



treasury

Department of
Treasury
FREE STATE PROVINCE

**STATUS OF MUNICIPAL FINANCES
SECOND QUARTER
1 OCTOBER 2023 – 31 DECEMBER 2023**

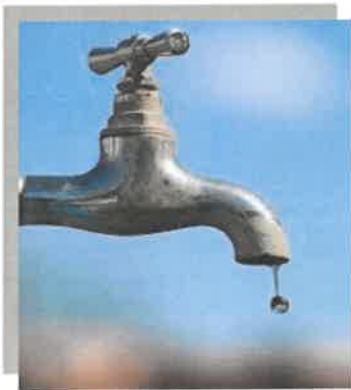


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1. EXECUTIVE SUMMARY

This report covers the performance against the adjusted budgets the Free State Municipalities for the municipal financial year ending on 31 December 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.

Additionally, 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 2022/23, the Local Government Portal will be locked at the end of each quarter. 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 were continued technical support is provided to all municipalities.

2. KEY OBSERVATIONS IN THE REPORT

- 2.1 Municipalities in the Free State Province have spent on aggregate 38.6 per cent, or R9.775 billion, of the original expenditure budget of R25.339 billion for the 2023/24 financial year (unaudited). In respect of revenue, aggregate billing and other revenue generated amounted to 42.3 per cent, or R10.654 billion, of the revenue budget of R25.163 billion (unaudited).
- 2.2 Municipalities budgeted for employee related cost expenditure (including salaries and wages & council remuneration) at R7.947 billion, which constitutes 31.4 per cent of their total operational expenditure budget of R25.339 billion. As at 31 December 2023 spending on employee related cost and council remuneration amounted to R3.298 billion or 41.5 per cent against the budget.
- 2.3 The bulk of the total operating expenditure (32 per cent) employee related cost, followed by bulk purchases – electricity at 30 per cent.
- 2.4 The capital expenditure for the 2023/24 financial year amounted to R673.714 million or 20.3 per cent against a total budget of R3.325 billion, which is a significant under spending compared to the straight-line projection of 50 per cent. The poor performance regarding the spending on infrastructure remains a concern.
- 2.5 When billed revenue is measured against the adopted budgets, the performance across two core services, namely waste water management and waste management reflect surpluses at the end of the second quarter; whilst energy sources and water management services reflected a deficit (shortfall). *Importantly the surpluses / deficits does not take into account the actual collection rate.*
- Billed energy sources revenue totaled R3.070 billion against expenditure of R3.810 billion (**deficit of 739.4 million**), which is concerning, and which impacts on the viability of the municipalities;
 - Billed water revenue totaled R1.432 billion against expenditure of R1.483 billion (**deficit of R50.9 million**);
 - Billed waste water management revenue totaled R874.9 million against expenditure of R356.1 million (surplus of R518.9 million); and
 - Billed waste management revenue totaled R618.6 million against expenditure R374.5 million (surplus of 244.1 million).
- 2.6 As at 31 December 2023 the aggregate municipal consumer debts amounted to R35.010 billion (*compared to R31.495 billion reported in the first quarter of the 2023/24 financial year*). Organs of state accounts for 13.6 per cent or R4.748 billion (*R2.938 billion reported in the first quarter of 2023/24*) of the total outstanding debtors. The largest component of this debt relates to Households and represents 71.3 per cent or R24.958 billion (*R23.517 billion in the first quarter of 2023/24*).
- 2.7 It needs to be acknowledged that the whole outstanding debt amount of R35.012 billion is not realistically collectable, as these amounts are inclusive of debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and

other recoveries. R30.539 billion (87.2 per cent) of the total debt is outstanding for a period over 90 days.

2.8 If consumer debt is limited to below 90 days, then the actual realistically collectable amount is estimated at R4.471 billion. This should however not be interpreted that by implication it is suggested that the balance must be written-off by municipalities. Relevant debt write-off policies must be followed and all efforts taken to ensure debt is not collectable, before it can be written off.

2.9 Ten municipalities recorded debt exceeding one billion rand and makes out 88.4 per cent of the total debt, the five municipalities with the highest outstanding debtors are:

Mangaung	-	R10.538 billion
Matjhabeng	-	R 7.056 billion
Metsimaholo	-	R 3.136 billion
Maluti a Phofung	-	R 2.494 billion
Masilonyana	-	R 1.453 billion

2.10 Municipalities owed their creditors R26.545 billion as at 31 December 2023 (*R27.405 billion reported at the end of September 2023*), the majority of which relates to bulk services debt (R23.393 billion). Free State Municipalities are experiencing cash flow challenges and therefore the payment plans with Eskom and Water Boards are not adhered to.

2.11 The following municipalities applied for the Eskom Debt Relief Programme:

Municipality	Eskom debt as at 31 March 2023 - MFMA s.41 report	Date Submitted	Date of Approval letter	Effective date
MAN Mangaung - Centlec	R 386 820 878.00	02-Jun-23	07-Aug-23	
FS184 Matjhabeng LM	R5 250 171 833.00	18-Jul-23	03-Nov-23	03-Nov-23
FS193 Nketoana	R 620 011 420.00	31-Jul-23	05-Sep-23	01-Aug-23
FS194 Maluti-a-Phofung	R7 239 483 764.00	28-Sep-23	23-Nov-23	01-Dec-23
FS192 Dihlabeng	R 843 710 217.00	29-Sep-23	22-Dec-23	01-Dec-23
FS181 Masilonyana	R 148 844 341.00	30-Sep-23	22-Dec-23	01-Dec-23
FS201 Moqhaka	R 843 592 626.00	30-Sep-23	23-Nov-23	01-Dec-23
FS183 Tswelopele	R 90 660 796.00	30-Sep-23	23-Nov-23	01-Dec-23
FS203 Ngwathe	R1 712 631 136.00	02 Oct 2023 and addition 10 Nov (GoMuni)	23-Nov-23	01-Dec-23
FS185 Nala	R 653 553 960.00	25-Oct-23	22-Dec-23	01-Dec-23
FS195 Pumelela	R 172 728 440.00	31 Oct 2023 and supplemented 15 and 17 Nov 2023	22-Dec-23	01-Dec-23
Total debt for Eskom Relief	R17 962 209 411.00			

2.12 Also concerning that Accounting Officers often default on the payment of PAYE and pension / retirement contributions. This leads to litigation against the municipalities. Kopanong and Mafube owes the highest over 30 days.

