchange revenue generated (billed) relates to electricity service charges at 50 per cent, followed by water service charges at 21 per cent. Non-exchange revenue consists primarily of transfers and subsidies (71%) and property rates (21%).

5.1.3 An aggregate operational surplus of R1.611 billion was reported for the period under review (year-to-date) excluding capital transfers.

### 5.2 Operating expenditure

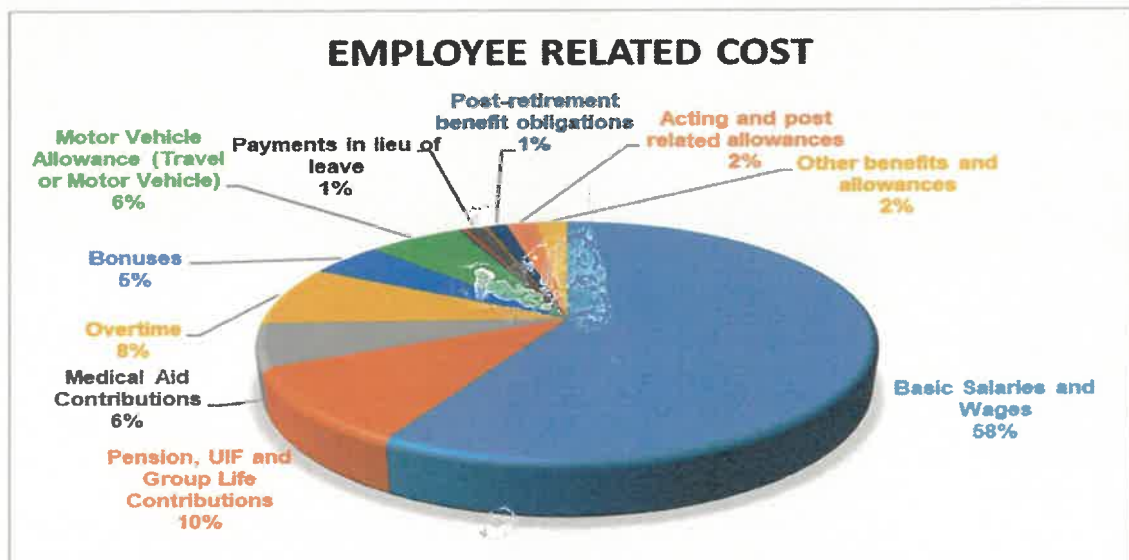
5.2.1 The total operating expenditure reported amounted to R3.014 billion or 11.9 per cent against the adopted budget which is below the straight line projection of 16.7 per cent. Incorrect or non-reporting of expenditure also contributes to the poor performance reported.

5.2.2 The highest spending item reported at the end of August 2023 is electricity bulk purchases amounting to R1.104 billion followed by employee related cost amounting to R1.034 billion.

5.2.3 The performance of employee related cost against the adopted budget is 13.6 per cent (R1.034 billion). The majority of the expenditure reported (98.9 per cent) relates to salaries and wages for municipal staff as indicated in the table below:

Employee Related Cost (ERC)	Original Budget R'000	Actual Year To Date R'000	% Spent on Original Budget	% of Total ERC
Senior Management	226 582	11 220	5.0%	1.1%
Municipal Staff	7 361 871	1 022 924	13.9%	98.9%
Board Members	827	-	0.0%	0.0%
<b>Total</b>	<b>7 589 280</b>	<b>1 034 144</b>	<b>13.6%</b>	<b>100.0%</b>

5.2.4 58 per cent (R603.2 million) of the total employee related cost expenditure relates to basic salaries and wages, whilst pension contributions amounted to 10 percent to the total expenditure and overtime 8 per cent. Expenditure on acting and post related allowances amounted to R19.1 million.



