



treasury
Department of
Treasury
FREE STATE PROVINCE



FREE STATE PROVINCE

CONSOLIDATED MUNICIPAL BUDGET
PERFORMANCE REPORT
FOR THE PERIOD ENDING
31 OCTOBER 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 October 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 31 October 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	FS201	Moqhaka	In-Year Monthly 04	2023/10/14	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
Non Financial Data					
B	FS196	Mantsopa	Creditors Monthly-M04	2023/10/14	Submitted with errors
B	FS201	Moqhaka	Creditors Monthly-M04	2023/10/14	Outstanding
B	FS201	Moqhaka	Debtors Monthly-M04	2023/10/14	Outstanding

4.1.2 Moqhaka Municipality's financial system failed 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 from the beginning of the financial year. 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 due to errors on the data strings and is therefore still outstanding.

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

				2023/24 Financial Year						
				ORGB (Original Budget)	PROR (Project details)	M01	M02	M03	M04	MCUM
Cat Code	Demarc Code	Demarcation Description	CAP							
A	MAN	Mangaung	H							
B	FS161	Letsemeng	M							
B	FS162	Kopanong	M							
B	FS163	Mohokare	L							
C	DC16	Xhariep	L							
B	FS181	Masilonyana	L							
B	FS182	Tokologo	L							
B	FS183	Tswelopele	M							
B	FS184	Matjhabeng	H							
B	FS185	Nala	M							
C	DC18	Lejweleputswa	L							
B	FS191	Setsotho	M							
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

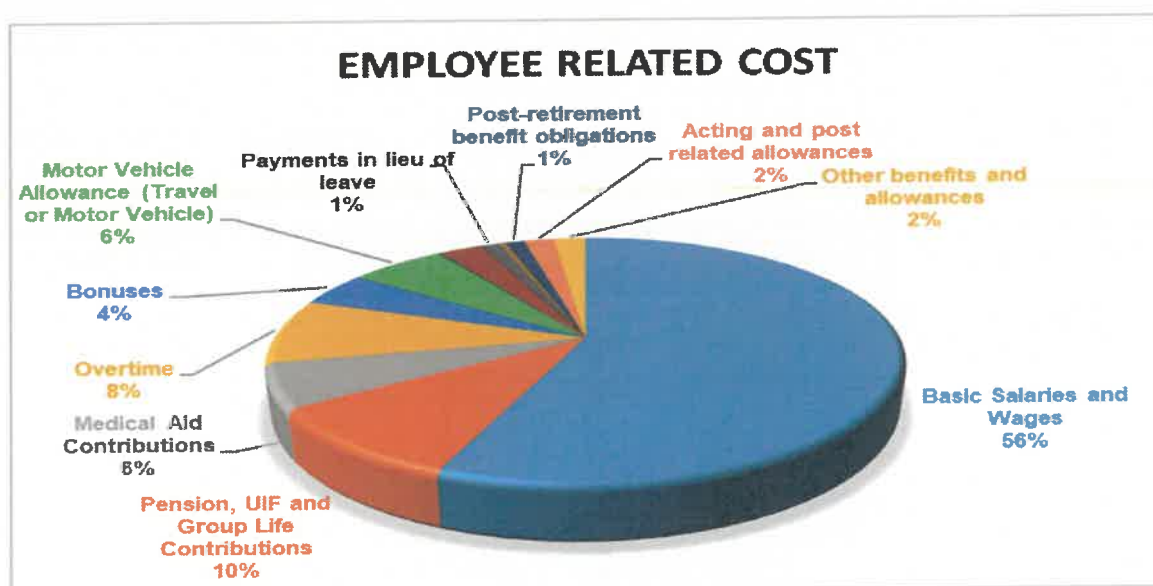
- 5.1.1 The total generated revenue (billed) amounts to R7.145 billion or 28.4 per cent against the adopted budget of R25.163 billion. The total generated revenue is slightly below the straight-line projection of 33.3% per cent. 56.1 Per cent (R3.987 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc.); whilst 43.9 per cent (R3.136 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 52 per cent, followed by water service charges at 16 per cent. Non-exchange revenue consists primarily of transfers and subsidies (60%) and property rates (33%).
- 5.1.3 For the month under review an operating deficit of R718.4 million was recorded which is an indication that the municipalities are very reliant on transfers (equitable share) for operational expenditure. The next equitable share tranche will be paid in December 2023.

