



treasury  
Department of  
Treasury  
FREE STATE PROVINCE



FREE STATE PROVINCE

CONSOLIDATED MUNICIPAL BUDGET  
PERFORMANCE REPORT  
FOR THE PERIOD ENDING  
30 NOVEMBER 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 November 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 (*mSCOA*) data strings. The *mSCOA* 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 *mSCOA* Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six *mSCOA* 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 *mSCOA* 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 *mSCOA* 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 10<sup>th</sup> working day after the end of each month. System vendors were also requested to build this functionality into their municipal financial systems; and
- Some municipalities are not consistently submitting all the required monthly data strings and also make submissions with errors but not correcting them.

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

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

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

The consolidated report provides a review of the implementation of the 2023/24 Medium Term Revenue & Expenditure Framework (MTREF) of the 23 municipalities in Free State as at 30 November 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	FS185	Nala	In-Year Monthly 05	2023/12/14	Outstanding
B	FS201	Moqhaka	In-Year Monthly 05	2023/12/14	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
<b>Non Financial Data</b>					
B	FS183	Tswelopele	Creditors Monthly-M05	2023/12/14	Outstanding
B	FS183	Tswelopele	Debtors Monthly-M05	2023/12/14	Outstanding
B	FS185	Nala	Creditors Monthly-M05	2023/12/14	Outstanding
B	FS185	Nala	Debtors Monthly-M05	2023/12/14	Outstanding
B	FS201	Moqhaka	Creditors Monthly-M05	2023/12/14	Outstanding
B	FS201	Moqhaka	Debtors Monthly-M05	2023/12/14	Outstanding

4.1.2 Tswelopele and Nala municipalities indicated that the reason for the non-compliance was due to errors on the data strings and they were unable to correct the errors and resubmit before the closing of the data base. 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 2<sup>nd</sup> phase errors (yellow) on the data strings should be corrected in the first open month on the financial system. Closed periods may not be opened to correct errors. 1<sup>st</sup> Phase errors (orange) was rejected 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	M05	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	Setso	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								



				2023/24 Financial Year							
				ORGB (Original Budget)	PROR (Project details)	M01	M02	M03	M04	M05	MCUM
Cat Code	Demarc Code	Demarcation Description	CAP								
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 R8.206 billion or 32.6 per cent against the adopted budget of R25.163 billion. The total generated revenue is below the straight-line projection of 41.6% per cent. 58.1 Per cent (R4.757 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc.); whilst 41.9 per cent (R3.436 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 54 per cent, followed by water service charges at 12 per cent. Non-exchange revenue consists primarily of transfers and subsidies (55%) and property rates (37%).

5.1.3 For the month under review an operating deficit of R533.7 million was recorded with an accrual deficit for the financial year of R157.1 million. This is an indication that the municipalities are very reliant on transfers (equitable share) for operational expenditure because the municipalities only have sufficient funds to cover operational expenditure in the months the equitable share is transferred. The next equitable share tranche will be paid in December 2023.

### 5.2 Operating expenditure

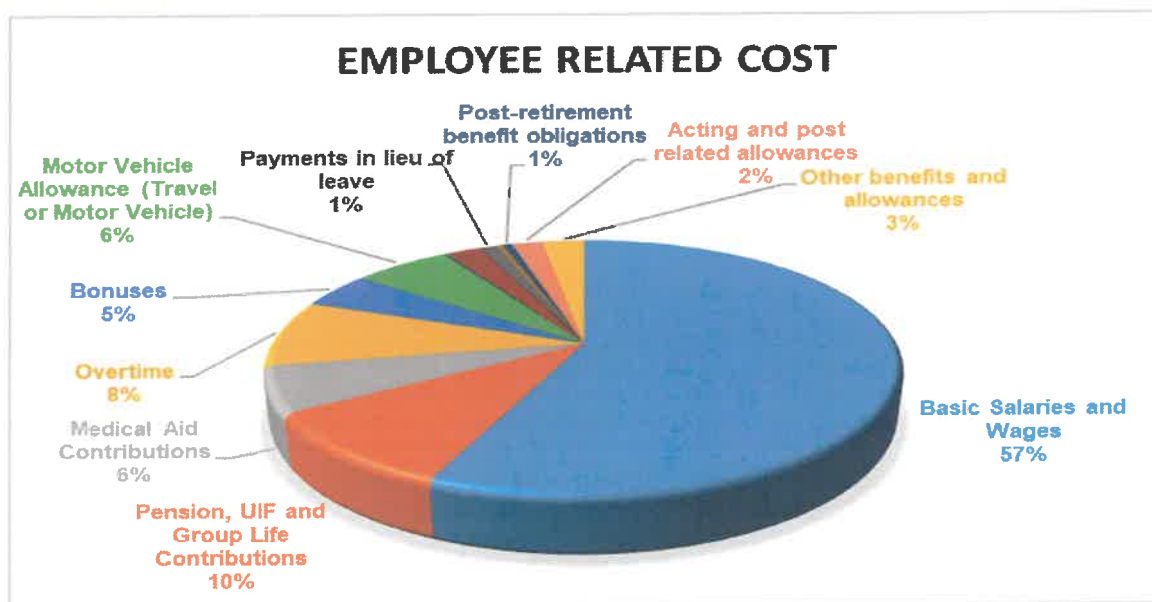
5.2.1 The total operating expenditure reported amounted to R8.363 billion or 33 per cent against the adopted budget which is below the straight line projection of 41.6 per cent. Incorrect or non-reporting of expenditure also contributes to the poor performance reported.

