



treasury
Department of
Treasury
FREE STATE PROVINCE



FREE STATE PROVINCE

CONSOLIDATED MUNICIPAL BUDGET
PERFORMANCE REPORT
FOR THE PERIOD ENDING
30 SEPTEMBER 2023

1. EXECUTIVE SUMMARY

This report covers the performance against the adopted budgets of the Free State Municipalities for the municipal period ending on 30 September 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;
- Many 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 10th 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 30 September 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	FS163	Mohokare	In-Year Monthly 03	2023/10/14	Outstanding
B	FS196	Mantsopa	In-Year Monthly 03	2023/10/14	Outstanding
B	FS201	Moqhaka	In-Year Monthly 03	2023/10/14	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
Non Financial Data					
B	FS163	Mohokare	Creditors Monthly-M03	2023/10/14	Outstanding
B	FS163	Mohokare	Debtors Monthly-M03	2023/10/14	Outstanding
B	FS195	Phumelela	Debtors Monthly-M03	2023/10/14	Outstanding
B	FS196	Mantsopa	Creditors Monthly-M03	2023/10/14	Outstanding
B	FS196	Mantsopa	Debtors Monthly-M03	2023/10/14	Outstanding
B	FS201	Moqhaka	Creditors Monthly-M03	2023/10/14	Outstanding
B	FS201	Moqhaka	Debtors Monthly-M03	2023/10/14	Outstanding

4.1.2 Moqhaka municipality's financial system crashed during May 2023, causing a backlog in the capturing of information. Mohokare and Mantsopa did not provide reasons for the non-submission.

4.1.3 Table 1 below show the summary of the segment validation of financial and non-financial data strings. The 2nd 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. 1st 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	M03	MCUM
A	MAN	Mangaung	H						
B	FS161	Letsemeng	M	Yellow			Red		Red
B	FS162	Kopanong	M		Red	Red			Red
B	FS163	Mohokare	L		Red	Red		Red	Red
C	DC16	Xhariep	L		Red	Red	Yellow		Red
B	FS181	Masilonyana	L		Yellow	Yellow			Yellow
B	FS182	Tokologo	L						
B	FS183	Tswelopele	M						
B	FS184	Matjhabeng	H						
B	FS185	Nala	M		Orange	Orange			Orange
C	DC18	Lejweleputswa	L						
B	FS191	Setsoto	M						

				2024					
				ORGB	PROR	M01	M02	M03	MCUM
Cat Code	Demarc Code	Demarcation Description	CAP						
B	FS192	Dihlabeng	M						
B	FS193	Nketoana	M						
B	FS194	Maluti-a-Phofung	H						
B	FS195	Phumelela	L						
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 R6.122 billion or 24.4 per cent against the adopted budget of R25.163 billion. The total generated revenue is slightly below the straight-line projection of 25% per cent. 53.5 Per cent (R3.283 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc.); whilst 46.2 per cent (R2.833 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 (65%) and property rates (27%).

5.1.3 An aggregate operational surplus of R1.095 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 R5.038 billion or 19.9 per cent against the adopted budget which is below the straight line projection of 25 per cent.