5.2 Operating expenditure

- 5.2.1 The total operating expenditure reported amounted to R6.769 billion or 26.7 per cent against the adopted budget which is below the straight line projection of 33.3 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 October 2023 is *electricity bulk purchases* amounting to R2.202 billion followed by employee related cost amounting to R2.139 billion.
- 5.2.3 The performance of employee related cost against the adopted budget is 28.2 per cent (R2.139 billion). Most of the expenditure reported (99.2 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	16 157	7.1%	0.8%
Municipal Staff	7 361 871	2 122 477	28.8%	99.2%
Board Members	827	–	0.0%	0.0%
Total	7 589 280	2 138 634	28.2%	100.0%

5.2.4 56 per cent (R1.206 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 R38.1 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, Mqohaka and Metsimaholo).

Employee Related Cost - High Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD October 2023	%	Original Budget	YTD October 2023	%
Mangaung	2 447 868 378	784 454 205	32.0%	76 003 457	26 360 909	34.7%
Matjhabeng	952 980 245	322 243 337	33.8%	39 362 111	3 348 173	8.5%
Maluti-a-Phofung	743 436 701	217 130 680	29.2%	33 085 344	9 616 312	29.1%
Mqohaka	396 116 531		0.0%	25 032 003		0.0%
Metsimaholo	450 539 320	125 721 700	27.9%	21 704 660	7 738 726	35.7%
Total	4 990 941 175	1 449 549 922	29.0%	195 187 575	47 064 120	24.1%

Employee Related Cost - Medium Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD October 2023	%	Original Budget	YTD October 2023	%
Letsemeng	79 080 565		0.0%	5 446 461		0.0%
Kopanong	153 701 303	34 965 701	22.7%	6 995 823	563 906	8.1%
Tswelopele	88 638 862	266 339	0.3%	6 225 647		0.0%
Nala	181 572 622	56 297 154	31.0%	10 085 886	2 792 641	27.7%
Setsoto	235 002 972	77 583 794	33.0%	14 641 092	5 344 358	36.5%
Dihlabeng	374 545 474	114 374 084	30.5%	20 720 000	8 182 115	39.5%
Nketoana	160 533 769	40 444 504	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	93 334 261	33.2%	18 056 468	5 410 619	30.0%
Mafube	117 872 735	30 444 617	25.8%	6 625 780	2 361 231	35.6%
Total	1 786 391 761	457 342 546	25.6%	103 369 813	27 202 258	26.3%

Employee Related Cost - Low Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD October 2023	%	Original Budget	YTD October 2023	%
Mohokare	88 588 089	61 211 280	69.1%	5 326 732	2 967 398	55.7%
Xhariep	48 164 666	11 449 102	23.8%	4 808 333	1 453 774	30.2%
Masilonyana	142 588 578		0.0%	8 007 155		0.0%
Tokologo	67 777 068	18 317 627	27.0%	5 344 556	1 874 944	35.1%
Lejweleputswa	120 433 896	35 606 431	29.6%	11 219 884	3 841 817	34.2%
Phumelela	109 292 434	30 614 496	28.0%	7 096 352	1 605 789	22.6%
Thabo Mofutsanyana	102 318 012	33 081 257	32.3%	9 196 512	2 804 421	30.5%
Fezile Dabi	132 784 500	41 461 474	31.2%	8 252 000	2 615 657	31.7%
Total	811 947 243	231 741 667	28.5%	59 251 524	17 163 800	29.0%

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.