5.2.2 The highest spending item reported at the end of November 2023 is *employee related cost* amounting to R2.687 billion, followed by *electricity bulk purchases* amounting to R2.649 billion.

5.2.3 The performance of employee related cost against the adopted budget is 35.4 per cent (R2.687 billion). Most of the expenditure reported (99.0 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	25 775	11.4%	1.0%
Municipal Staff	7 361 871	2 661 484	36.2%	99.0%
Board Members	827	52	6.3%	0.0%
<b>Total</b>	<b>7 589 280</b>	<b>2 687 311</b>	<b>35.4%</b>	<b>100.0%</b>

5.2.4 57 per cent (R1.523 billion) 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, Moqhaka and Metsimaholo).

#### Employee Related Cost - High Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD November 2023	%	Original Budget	YTD November 2023	%
Mangaung	2 447 868 378	983 770 764	40.2%	76 003 457	32 270 288	42.5%
Matjhabeng	952 980 245	397 285 646	41.7%	39 362 111	4 138 739	10.5%
Maluti-a-Phofung	743 436 701	313 947 792	42.2%	33 085 344	11 785 317	35.6%
Moqhaka	396 116 531		0.0%	25 032 003		0.0%
Metsimaholo	450 539 320	156 532 150	34.7%	21 704 660	9 515 433	43.8%
<b>Total</b>	<b>4 990 941 175</b>	<b>1 851 536 352</b>	<b>37.1%</b>	<b>195 187 575</b>	<b>57 709 777</b>	<b>29.6%</b>

#### Employee Related Cost - Medium Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD November 2023	%	Original Budget	YTD November 2023	%
Letsemeng	79 080 565		0.0%	5 446 461		0.0%
Kopanong	153 701 303	46 264 367	30.1%	6 995 823	614 402	8.8%
Tswelopele	88 638 862	312 067	0.4%	6 225 647		0.0%
Nala	181 572 622	56 297 154	31.0%	10 085 886	2 792 641	27.7%
Setso	235 002 972	97 187 959	41.4%	14 641 092	6 558 288	44.8%
Dihlabeng	374 545 474	142 430 597	38.0%	20 720 000	9 948 275	48.0%
Nketoana	160 533 769	40 464 866	25.2%	6 841 058	1 894 697	27.7%
Mantsope	114 544 998	18 110 207	15.8%	7 731 598	1 048 559	13.6%
Ngwathe	280 898 461	116 433 150	41.5%	18 056 468	6 767 187	37.5%
Mafube	117 872 735	43 693 934	37.1%	6 625 780	2 891 943	43.6%
<b>Total</b>	<b>1 786 391 761</b>	<b>561 194 301</b>	<b>31.4%</b>	<b>103 369 813</b>	<b>32 515 992</b>	<b>31.5%</b>

#### Employee Related Cost - Low Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD November 2023	%	Original Budget	YTD November 2023	%
Mohokare	88 588 089	68 418 971	77.2%	5 326 732	3 404 701	63.9%
Xhariep	48 164 666	15 207 285	31.6%	4 808 333	1 867 836	38.8%
Masilonyana	142 588 578		0.0%	8 007 155		0.0%
Tokologo	67 777 068	22 736 955	33.5%	5 344 556	2 380 081	44.5%
Lejweleputswa	120 433 896	44 895 845	37.3%	11 219 884	4 771 109	42.5%
Phumelela	109 292 434	30 614 496	28.0%	7 096 352	1 605 789	22.6%
Thabo Mofutsanyana	102 318 012	41 286 088	40.4%	9 196 512	4 135 626	45.0%
Fezile Dabi	132 784 500	51 420 793	38.7%	8 252 000	3 311 547	40.1%
<b>Total</b>	<b>811 947 243</b>	<b>274 580 433</b>	<b>33.8%</b>	<b>59 251 524</b>	<b>21 476 689</b>	<b>36.2%</b>

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. The allocation indicated is as indicated in

the Division of Revenue Act (DoRA) and does not reflect the repayment of the 2022/23 unspent grants which will be off set against the allocation.