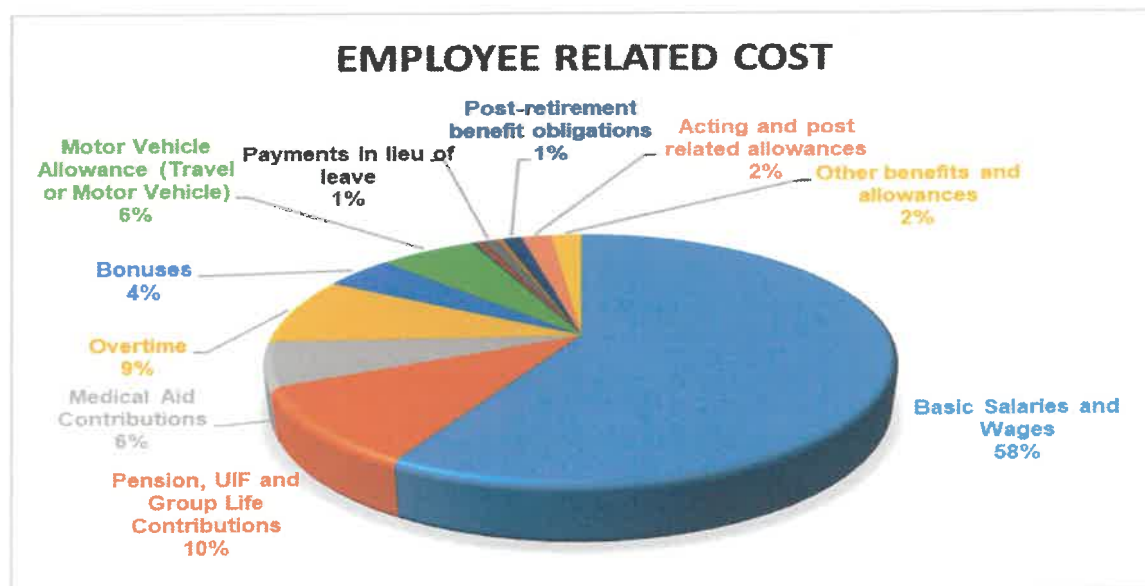
Incorrect or non-reporting of expenditure also contributes to the poor performance reported.

5.2.2 The highest spending item reported at the end of September 2023 is electricity bulk purchases amounting to R1.857 billion followed by employee related cost amounting to R1.581 billion.

5.2.3 The performance of employee related cost against the adopted budget is 20.8 per cent (R1.581 billion). Most 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	17 281	7.6%	1.1%
Municipal Staff	7 361 871	1 563 482	21.2%	98.9%
Board Members	827	–	0.0%	0.0%
Total	7 589 280	1 580 764	20.8%	100.0%

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 September 2023	%	Original Budget	YTD September 2023	%
Mangaung	2 447 868 378	588 349 703	24.0%	76 003 457	17 074 794	22.5%
Matjhabeng	952 980 245	244 228 615	25.6%	39 362 111	2 556 068	6.5%
Maluti-a-Phofung	743 436 701	173 180 892	23.3%	33 085 344	7 553 841	22.8%
Moqhaka	396 116 531		0.0%	25 032 003		0.0%
Metsimaholo	450 539 320	91 459 842	20.3%	21 704 660	5 919 776	27.3%
Total	4 990 941 175	1 097 219 052	22.0%	195 187 575	33 104 479	17.0%

Employee Related Cost - Medium Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD September 2023	%	Original Budget	YTD September 2023	%
Letsemeng	79 080 565		0.0%	5 446 461		0.0%
Kopanong	153 701 303	23 805 482	15.5%	6 995 823	558 550	8.0%
Tswelopele	88 638 862	242 663	0.3%	6 225 647		0.0%
Nala	181 572 622	39 303 825	21.6%	10 085 886	1 996 447	19.8%
Setsoto	235 002 972	58 207 445	24.8%	14 641 092	3 440 694	23.5%
Dihlabeng	374 545 474	85 426 657	22.8%	20 720 000	5 572 069	26.9%
Nketoana	160 533 769	40 450 253	25.2%	6 841 058	1 894 697	27.7%
Mantsopa	114 544 998	9 632 092	8.4%	7 731 598	652 691	8.4%
Ngwathe	280 898 461	70 062 651	24.9%	18 056 468	4 074 006	22.6%
Mafube	117 872 735	21 859 841	18.5%	6 625 780	1 831 408	27.6%
Total	1 786 391 761	348 990 909	19.5%	103 369 813	20 020 562	19.4%

Employee Related Cost - Low Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD September 2023	%	Original Budget	YTD September 2023	%
Mohokare	88 588 089	7 381 316	8.3%	5 326 732	437 304	8.2%
Xhariep	48 164 666	7 676 010	15.9%	4 808 333	1 011 818	21.0%
Masilonyana	142 588 578		0.0%	8 007 155		0.0%
Tokologo	67 777 068	13 543 614	20.0%	5 344 556	1 497 373	28.0%
Lejweleputswa	120 433 896	26 537 276	22.0%	11 219 884	2 850 303	25.4%
Phumelela	109 292 434	23 616 419	21.6%	7 096 352	1 018 912	14.4%
Thabo Mofutsanyana	102 318 012	24 636 069	24.1%	9 196 512	2 111 994	23.0%
Fezile Dabi	132 784 500	31 162 929	23.5%	8 252 000	1 990 101	24.1%
Total	811 947 243	134 553 633	16.6%	59 251 524	10 917 805	18.4%

5.2.6 Three municipalities, namely Letsemeng, 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 to pay their creditors and salaries.