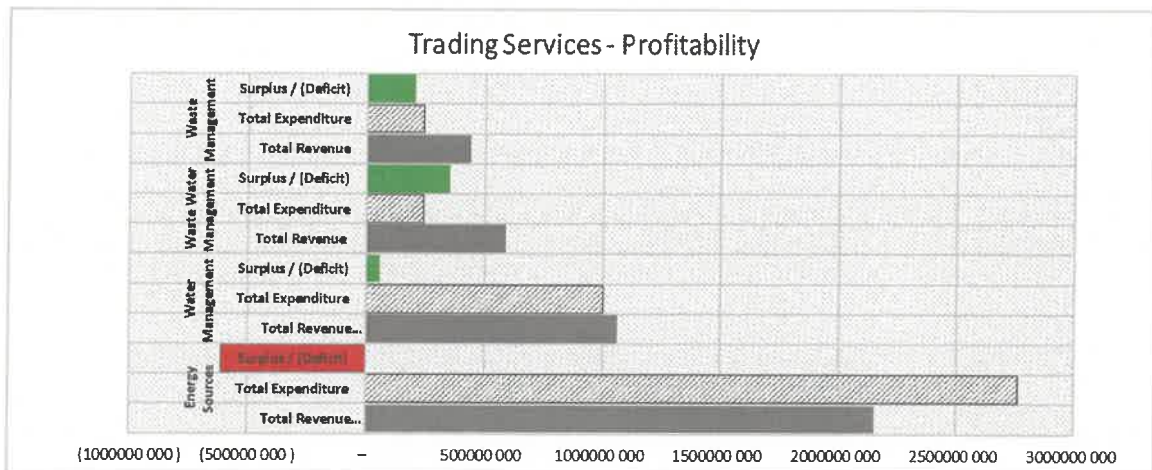
The table below provide the detail of the total compensation budget against the equitable share allocation for the 2023/24 financial year.

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%
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%
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 31 October 2023. Whilst **energy sources** recorded an operating deficit of **R611.9 million**. It is estimated that the deficit will continue to increase during the financial year.



- 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	(172 361)	91 640	153 064	64 672
Letsemeng	(3 764)	(194)	3 159	–
Kopanong	(13)	(13 056)	1	–
Mohokare	4 055	16 267	831	611
Masilonyana	1 702	(277 109)	7 058	3 758
Tokologo	(13 714)	(2 080)	6 548	5 108
Tswelopele	(1 921)	(4 293)	1 282	1 150
Matjhabeng	(68 616)	(18 213)	81 649	43 234
Nala	(22 941)	443	1 351	1 262
Setsoto	4 064	13 650	16 608	16 114
Dihlabeng	62 912	40 160	42 808	43 004
Nketoana	(29 267)	17 089	1 992	7 959
Maluti a Phofung	(251 392)	13 260	(4 116)	(6 702)
Phumelela	(14 339)	112	5 060	3 609
Mantsopa	(1 364)	(2 116)	(3 634)	(36)
Moqhaka	–	–	–	–
Ngwathe	(62 997)	32 080	16 601	14 539
Metsimaholo	(41 077)	130 626	5 629	2 816
Mafube	(896)	20 192	14 934	–