2.13 The year-on-year increase in outstanding creditors is an indication that municipalities are experiencing liquidity and cash flow challenges which is a direct result of their inability to collect revenue on services rendered.

Borrowing Monitoring

2.14 The total balance on borrowing for all municipalities equates to R414.9 million, and the details are:

Description		Amount	%
Type	Long Term loans	414 972	100%
Source	Banks	247 150	60%
	Development Bank of SA	167 822	40%
Raised for	Overdue amounts capitalised	17 552	4%
	New Borrowing	397 419	96%
Purpose	Provision of infrastructure	404 693	98%
	Combination	10 278	2%

Source: LGDRS

Investment Monitoring

2.15 As at 31 December 2023, the total investments made by municipalities equates to R645 million and the details as reported by municipalities are:

Description		Amount	%
Type	Securities – National Government	32	-
	Listed Corporate Bonds	174	-
	Deposits – Bank	644 803	100%
Group	General Public	8 066	1%
	Banks	632 864	98%
	Insurance Companies & Private Pension Funds	702	-
	Other Sources	3 377	1%
Committed	Legally Committed	395 353	61%
	Self Imposed Committed	48 801	8%
	Not Committed	200 855	31%

Source: LGDRS

Conditional Grants

- 2.16 In terms of the Division of Revenue Act a total of R2.309 billion was allocated to the Free State municipalities in terms of direct transfers (infrastructure, capacity and other grants).
- 2.17 The total conditional grant expenditure as at 31 December 2023, reported by Municipalities amounts to R358.5 million or 15.5 per cent against the total allocation.

Capacity Building and Other Conditional Grants Expenditure as at 31 December 2023

- 2.18 The highest performing conditional grant under this category is the Expanded Public Works Programme Integrated Management Grant at R18.1 million.

Infrastructure Conditional Grants Expenditure as at 31 December 2023

- 2.19 Direct conditional grants allocated for Infrastructure amounts to R2.178 billion in the 2023/24 financial year. This amount excludes the indirect or in-kind allocations to transferring officers executing specific projects on behalf of municipalities in the municipal area.
- 2.20 From the R2.178 billion allocated, a total of R336.6 million or 15.5 per cent was reported spent by the municipalities.

3. MUNICIPALITIES MEETING CRITERIA FOR DETERMINING SERIOUS FINANCIAL PROBLEMS IN TERMS OF SECTION 138 & 140 OF THE MFMA

- 3.1 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.

- 3.2 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.
- 3.3 The table below indicate the triggers (criteria) identified per municipality which may indicate financial distress refer to Table 12: Municipalities meeting criteria for determining serious financial problems in terms of section 138 & 140 of the MFMA which provide a more user friendly of the status which is attached to this report.
- 3.4 19 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.

Municipalities	Nr of Triggers identified	S138 Triggers	S140 Triggers (Creditors >2% of Opex Budget)	S140 Triggers - Severe (Creditors >40% of Opex Budget)	Financial Distress (SoLG 21/22)
Mangaung	3	✓	✓		✓
Letsemeng	4	✓	✓	✓	✓
Kopanong	4	✓	✓	✓	✓
Mohokare	4	✓	✓	✓	✓
Xhariep	3	✓	✓		✓
Masilonyana	3	✓	✓		✓
Tokologo	4	✓	✓	✓	✓
Tswelopele	4	✓	✓	✓	✓
Matjhabeng	4	✓	✓	✓	✓
Nala	4	✓	✓	✓	✓
Lejweleputswa	0				
Setsoto	1	✓			
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsopa	4	✓	✓	✓	✓
Thabo Mofutsanyana	2	✓	✓		
Moqhaka	4	✓	✓	✓	✓
Ngwathe	4	✓	✓	✓	✓
Metsimaholo	3	✓	✓		✓
Mafube	4	✓	✓	✓	✓
Fezile Dabi	1	✓			
Total		22	20	15	19

4. SUMMARY TABLES

The following summary tables are attached to this report:

- 1. Consolidated statement of financial performance
- 2. Consolidated statement of financial position
- 3. Operating revenue & expenditure per function – Energy Sources
- 4. Operating revenue & expenditure per function – Water Management
- 5. Operating revenue & expenditure per function – Waste Water Management
- 6. Operating revenue & expenditure per function – Waste Management
- 7. Aggregated municipal debtors age analysis
- 8. Aggregated municipal debtors age analysis – per municipality
- 9. Aggregated municipal creditors age analysis
- 10. Aggregated municipal creditors age analysis – per municipality
- 11. Conditional grants
- 12. Municipalities meeting criteria for determining serious financial problems in terms of section 138 & 140 of the MFMA
- 13. List of Non-compliance

5. RECOMMENDATIONS

It is recommended that the MEC for Finance table this report in the FS Legislature as required by Section 71(7) of the MFMA,2003 within 45 days after the end of each quarter. This report must also be serve at the Standing Committee for Finance (PROPAC) for municipalities to account for municipal failures that impact on sustaining basic service delivery.

Submitted by:



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Date: 12.02.2024

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