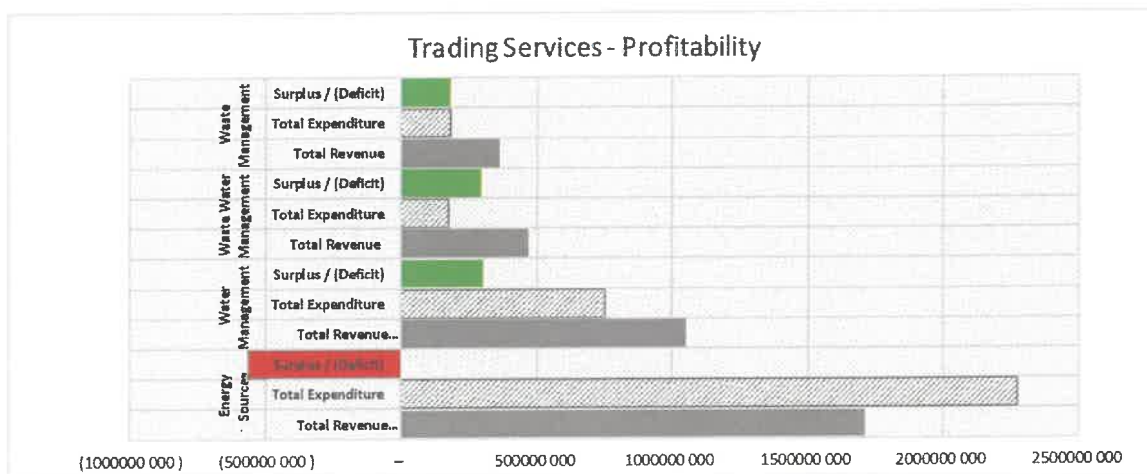
The table below provide the detail of the total compensation budget against the equitable share allocation for the 2023/24 financial year.

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%
DC 16 Total	369 535	22 577	392 112	340 084	115.3%
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%
DC 18 Total	1 553 991	80 245	1 634 237	1 319 231	123.9%
Setsotho	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%
DC 19 Total	1 839 674	99 312	1 938 986	1 759 829	110.2%
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%
DC 20 Total	1 378 212	79 671	1 457 882	1 119 563	130.2%
Total	7 589 280	357 809	7 947 089	5 576 371	142.5%

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 30 September 2023. Whilst **energy sources** recorded an operating deficit of R562.2 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	(148 329)	117 697	140 644	73 467
Letsemeng	(3 367)	(38)	479	–
Kopanong	(13)	(8 849)	–	–
Mohokare	4 106	3 707	154	88
Masilonyana	1 698	12 332	7 058	3 758
Tokologo	(10 775)	(1 862)	3 778	3 349
Tswelopele	(1 887)	(3 937)	811	829
Matjhabeng	(105 332)	(30 332)	60 214	32 590
Nala	(22 101)	843	(47)	758
Setsoto	5 616	18 966	18 948	17 223
Dihlabeng	48 635	37 957	37 647	37 688
Nketoana	(24 889)	11 069	1 921	5 394
Maluti a Phofung	(212 191)	6 506	(7 188)	(11 846)
Phumelela	(14 172)	2 112	3 705	2 582
Mantsopa	(1 366)	(1 048)	(3 628)	(32)
Moqhaka	–	–	–	–
Ngwathe	(46 493)	14 144	12 349	10 826
Metsimaholo	(30 655)	105 574	5 217	2 464
Mafube	(660)	15 552	11 055	–