5.4 Capital Expenditure and Sources of Finance

- 5.4.1 The aggregate capital expenditure amounts to R332.5 million or 10 per cent against the adopted budget of R3.325 billion which is significantly below the straight line projection of 33.3 per cent. The late appointment of contractors contributes to the low spending reported and it is expected that the spending will accelerate as the year progresses.
- 5.4.2 75 Per cent of the capital expenditure relates to trading services projects amounting to R248.9 million and consists of R42.8 million for energy services, R165.7 million for water management, R39.9 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 October 2023 shows a total spending of R239.9 million against the allocation (8.5 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	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	1 114	3.9%	27 804	96.1%
Masilonyana	48 887	–	0.0%	48 887	100.0%
Tokologo	45 606	105 642	231.6%	(60 036)	-131.6%
Tswelopele	37 918	(7 716)	-20.3%	45 634	120.3%
Matjhabeng	199 675	–	0.0%	199 675	100.0%
Nala	55 150	14 125	25.6%	41 025	74.4%
Lejweleputswa	4 629	1 322	28.6%	3 307	71.4%
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	47 407	19.6%	195 051	80.4%
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%
Moqhaka	74 044	–	0.0%	74 044	100.0%
Ngwathe	148 974	11 090	7.4%	137 884	92.6%
Metsimaholo	107 037	7 532	7.0%	99 505	93.0%
Mafube	52 561	1 738	3.3%	50 823	96.7%
Fezile Dabi	4 747	570	12.0%	4 177	88.0%
Total	2 822 801	239 897	8.5%	2 582 904	91.5%

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	12 546	33.0%	25 417	67.0%
Finance Management Grant	59 120	(1 569)	-2.7%	60 689	102.7%
Infrastructure Skills Development Grant	3 500	–	0.0%	3 500	100.0%
Integrated National Electrification Prog	143 903	506	0.4%	143 397	99.6%
Metro Informal Settlements Partnership Grant	291 940	14 963	5.1%	276 977	94.9%
Municipal Infrastructure Grant	857 868	63 046	7.3%	794 822	92.7%
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	92 452	44.3%	116 444	55.7%
Rural Roads Assets Man Systems Grant	9 692	454	4.7%	9 238	95.3%
Urban settlement Development Grant	513 434	12 224	2.4%	501 210	97.6%
Water Services Infrastructure Grant	374 442	39 917	10.7%	334 525	89.3%
Total	2 822 801	239 897	8.5%	2 582 904	91.5%

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 R154.3 million, whilst the data strings reflect total expenditure of R63 million. These discrepancies are highlighted to municipalities to correct on the financial system.

5.4.4.6 Furthermore, during the Medium-Term Budget Position Statement (MTBPS) and the amended fiscal envelope tabled by the Minister of Finance it was stated that the 2023/2024 budget remains under constraint and to maintain sustainability of basic services, government will follow the strategy of fiscal consolidation. This strategy will include adjustments in allocations and expenditure based on policy priorities, and as well as reprioritisation, reconfiguration and rationalisation.

5.4.4.7 In light of the above the Division of Revenue Amendment Bill, 2023 was issued, which show reductions in the conditional grant allocations to municipalities in the 2023/24 financial year. The total decrease for conditional grants allocated is R202.1 million. This will have a negative impact on the implementation of infrastructure projects by municipalities. The detail decreases per municipalities is attached to this report.

2022/23 Roll over applications

5.4.4.8 Letters dated 19 October 2023 were issued to municipalities to indicate whether the applications to roll over unspent funds to the 2023/24 financial year. The outcome of the process is as follows:

Municipalities <i>R'000</i>	Total Amount requested	Total Amount Approved	Total Amount Rejected	Reason for rejection
Mangaung	292 356	-	292 356	The Municipal Manager and Chief Financial Officer have been acting for a period longer than six months.
Letsemeng	21 995	-	21 995	<ul style="list-style-type: none"> ●The municipality did not submit the 2023 pre-audited Annual Financial Statements (AFS); ●No supporting documents submitted in support of the of the INEP grant; and ●The Municipal Manager and Chief Financial Officer have been acting for a period longer than six months.
Kopanong	13 796	-	13 796	<ul style="list-style-type: none"> ●The appointment of the service provider was made after 31 March 2023; ●The cash and cash equivalents as per the 2023 pre-audited Annual Financial Statements (AFS) is not sufficient to cover the full request of your rollover request; and ●The Municipal Manager and Chief Financial Officer has been acting for a period longer than six months.
Mohokare	22 285	-	22 285	●The cash and cash equivalents as per the 2023 pre-audited Annual Financial Statements