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

**Employee Related Cost - High Capacity Municipalities**

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD August 2023	%	Original Budget	YTD August 2023	%
Mangaung	2 447 868 378	382 977 753	15.6%	76 003 457	11 367 531	15.0%
Matjhabeng	952 980 245	161 264 844	16.9%	39 362 111	1 570 302	4.0%
Maluti-a-Phofung	743 436 701	117 885 702	15.9%	33 085 344	4 876 671	14.7%
Moqhaka	396 116 531		0.0%	25 032 003		0.0%
Metsimaholo	450 539 320	60 966 876	13.5%	21 704 660	3 391 704	15.6%
<b>Total</b>	<b>4 990 941 175</b>	<b>723 095 175</b>	<b>14.5%</b>	<b>195 187 575</b>	<b>21 206 208</b>	<b>10.9%</b>

**Employee Related Cost - Medium Capacity Municipalities**

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD August 2023	%	Original Budget	YTD August 2023	%
Letsemeng	79 080 565		0.0%	5 446 461		0.0%
Kopanong	153 701 303	12 250 836	8.0%	6 995 823	558 551	8.0%
Tswelopele	88 638 862	151 207	0.2%	6 225 647		0.0%
Nala	181 572 622	19 045 675	10.5%	10 085 886	769 125	7.6%
Setsoto	235 002 972	38 885 765	16.5%	14 641 092	2 241 860	15.3%
Dihlabeng	374 545 474	58 164 768	15.5%	20 720 000	3 333 568	16.1%
Nketoana	160 533 769	26 622 030	16.6%	6 841 058	931 863	13.6%
Mantsopa	114 544 998	9 632 092	8.4%	7 731 598	652 691	8.4%
Ngwathe	280 898 461	46 316 933	16.5%	18 056 468	2 716 004	15.0%
Mafube	117 872 735	9 911 450	8.4%	6 625 780	780 786	11.8%
<b>Total</b>	<b>1 786 391 761</b>	<b>220 980 756</b>	<b>12.4%</b>	<b>103 369 813</b>	<b>11 984 448</b>	<b>11.6%</b>

**Employee Related Cost - Low Capacity Municipalities**

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD August 2023	%	Original Budget	YTD August 2023	%
Mohokare	88 588 089	7 381 316	8.3%	5 326 732	437 304	8.2%
Xhariep	48 164 666	3 802 608	7.9%	4 808 333	375 357	7.8%
Masilonyana	142 588 578		0.0%	8 007 155		0.0%
Tokologo	67 777 068	9 005 669	13.3%	5 344 556	868 107	16.2%
Lejweleputswa	120 433 896	17 676 812	14.7%	11 219 884	1 622 891	14.5%
Phumelela	109 292 434	15 569 088	14.2%	7 056 352	1 110 036	15.6%
Thabo Mofutsanyana	102 318 012	15 779 293	15.4%	9 196 512	1 406 395	15.3%
Fezile Dabi	132 784 500	20 853 352	15.7%	8 252 000	1 282 789	15.5%
<b>Total</b>	<b>811 947 243</b>	<b>90 068 138</b>	<b>11.1%</b>	<b>59 251 524</b>	<b>7 102 879</b>	<b>12.0%</b>

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

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

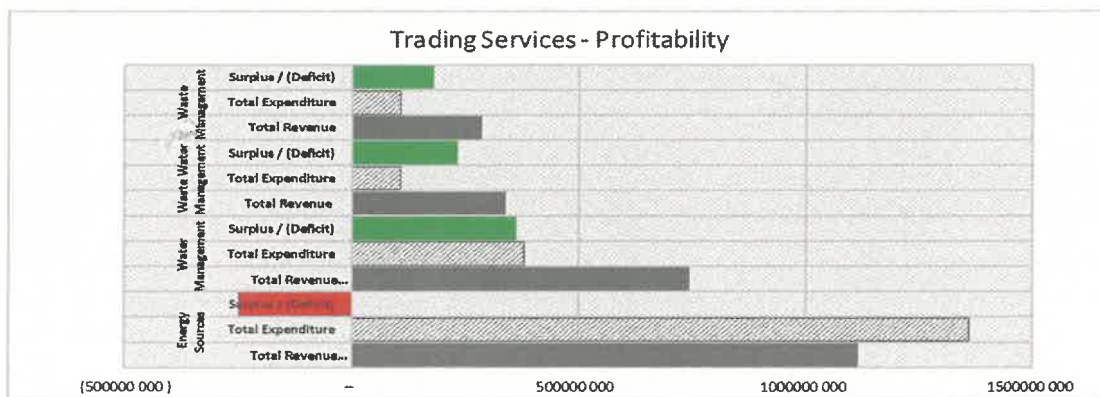
The table below provide the detail of the total compensation budget against the equitable share allocation for the 2023/24 financial year.

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

Source: NT Local Government Database

### 5.3 Trading Services Profitability

5.3.1 When analyzing the profitability of the trading services, it is notable that three trading services (water, waste water and waste management) reported aggregated trading surpluses in the Province as at 31 August 2023. Whilst **energy sources** recorded an operating **deficit of R246.2 million**.