5.4 **Capital Expenditure and Sources of Finance**

5.4.1 The aggregate capital expenditure amounts to R196.5 million or 5.9 per cent against the adopted budget of R3.325 billion which is significantly below the straight line projection of 25 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 78 Per cent of the capital expenditure relates to trading services projects amounting to R152.6 million and consists of R21.9 million for energy services, R122.8 million for water management, R7.4 million for waste water management. Expenditure reported for waste management projects amounts to only R517 thousand, 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 September 2023 shows a total spending of R171.6 million against the allocation (6.1per 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	33 104	3.0%	1 085 276	97.0%
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	892	3.1%	28 026	96.9%
Masilonyana	48 887	–	0.0%	48 887	100.0%
Tokologo	45 606	90 326	198.1%	(44 720)	-98.1%
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	614	13.3%	4 015	86.7%
Setsoto	224 148	27 975	12.5%	196 173	87.5%
Dihlabeng	73 239	–	0.0%	73 239	100.0%
Nketoana	61 119	–	0.0%	61 119	100.0%
Maluti a Phofung	242 458	19 826	8.2%	222 632	91.8%
Phumelela	64 498	–	0.0%	64 498	100.0%
Mantsopa	47 816	195	0.4%	47 621	99.6%
Thabo Mofutsanyana	12 467	(1 200)	-9.6%	13 667	109.6%
Moghaka	74 044	–	0.0%	74 044	100.0%
Ngwathe	148 974	2 101	1.4%	146 873	98.6%
Metsimaholo	107 037	7 335	6.9%	99 702	93.1%
Mafube	52 561	599	1.1%	51 962	98.9%
Fezile Dabi	4 747	521	11.0%	4 226	89.0%
Total	2 822 801	171 573	6.1%	2 651 228	93.9%

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	1 720	4.5%	36 243	95.5%
Finance Management Grant	59 120	(1 930)	-3.3%	61 050	103.3%
Infrastructure Skills Development Grant	3 500	–	0.0%	3 500	100.0%
Integrated National Electrification Prog	143 903	250	0.2%	143 653	99.8%
Metro Informal Settlements Partnership Grant	291 940	14 963	5.1%	276 977	94.9%
Municipal Infrastructure Grant	857 868	27 358	3.2%	830 510	96.8%
Neighbourhood Dev Partnership Grant	21 739	45	0.2%	21 694	99.8%
Programme & Project Preperation Support Grant	14 276	–	0.0%	14 276	100.0%
Public Transport network Grant	270 028	5 313	2.0%	264 715	98.0%
Regional Bulk Infrastructure Grant	208 896	78 889	37.8%	130 007	62.2%
Rural Roads Assets Man Systems Grant	9 692	–	0.0%	9 692	100.0%
Urban settlement Development Grant	513 434	12 224	2.4%	501 210	97.6%
Water Services Infrastructure Grant	374 442	32 739	8.7%	341 703	91.3%
Total	2 822 801	171 573	6.1%	2 651 228	93.9%

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 R113.1 million, whilst the data strings reflect total expenditure of R27.4 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 September 2023 with a surplus cash and cash equivalent balance of **R4.312 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 Four municipalities (Masilonyana, Matjhabeng, Mantsopa and Mafube municipalities) reported 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 (30 Sept 2023)
Mangaung Metro	1 242 772	2 312 158	32 291	(6 237)	2 338 212	3 580 983
Letsemeng	–	17 900	36	–	17 936	17 936
Kopanong	–	24 364	–	–	24 364	24 364
Mohokare	–	36 508	(4 498)	–	32 010	32 010
Xhariep District	–	2 961	–	–	2 961	2 961
DC 16 Total	–	81 733	(4 462)	–	77 271	77 271
Masilonyana	–	(1 916)	7	–	(1 908)	(1 908)
Tokologo	–	28 028	12	–	28 040	28 040
Tswelopele	10 481	133 053	(39)	–	133 014	143 495
Matjhabeng	173 088	(684 207)	(14 352)	618	(697 941)	(524 854)
Nala	–	–	–	–	–	–
Lejweleputswa District	106 197	9 911	12	–	9 922	116 120
DC 18 Total	289 766	(515 131)	(14 360)	618	(528 873)	(239 107)
Setsotho	66 208	162 802	(30 136)	–	132 666	198 874
Dihlabeng	18 178	51 799	(5 466)	(1 638)	44 696	62 874
Nketoana	1 575	89 177	(25 345)	(41)	63 791	65 366
Maluti a Phofung	118 498	133 003	(36 313)	91	96 781	215 279
Phumelela	–	49 010	(8 067)	–	40 943	40 943
Mantsopa	–	(10 391)	3 340	–	(7 051)	(7 051)
Thabo Mofutsanyana	–	2 242	–	–	2 242	2 242
DC 19 Total	204 458	477 642	(101 986)	(1 588)	374 069	578 526
Moghaka	–	–	22	–	22	22
Ngwathe	46 761	20 980	(3 930)	(18)	17 032	63 793
Metsimaholo	158 041	717	(5 829)	304	(4 808)	153 233
Mafube	–	(29 959)	(129)	21	(30 067)	(30 067)
Fezile Dabi	103 701	23 688	(13)	–	23 675	127 376
DC 20 Total	308 503	15 427	(9 880)	307	5 854	314 357
Total	2 045 498	2 371 829	(98 396)	(6 900)	2 266 532	4 312 030