Municipalities R'000	Total Amount requested	Total Amount Approved	Total Amount Rejected	Reason for rejection
				(AFS) is not sufficient to cover the full rollover request; ●The appointment of service providers were appointed after 31 March 2023; and ●The Chief Financial Officer has been acting for a period longer than six months.
Tswelopele	6 727	6 727	-	
Matjhabeng	48 590	31 976	16 614	The portion of the MIG Rollover request is a rollover of a rollover.
Setsoto	26 486	-	26 486	●The were no supporting documents attached to prove commitment of the RBIG rollover application; and ●The appointment letter in support of the WSIG roll over was made after the 31 March 2023.
Dihlabeng	15 818	-	15 818	●The supporting documents for the two projects being requested for roll over were not submitted; and ●The Municipal Manager and Chief Financial Officer has been acting for a period longer than six months.
Nketoana	1 332	735	597	The municipality indicated that the amount has already been spent but not reported on, this does not qualify for roll over because it means the expenditure is already accounted for in the Pre-Audited Annual Financial Statements. Further, the Transferring Officer also did not recognise the project as unspent.
Phumelela	11 735	-	11 735	●The cash and cash equivalents as per the 2023 pre-audited Annual Financial Statements (AFS) is not sufficient to cover the full rollover request; and ●The Municipal Manager has been acting for a period longer than six months.
Mantsopa	23 461	-	23 461	●The cash and cash equivalents as per the 2023 pre-audited Annual Financial Statements (AFS) does not cover the full rollover request; and ●The Chief Financial Officer has been acting for a period longer than six months.
Ngwathe	59 594	-	59 594	●The cash and cash equivalents as per the 2023 pre-audited Annual Financial Statements (AFS) does not cover the full rollover request; and ●The Chief Financial Officer has been acting for a period longer than six months.
Metsimaholo	1 722	1 722	-	
Mafube	15 324	-	15 324	●The municipality did not submit the 2023 pre-audited Annual Financial Statements (AFS); and ●The Municipal Manager and Chief Financial Officer have been acting for a period longer than six months.
TOTAL	561 220	41 160	520 060	
		7%	93%	

5.4.4.9 The final unspent amount for the 2022/23 financial year will be communicated to municipalities during November 2023 and will be based on the draft annual financial statements submitted. All unspent funds must be paid to the national revenue fund by 17 November 2023, alternatively a payment proposal can be submitted to National Treasury. Failure to comply with these requirements will result in the full unspent amount being deducted from the equitable share in December 2023.

5.5 Cash Coverage & Cash Flow

5.5.1 Municipalities in the Province closed the month of October 2023 with a surplus cash and cash equivalent balance of **R4.269 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 (Matjhabeng 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 (31 Oct 2023)
Mangaung Metro	1 242 772	2 407 775	(15 455)	(36 203)	2 356 116	3 598 888
Letsemeng	–	17 900	36	–	17 936	17 936
Kopanong	–	36 025	–	–	36 025	36 025
Mohokare	–	36 219	(4 973)	–	31 246	31 246
Xhariep District	–	5 667	–	–	5 667	5 667
DC 16 Total	–	95 812	(4 937)	–	90 875	90 875
Masilonyana	–	8 844	7	–	8 852	8 852
Tokologo	–	35 845	12	–	35 857	35 857
Tswelopele	10 481	139 514	(410)	–	139 104	149 585
Matjhabeng	173 088	(780 180)	(34 496)	868	(813 808)	(640 720)
Nala	–	–	–	–	–	–
Lejweleputswa District	106 197	(7 949)	12	–	(7 937)	98 260
DC 18 Total	289 766	(603 925)	(34 875)	868	(637 932)	(348 166)
Setsofso	66 208	206 311	(3 293)	–	203 018	269 225
Dihlabeng	18 178	82 893	(12 411)	(1 944)	68 539	86 717
Nketoana	1 575	102 189	(26 845)	(52)	75 292	76 866
Maluti a Phofung	118 498	110 083	(49 083)	69	61 068	179 566
Phumelela	–	51 625	(10 182)	–	41 443	41 443
Mantsopa	–	9 167	3 340	–	12 507	12 507
Thabo Mofutsanyana	–	1 271	–	–	1 271	1 271
DC 19 Total	204 458	563 539	(98 474)	(1 927)	463 138	667 595
Moqhaka	–	–	22	–	22	22
Ngwathe	46 761	23 331	(9 341)	5	13 994	60 755
Metsimaholo	158 041	(25 878)	(9 717)	472	(35 123)	122 918
Mafube	–	(24 958)	(1 011)	27	(25 942)	(25 942)
Fezile Dabi	103 701	(1 042)	(62)	–	(1 104)	102 597
DC 20 Total	308 503	(28 547)	(20 111)	503	(48 154)	260 349
Total	2 045 498	2 434 653	(173 851)	(36 759)	2 224 043	4 269 541