5.3.2 Deficits recorded by municipalities on energy and water trading services is an indication that the tariffs are not cost reflective. Municipalities are not linking all relevant operational revenue and expenditure to the correct trading services function, including the allocation

of the equitable share to each trading service to provide for the free basic services, which impacts on the surplus or deficits reported. **The trading surplus or deficit indicated in the table below does not take the collection rates into account.**

R thousands	Energy Trading Service Surplus / (Deficit)	Water Trading Service Surplus / (Deficit)	Waste Water Trading Service Surplus / (Deficit)	Waste Trading Service Surplus / (Deficit)
Mangaung Metro	(165 813)	161 354	115 275	96 728
Letsemeng	(3 597)	–	(342)	–
Kopanong	–	(4 537)	–	–
Mohokare	4 106	3 707	154	88
Masilonyana	1 538	8 846	4 766	2 533
Tokologo	(2 014)	(2 309)	1 394	1 551
Tswelopele	(1 968)	(2 382)	211	667
Matjhabeng	127 183	47 821	43 730	21 896
Nala	(11 797)	3 531	625	228
Setsoto	5 752	21 900	20 317	16 940
Dihlabeng	27 002	32 234	32 187	32 585
Nketoana	14 292	6 899	1 417	3 793
Maluti a Phofung	(220 406)	4 972	(3 078)	(8 383)
Phumelela	(6 170)	1 336	2 525	2 218
Mantsopa	(1 366)	(1 048)	(3 628)	(32)
Moqhaka	–	–	–	–
Ngwathe	(12 248)	9 410	8 657	7 178
Metsimaholo	(261)	64 573	4 706	2 096
Mafube	(460)	7 623	3 905	–

#### 5.4 Capital Expenditure and Sources of Finance

- 5.4.1 The aggregate capital expenditure amounts to R119.7 million or 3.6 per cent against the adopted budget of R3.325 billion which is significantly below the straight line projection of 16.7 per cent. The late appointment of contractors contribute to the low spending reported and it is expected that the spending will accelerate as the year progresses.
- 5.4.2 71 Per cent of the capital expenditure relates to trading services projects amounting to R84.7 million and consists of R11.8 million for energy services, R59.4 million for water management, R13.5 million for waste water management. No expenditure was reported for waste management, despite the challenges faced in municipalities regarding landfill sites.
- 5.4.3 Although incorrect or non-recording of transactions on the financial systems contributes to the low performance reported, municipalities also have challenges in implementation of the capital projects. These challenges include:

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

#### 5.4.4 Conditional grant performance

5.4.4.1 In terms of the Division of Revenue Act, 2023 a total of R2.822 billion was allocated to municipalities in the Province in terms of direct infrastructure grants, capacity building and other current transfers. The performance at the end of August 2023 show a total spending of R83.6 million against the allocation (3 per cent).

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

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

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end August		Projected Over/Under Spending on Allocation	
		R'000	R'000	%	R'000
Mangaung	1 118 380	6 244	0.6%	1 112 136	99.4%
Letsemeng	59 493	-	0.0%	59 493	100.0%
Kopanong	58 434	-	0.0%	58 434	100.0%
Mohokare	52 603	(3 000)	-5.7%	55 603	105.7%
Xhariep	28 918	782	2.7%	28 136	97.3%
Masilonyana	48 887	-	0.0%	48 887	100.0%
Tokologo	45 606	50 311	110.3%	(4 705)	-10.3%
Tswelopele	37 918	(7 716)	-20.3%	45 634	120.3%
Matjhabeng	199 675	-	0.0%	199 675	100.0%
Nala	55 150	-	0.0%	55 150	100.0%
Lejweleputswa	4 629	198	4.3%	4 431	95.7%
Setso	224 148	17 955	8.0%	206 193	92.0%
Dihlabeng	73 239	-	0.0%	73 239	100.0%
Nketoana	61 119	-	0.0%	61 119	100.0%
Maluti a Phofung	242 458	17 962	7.4%	224 496	92.6%
Phumelela	64 498	-	0.0%	64 498	100.0%
Mantsopa	47 816	195	0.4%	47 621	99.6%
Thabo Mofutsanyana	12 467	(5 004)	-40.1%	17 471	140.1%
Moqhaka	74 044	-	0.0%	74 044	100.0%
Ngwathe	148 974	-	0.0%	148 974	100.0%
Metsimaholo	107 037	4 669	4.4%	102 368	95.6%
Mafube	52 561	474	0.9%	52 087	99.1%
Fezile Dabi	4 747	491	10.3%	4 256	89.7%
<b>Total</b>	<b>2 822 801</b>	<b>83 560</b>	<b>3.0%</b>	<b>2 739 241</b>	<b>97.0%</b>