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 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 8 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 (0.01)
- Xhariep (-15.79)
- Matjhabeng (-2.74)
- Nala (-2.44)
- Tokologo (-26.61)
- Mantsopa (-32.64)
- Nketoana (0.33)
- Mafube (-0.41)

5.5.5 The average year to date collection rate reported by municipalities for the province for the is only **51.2 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.

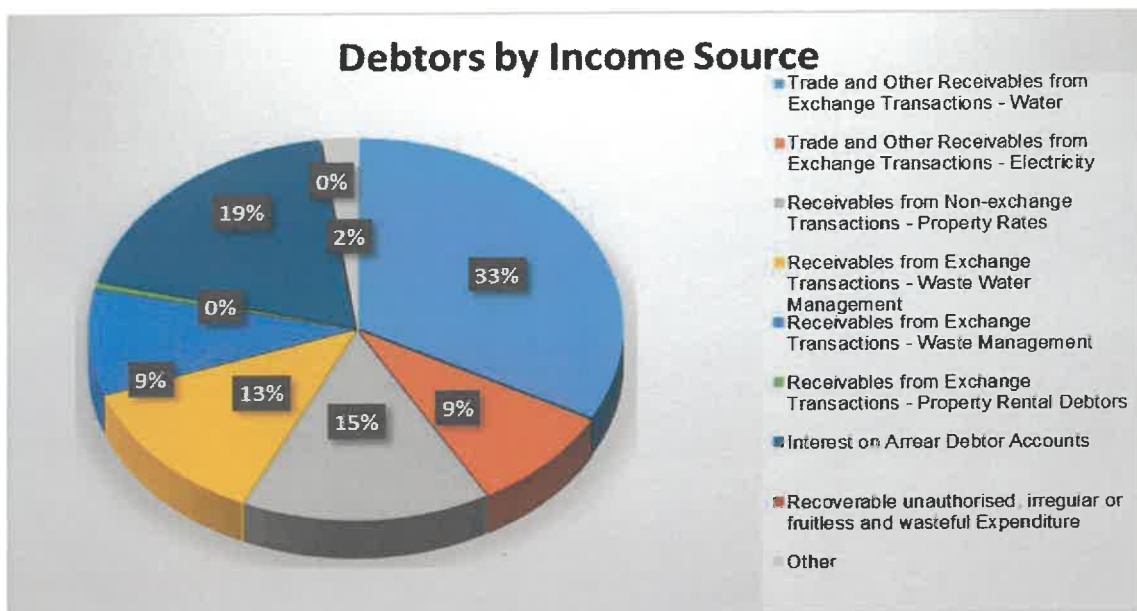
The table below indicate the liquidity ratio for the 22 municipalities that have submitted the information for September 2023. 16 Municipalities have a liquidity ratio of less than one.