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 a 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 7 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 (0.11)
- Xhariep (-11.81)
- Matjhabeng (-3.04)
- Nala (-2.73)
- Tokologo (-23.63)
- Mantsopa (-15.93)
- Nketoana (0.28)

5.5.5 The average year to date collection rate reported by municipalities for the province for the is only **63.1 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.

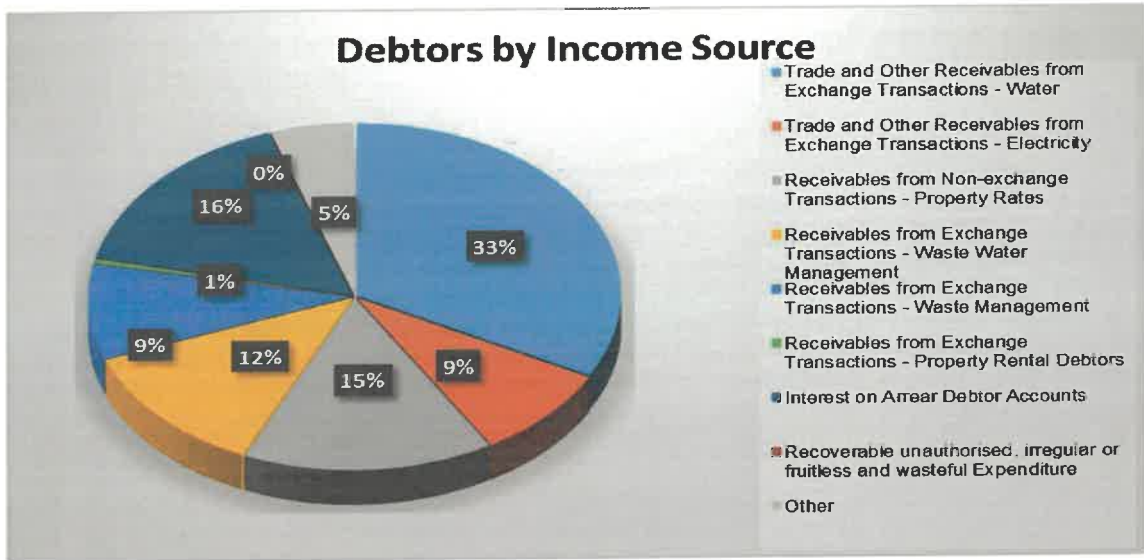
The table below indicate the liquidity ratio for the 22 municipalities that have submitted the information for October 2023. 17 Municipalities have a liquidity ratio of less than one.