5.4.4.4 The table below show the actual performance per grant:

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end August		Projected Over/Under Spending on Allocation	
		R'000	R'000	%	R'000
Energy Efficiency & Demand Man Grant	16 000	-	0.0%	16 000	100%
Expanded Public Works Programme	37 963	(184)	-0.5%	38 147	100.5%
Finance Management Grant	59 120	(4 867)	-8.2%	63 987	108.2%
Infrastructure Skills Development Grant	3 500	-	0.0%	3 500	100.0%
Integrated National Electrification Prog	143 903	174	0.1%	143 729	99.9%
Metro Informal Settlements Partnership Grant	291 940	-	0.0%	291 940	100.0%
Municipal Infrastructure Grant	857 868	22 666	2.6%	835 202	97.4%
Neighbourhood Dev Partnership Grant	21 739	-	0.0%	21 739	100.0%
Programme & Project Preperation Support Grant	14 276	-	0.0%	14 276	100.0%
Public Transport network Grant	270 028	2 625	1.0%	267 403	99.0%
Regional Bulk Infrastructure Grant	208 896	42 450	20.3%	166 446	79.7%
Rural Roads Assets Man Systems Grant	9 692	(1 808)	-18.7%	11 500	118.7%
Urban settlement Development Grant	513 434	3 556	0.7%	509 878	99.3%
Water Services Infrastructure Grant	374 442	18 948	5.1%	355 494	94.9%
<b>Total</b>	<b>2 822 801</b>	<b>83 560</b>	<b>3.0%</b>	<b>2 739 241</b>	<b>97.0%</b>

5.4.4.5 Differences were also noted between expenditure reported to the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the data strings, specifically with regards to the Municipal Infrastructure Grant. The CoGTA monthly monitoring report shows total spending of R73.7 million, whilst the data strings reflect total expenditure of R22.7 million. These discrepancies are highlighted to municipalities to correct on the financial system.

## 5.5 Cash Coverage & Cash Flow

5.5.1 Municipalities in the Province closed the month of August 2023 with a surplus cash and cash equivalent balance of **R4.937 billion**. It should however be noted that some municipalities continue to report incorrectly as per Table C7 (cash flow statement) *m*SCOA data strings and the inconsistencies negatively affect the credibility of the information presented on the cash flow statement.

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

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

R thousands	Cash/Cash equivalents at year begin (1 Jul 2023)	Net Cashflow From/(Used) Operating Activities	Net Cashflow From/(Used) Investing Activities	Net Cashflow From/(Used) Financing Activities	Net Increase / (Decrease) in Cash Held	Cash/Cash equivalents month/year end (31 Aug 2023)
Mangaung Metro	1 242 772	1 874 811	8 121	(3 696)	1 879 236	3 122 007
Letsemeng	-	17 900	36	-	17 936	17 936
Kopanong	-	12 809	-	-	12 809	12 809
Mohokare	-	36 508	(4 564)	-	31 944	31 944
Xhariep District	-	366	-	-	366	366
<b>DC 16 Total</b>	-	<b>67 583</b>	<b>(4 528)</b>	-	<b>63 055</b>	<b>63 055</b>
Masilonyana	-	-	7	-	7	7
Tokologo	-	21 393	12	-	21 405	21 405
Tswelopele	10 481	115 712	(36)	-	115 676	126 156
Matjhabeng	173 088	(29 123)	3 019	442	(25 662)	147 426
Nala	-	-	-	-	-	-
Lejweleputswa District	106 197	26 156	12	-	26 168	132 365
<b>DC 18 Total</b>	<b>289 766</b>	<b>134 137</b>	<b>3 014</b>	<b>442</b>	<b>137 594</b>	<b>427 360</b>
Setsotso	66 208	171 478	(59 245)	-	112 233	178 440
Dihlabeng	18 178	45 867	(3 959)	(1 070)	40 837	59 015
Nketoana	1 575	89 648	(16 984)	(27)	72 637	74 212
Maluti a Phofung	118 498	423 950	(18 899)	73	405 124	523 622
Phumelela	-	40 049	(5 832)	-	34 217	34 217
Mantsopa	-	(10 391)	3 340	-	(7 051)	(7 051)
Thabo Mofutsanyana	-	2 071	-	-	2 071	2 071
<b>DC 19 Total</b>	<b>204 458</b>	<b>762 672</b>	<b>(101 580)</b>	<b>(1 025)</b>	<b>660 067</b>	<b>864 525</b>
Moqhaka	-	-	22	-	22	22
Ngwathe	46 761	51 199	(230)	(10)	50 958	97 719
Metsimaholo	158 041	94 435	(3 667)	149	90 918	248 959
Mafube	-	(36 753)	(114)	5	(36 862)	(36 862)
Fezile Dabi	103 701	46 792	(2)	-	46 790	150 491
<b>DC 20 Total</b>	<b>308 503</b>	<b>155 672</b>	<b>(3 990)</b>	<b>144</b>	<b>151 826</b>	<b>460 329</b>
<b>Total</b>	<b>2 045 498</b>	<b>2 994 874</b>	<b>(98 963)</b>	<b>(4 134)</b>	<b>2 891 777</b>	<b>4 937 275</b>