	Mangung	Kopemong	Letemeng	Mokolea	Shamp	Masobiyana	Melipising	Tlila	Telogo	Tevetope	Levempuswe	Dhlabang	Meluta-Pholing	Nantopoa	Nelocana	Phumabula	Saledo	Tlhabo Motlatseng	Melirua	Melamabos	Ngwina	Kaste, Daba
Indicator # - Liquidity Ratio	MAN	FS162	FS161	FS163	DC16	FS161	FS164	FS165	FS160	FS163	DC16	FS162	FS160	FS160	FS163	FS165	FS161	DC16	FS205	FS204	FS203	DC20
	0.14	0.00	0.00	1.00	0.75	1.85	0.00	0.27	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.15	0.00	0.00

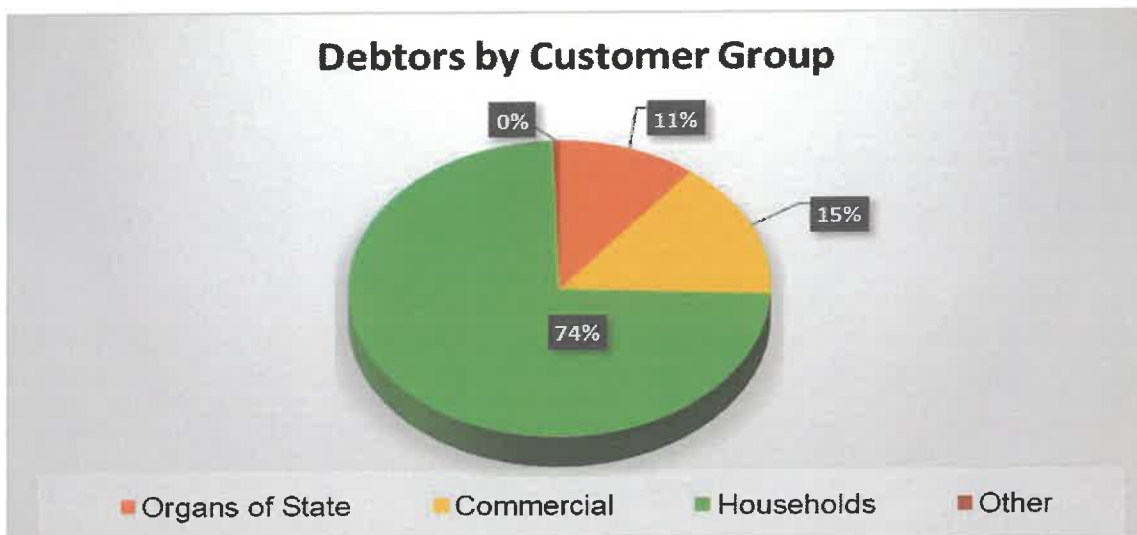
Source: Local Government Database

5.6 Debtors

- 5.6.1 The aggregated debtors as at 30 September 2023 amounted to R34.804 billion having **increased** by R0.932 billion from the previous month (*August 2023: R33.872 billion*). Annexure A and B provides the summary and breakdown of the outstanding debtors per income source. The municipal debt has grown substantially for debtors exceeding 90 days due to declining collection rates.
- 5.6.2 The norm for **the net debtors' day's ratio is 30 days** and the ratio provides information about consumer payment patterns and how well the municipality manages its debtors. The late payment of municipal bills by consumers and the **failure to implement municipal credit control and debt collection systems has resulted** in the debtors' day's ratio reported above **200 days** for most of the municipalities. This is indicative that the municipalities are experiencing challenges in the collection of outstanding amounts which exposes the municipality to significant cash flow risks.
- 5.6.3 Although section 75A of the Municipal Systems Act, 2000 (MSA) empowers a municipality to levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and to recover collection charges and interest on any outstanding amount subject to the provisions of the National Credit Act, 2005 (Act 34 of 2005), the **debt is increasing on a monthly basis**.
- 5.6.4 *Water services* remains the largest contributor to the total outstanding debt and amounts to R11.455 billion (32.9 per cent), followed by *interest on arrear debtor accounts* amounting to R6.553 billion (18.8 per cent). Debt relating to *property rates* contributes 15.1 per cent (R5.269 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.5 per cent (R4.364 billion) of the total debt.
- 5.6.5 *Electricity services* contributes only 8.9 per cent (R3.104 billion) to the total outstanding debt.