	Margate	Ngqweni	Letimang	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni	Ngqweni
	MAN	F8142	F8141	F8143	DC16	F8141	F8134	F8145	F8142	F8143	DC18	F8142	F8134	F8144	F8143	F8143	F8143	F8143	F8143	F8143	F8143	F8143
Indicator 8 - Liquidity Ratio	0.19	0.19	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23

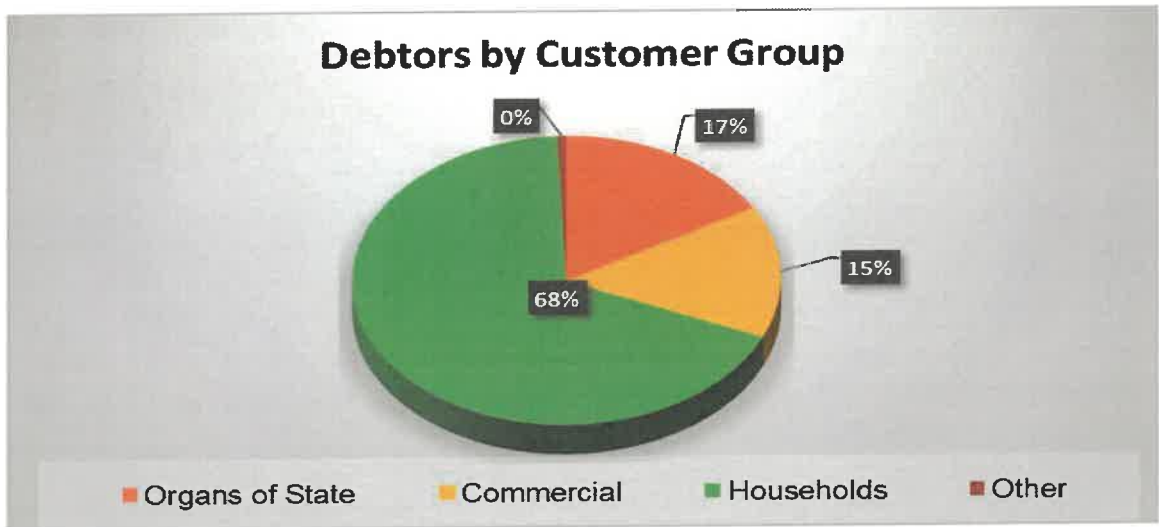
Source: Local Government Database

5.6 Debtors

- 5.6.1 The aggregated debtors as at 31 October 2023 amounted to R34.799 billion having **decreased** by R0.5 million from the previous month (Sept 2023: R34.804 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 R11.435 billion (32.9 per cent), followed by *interest on arrear debtor accounts* amounting to R5.632 billion (16.2 per cent). Debt relating to *property rates* contributes 15.3 per cent (R5.341 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.4 per cent (R4.323 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 67.8 per cent (R23.592 billion) to the total debt, followed by *Organs of State* with 16.8 per cent (R5.838 billion) and *Businesses* with 14.8 per cent (R5.135 billion) and



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.

	Mangocheng	Kopanong	Letsemeng	Mohokare	Zintrop	Mankopana	Mafjading	Hala	Tobago	Tsewogole	Ljwikepotane	Ohlweny	Makhele-Poteng	Metsepo	Wakom	Phumela	Bekiso	Thebo Mochumyane	Melibe	Metemacole	Ngwabe	Festa Dabi
	MAH	FS182	FS181	FS183	DC18	FS181	FS184	FS185	FS182	FS183	DC18	FS182	FS184	FS186	FS183	FS185	FS191	DC18	FS205	FS204	FS203	DC28
Indicator 8 - Debtors Days	104.01					106.74	113.86	124.56	142.84	153.52		114.88	122.11	120.88		117.14	105.27		119.28	120.91	108.11	

Source: Local Government Database

5.6.7.3 The credit ratio reported by Kopanong, Letsemeng, Mohokare and Nketoana 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 R13 million to R29.028 billion for the month under review (*Sept 2023: R29.015 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 90.1 per cent or R26.160 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 (September 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