Source: NT Local Government Database

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

5.5.4 It was identified that 6 of the 22 municipalities that have submitted the monthly data strings, have a cash coverage ratio of less than the recommended benchmark of three months, which implies that these municipalities have insufficient funds available to meet their commitments including the fixed monthly and service delivery mandates. These municipalities are:

- Kopanong (0.0)
- Xhariep (-17.05)
- Tokologo (-27.71)
- Nala (-4.46)
- Mantsopa (-32.64)
- Mafube (-18.38)

5.5.5 The average year to date collection rate reported by municipalities for the province for the is only **52 per cent**, which is significantly below the norm of 95 per cent and is not sustainable. However, the actual average collection rate in the province might be lower due to incorrect reporting by municipalities.

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

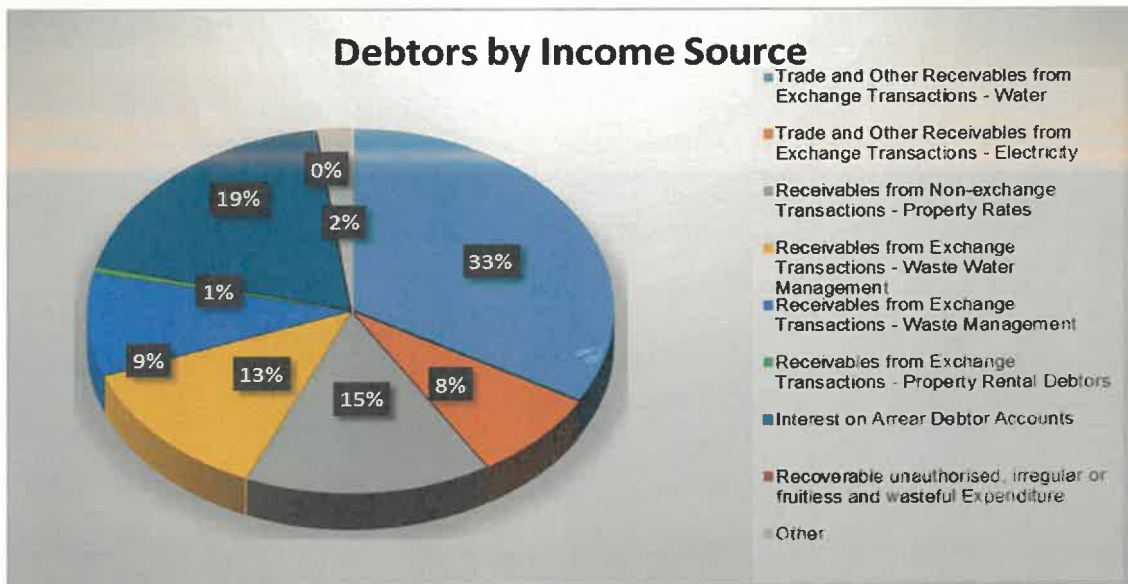
- The increase in rates and tariffs year-on-year which affect affordability levels;
- Breakdown in service delivery resulting in non-supply;
- Illegal connections and tampering of water and electricity meters;
- Non-implementation of debt collection and credit control policies; and
- Non billing and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