5.6.6 The report also shows most of the debt is owed by *Households*, contributing 73.9 per cent (R25.714 billion) to the total debt, followed by *Businesses* with 15 per cent (R5.205 billion) and *Organs of State* with 10.6 per cent (R3.691 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 because of a municipality's failure to implement municipal credit control and debt collection systems.

	Mangaung	Kopetong	Lesemeng	Mohale's	Masibong	Mafikeng	Mala	Tlokoeng	Tswelopele	Phikang	Makule	Mantsoa	Nketoana	Thulamale	Sekake	Matlabe	Metimatho	Ngwenya
	MAN	FS162	FS161	FS183	FS181	FS184	FS185	FS182	FS183	FS182	FS184	FS186	FS183	FS185	FS191	FS205	FS204	FS203
Indicator 9 - Debtors Days	812.93	260	210.95	588.67	346.94	402.47	156.52	434.02	603.48	617.92	3 028.44	182 115.26	426.68	1 715.57	1 365.36	2 251.62	288.12	303.77

Source: Local Government Database

5.6.7.3 The credit ratio reported by Nketoana and Mantsoa is because 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 R0.664 billion to R29.015 billion for the month under review (*August 2023: R28.387 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 89 per cent or R25.816 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 include:

- 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:

Municipality	Actions/Sanctions
Kopanong	A breach notice to be issued
Letsemeng	The Court dismissed the municipality's application with cost.
Mafube	Preparing to issue summons
Mantsopa	Letter issued to the Minister of CoGTA
Matjhabeng	Litigation ongoing
Mohokare	A breach notice was issued
Nala	Letter issued to the Minister of CoGTA
Ngwathe	Letter issued to the Minister of CoGTA
Tokologo	Letter issued to the Minister of CoGTA
Tswelopele	Letter issued to the Minister of CoGTA

Furthermore, the debt relief applications of Mangaung and Nketoana were approved, and Eskom will commence with the implementation thereof.

PAYE and Pension/Retirement Contributions Debt

5.7.7 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R312.4 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	7 664	100.0%	–	0.0%	–	0.0%	–	0.0%	7 664	24.8%
Matjhabeng	14 199	100.0%	–	0.0%	–	0.0%	–	0.0%	14 199	45.9%
Nala	13	100.0%	–	0.0%	–	0.0%	–	0.0%	13	0.0%
Thabo Mofutsanyana District	1 581	100.0%	–	0.0%	–	0.0%	–	0.0%	1 581	5.1%
Ngwathe	4 173	103.1%	220	5.4%	0	0.0%	(347)	-8.6%	4 046	13.1%
Mafube	1 304	37.8%	1 671	48.4%	307	8.9%	168	4.9%	3 449	11.1%
Total Debt	28 934	93.5%	1 890	6.1%	307	1.0%	(179)	-0.6%	30 953	100.0%

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	54 167	100.0%	–	0.0%	–	0.0%	–	0.0%	54 167	19.2%
Matjhabeng	25 254	100.0%	–	0.0%	–	0.0%	–	0.0%	25 254	9.0%
Nala	4	100.0%	–	0.0%	–	0.0%	–	0.0%	4	0.0%
Setsotho	187	100.0%	–	0.0%	–	0.0%	–	0.0%	187	0.1%
Ngwathe	3 214	100.0%	–	0.0%	–	0.0%	–	0.0%	3 214	1.1%
Mafube	1 294	0.7%	1 297	0.7%	624	0.3%	195 408	98.4%	198 624	70.6%
Total Debt	84 121	29.9%	1 297	0.5%	624	0.2%	195 408	69.4%	281 450	100.0%

Source: Local Government Database

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 with 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 below indicates 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	✓	✓	✓	✓
Mantsoa	4	✓	✓	✓	✓
Thabo Mofutsanyana	0				
Moqhaka	4	✓	✓	✓	✓
Ngwathe	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 debt;
- 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.

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: 26-10-2023

ANNEXURES:

- Annexure 1 – S71 Summary Report per municipality
- Annexure 2 – Indicators (State of Local Government Report)