Eskom Debt Relief

5.7.7 The status of the Eskom Debt Relief applications is as follow:

	Municipality	Status
1.	Mangaung	Approved
2.	Nketoana	Approved
3.	Matjhabeng	Approved
4.	Dihlabeng	Awaiting approval
5.	Maluti a Phofung	Awaiting approval
6.	Masilonyana	Awaiting approval
7.	Moqhaka	Awaiting approval
8.	Tswelopele	Awaiting approval
9.	Ngwathe	Awaiting approval
10.	Nala	Awaiting approval
11.	Phumelela	Awaiting approval

PAYE and Pension/Retirement Contributions Debt

5.7.8 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R290.7 million of which 69 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

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 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	✓	✓	✓	✓
Mchokare	4	✓	✓	✓	✓
Xhariep	3	✓	✓		✓
Masilonyana	3	✓	✓		✓
Tokoloko	4	✓	✓	✓	✓
Tswelopele	4	✓	✓	✓	✓
Matlabeng	4	✓	✓	✓	✓
Nala	4	✓	✓	✓	✓
Lejweleputswa	0				
Setsoto	3	✓	✓		✓
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsopa	4	✓	✓	✓	✓
Thabo Mofutsanyana	0				
Moghaka	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. OTHER MFMA RELATED MATTERS

7.1. Section 21(1)(b) of the MFMA requires a mayor of a municipality to at least 10 months before the start of the budget year to table a time schedule for the preparation of the municipal budget. The following municipalities failed to table the budget time lines by 31 August 2023:

- o Letsemeng
- o Maluti a Phofung
- o Ngwathe
- o Dihlabeng
- o Kopanong

7.2 The budget timelines were evaluated and the following transversal findings were noted:

- o The review of the previous year's budget process and scheduling of key date, the tabling to council as well as publicizing the process plan are not included on the timelines.
- o Most municipalities in the province do not have budget steering committee, and no mention made on the budget timelines to establish such committee.

- The dates for the review and finalization of the budget related policies were not clearly reflected.
- Provincial Treasury mid-year engagements, quarterly performance assessments and bilateral budget were not included.
- The bulk services pricing approvals such as NERSA engagements were not reflected.
- The compliance submission dates in terms of tabling and adoption of budgets, IDPs and budget related policies as per MFMA, 2003 and MFMA Circulars were also not reflected.
- The process of finalization of the service delivery sector plans were not reflected.
- There were no dates reflected with regards to the Budget Steering Committee meetings.
- The progress monitoring of the funding plan was also not reflected.
- The finalization of performance agreements linked to the measurable performance objectives approved with the budget and SDBIP was not included budget timelines.

7.3 The adherence to the budget timelines will be monitored on a quarterly basis.

8. 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:

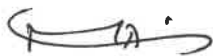
- There are **municipalities that closed the month with negative cash and cash equivalents**, which is a strong indicator that there are severe underlying financial problems;
- Municipalities **continue to have insufficient cash coverage to fund their operations** and implies that a municipality is at 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 by Provincial Treasury:**

- Assist municipalities to develop and implement **revenue enhancement strategies** (including completeness of revenue, decrease in rebates and subsidies, increase collection rate, implementation of credit control, etc.);
- Support municipalities to **implement cost reflective tariffs** and conduct **verification of the valuation rolls;**
- Support **spending of capital budget;**
- **Grants should be ring-fenced** in separate accounts to ensure that they are spend according to conditions.
- Support municipalities on the **implementation of credit control policies** to ensure the financial sustainability of the municipalities;
- Monitor compliance to of the **Eskom Debt Relief agreements;**
- Monitor compliance to the **Budget Funding Plans;**
- Support municipalities to ensure accuracy and credibility of data, **reports (data strings).**

Approved / ~~Not approved~~:



Ms. MA Sesing
Head of Department
FREE STATE PROVINCIAL TREASURY

DATE: 05-12-2023

ANNEXURES:

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