#### 5.5.5 Liquidity ratios

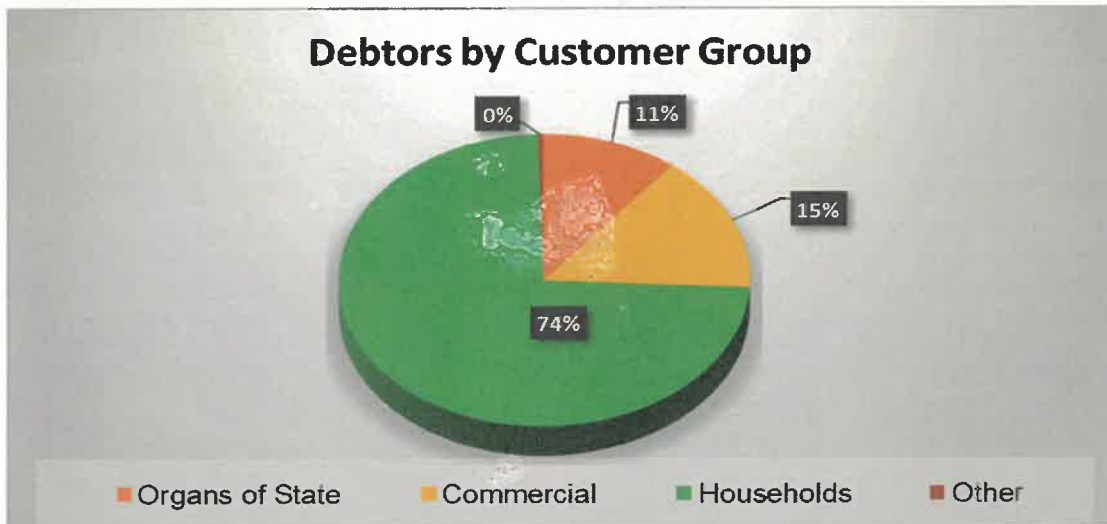
The liquidity ratio is a crucial metric for assessing a municipality's ability to settle its debt obligations with cash and investments without acquiring external funding. Despite the possible economic challenges, municipalities with strong liquidity positions will have adequate cash to satisfy their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

The table below indicate the liquidity ratio for the 22 municipalities that have submitted the information for August 2023. 15 Municipalities have a liquidity ratio of less than one.





5.6.6 The report also show the majority of the debt is owed by *Households*, which contributes 73.7 per cent (R24.955 billion) to the total debt, followed by *Businesses* with 15.1 per cent (R5.129 billion) and *Organs of State* with 10.7 per cent (R3.614 billion).



#### 5.6.7 Debtors days ratio

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

municipality is experiencing challenges in the collection of outstanding amounts due to it. This exposes a municipality to significant cash flow risk.

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

	Mangaung	Letsemeng	Kopanong	Mochkare	Xhariep	Maellonyana	Tokologo	Tswelopele	Matjhabeng	Nala	Lejweleputswa	Setsootso	Ditlhabeng	Nketoana	Maluti-Phofung	Phumelela	Mantsopa	Thabo Mofutsanyana	Ngwathe	Metamaholo	Marfube	Fzile Dabi
	MAN	FS161	FS162	FS163	DC16	FS18	FS18	FS18	FS184	FS18	DC18	FS191	FS19	FS19	FS19	FS195	FS196	DC19	FS203	FS20	FS205	DC20
Indicator 9 - Debtors	78.4	375.84	0.00	58.87	0.00	300.00	262.4	115.93	1415.50	152.27	0.00	165.27	75.15	430.75	115.20	372.59	182.115.27	0.00	118.70	101.1	483.65	0.00

Source: Local Government Database

5.6.7.3 The credit ratio reported by Letsemeng, Nketoana and Mantsopa is as a result of incorrect reporting.

## 5.7 Creditors

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

5.7.2 The total creditors **increased** with R1.965 billion to R28.387 billion for the month under review (July 2023: R26.422 billion). Annexure C and D provides the summary and breakdown of the outstanding creditors per type.

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

5.7.4 Payables relating to bulk service providers (Eskom & Water Boards) contribute 90 per cent or R25.557 billion of the total outstanding debt. In the past, the following interventions were introduced to address the outstanding debt:

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

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

- Increase of revenue (including completeness of revenue, decrease in rebates and subsidies, increase collection rate, implementation of credit control, etc.);

- Implement cost reflective tariffs; and
- Decrease distribution losses.

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

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

*PAYE and Pension/Retirement Contributions Debt*

5.7.7 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R308.2 million of which 63 per cent of the total is outstanding for periods longer than 30 days. Mafube reported the highest outstanding contribution payments over 30 days relating to 3rd parties (PAYE and pensions), however, it should be noted that Kopanong municipality did not report the outstanding PAYE and pension fund contributions which previously amounted to R76.9 million.

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

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

Creditors Age Analysis PAYE	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	7 616	100.0%	–	0.0%	–	0.0%	–	0.0%	7 616	27.6%
Matjhabeng	12 271	100.0%	–	0.0%	–	0.0%	–	0.0%	12 271	44.5%
Nala	13	100.0%	–	0.0%	–	0.0%	–	0.0%	13	0.0%
Thabo Mofutsanyana District	1 584	100.0%	–	0.0%	–	0.0%	–	0.0%	1 584	5.7%
Ngwathe	4 302	108.8%	0	0.0%	0	0.0%	(347)	-8.8%	3 956	14.3%
Mafube	1 657	77.9%	304	14.3%	–	0.0%	166	7.8%	2 128	7.7%
<b>Total Debt</b>	<b>27 444</b>	<b>99.5%</b>	<b>304</b>	<b>1.1%</b>	<b>0</b>	<b>0.0%</b>	<b>(180)</b>	<b>-0.7%</b>	<b>27 569</b>	<b>100.0%</b>

Creditors Age Analysis Pension/Retirement	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	54 011	100.0%	–	0.0%	–	0.0%	–	0.0%	54 011	19.2%
Matjhabeng	26 099	100.0%	–	0.0%	–	0.0%	–	0.0%	26 099	9.3%
Nala	4	100.0%	–	0.0%	–	0.0%	–	0.0%	4	0.0%
Ngwathe	3 220	100.0%	–	0.0%	–	0.0%	–	0.0%	3 220	1.1%
Mafube	1 297	0.7%	624	0.3%	624	0.3%	194 784	98.7%	197 329	70.3%
<b>Total Debt</b>	<b>84 631</b>	<b>30.2%</b>	<b>624</b>	<b>0.2%</b>	<b>624</b>	<b>0.2%</b>	<b>194 784</b>	<b>69.4%</b>	<b>280 663</b>	<b>100.0%</b>

Source: Local Government Database

5.7.10 Letters were issued to the following municipalities with regard to the late or non-payment of pension fund contributions:

Municipality	Months	Amount due
Letsemeng	Oct 22 - August 23	168141.38
Mohokare	February - August 23	83065.71
Masilonyana	April - August 23	38715.45
Nala	August 23 - late payment	2.55
Moqhaka	August 23 - late payment	221.69

## 6. RISKS

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

### 6.1 MFMA s138 and 140 triggers

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

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

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

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

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

Municipalities	Nr of Triggers Identified	S138 Triggers	S140 Triggers (Creditors >2% of Opex Budget)	S140 Triggers - Severe (Creditors >40% of Opex Budget)	Financial Distress 2021
Mangaung	3	✓	✓		✓
Letsemeng	4	✓	✓	✓	✓
Kopanong	4	✓	✓	✓	✓
Mohokare	4	✓	✓	✓	✓
Xhariep	3	✓	✓		✓
Masilonyana	3	✓	✓		✓
Tokologo	4	✓	✓	✓	✓
Tswelopele	4	✓	✓	✓	✓
Matjhabeng	4	✓	✓	✓	✓
Nala	4	✓	✓	✓	✓
Lejweleputswa	0				
Setsoto	3	✓	✓		✓
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsopa	4	✓	✓	✓	✓
Thabo Mofutsanyana	0				
Mochaka	4	✓	✓	✓	✓
Nqwathe	4	✓	✓	✓	✓
Metsimaholo	3	✓	✓		✓
Mafube	4	✓	✓	✓	✓
Fezile Dabi	1	✓			

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

## 7. CONCLUSION

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

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

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

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

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

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

**Approved / ~~Not approved:~~**



**Ms. MA Sesing**  
**Head of Department**  
**FREE STATE PROVINCIAL TREASURY**

**DATE:** 28-09-2023

**ANNEXURES:**

Annexure 1 – S71 Summary Report per municipality

Annexure 2 – Indicators (State of Local Government Report)