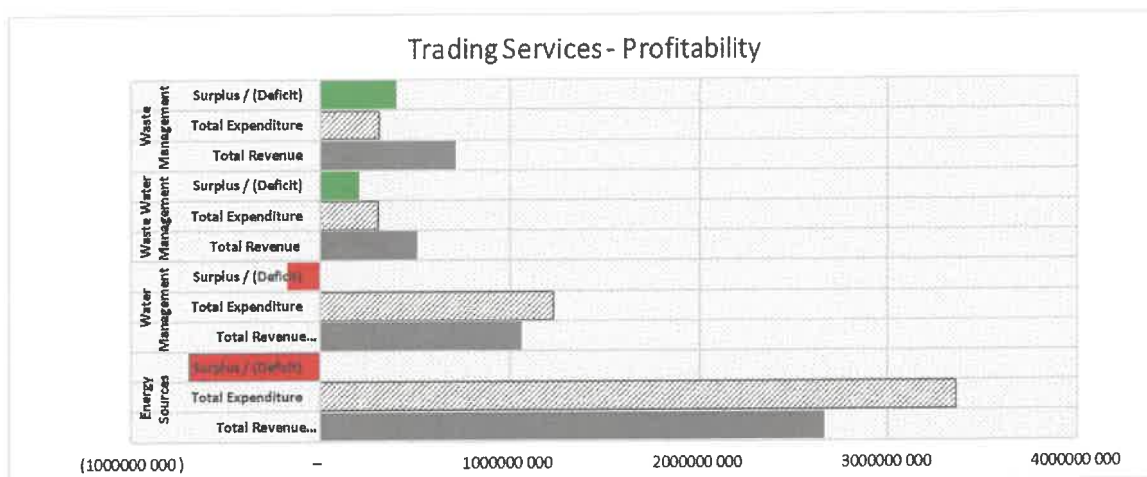
R thousands	Employee Related Cost Budget	Council Remuneration Budget	Total ERC & Council Remuneration Budget	2023/24 Equitable Share Allocation	Total Compensation Budget vs ES Allocation
Mangaung Metro	2 447 868	76 003	2 523 872	1 037 664	243.2%
Letsemeng	79 081	5 446	84 527	84 906	99.6%
Kopanong	153 701	6 996	160 697	110 594	145.3%
Mohokare	88 588	5 327	93 915	93 733	100.2%
Xhariep District	48 165	4 808	52 973	50 851	104.2%
<b>DC 16 Total</b>	<b>369 535</b>	<b>22 577</b>	<b>392 112</b>	<b>340 084</b>	<b>115.3%</b>
Masilonyana	142 589	8 007	150 596	158 510	95.0%
Tokologo	67 777	5 345	73 122	75 080	97.4%
Tswelopele	88 639	6 226	94 865	97 242	97.6%
Matjhabeng	952 980	39 362	992 342	685 410	144.8%
Nala	181 573	10 086	191 659	153 857	124.6%
Lejweleputswa District	120 434	11 220	131 654	149 132	88.3%
<b>DC 18 Total</b>	<b>1 553 991</b>	<b>80 245</b>	<b>1 634 237</b>	<b>1 319 231</b>	<b>123.9%</b>
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%
<b>DC 19 Total</b>	<b>1 839 674</b>	<b>99 312</b>	<b>1 938 986</b>	<b>1 759 829</b>	<b>110.2%</b>
Moghaka	396 117	25 032	421 149	279 982	150.4%
Ngwathe	280 898	18 056	298 955	261 348	114.4%
Metsimaholo	450 539	21 705	472 244	276 178	171.0%
Mafube	117 873	6 626	124 499	128 231	97.1%
Fezile Dabi	132 785	8 252	141 037	173 824	81.1%
<b>DC 20 Total</b>	<b>1 378 212</b>	<b>79 671</b>	<b>1 457 882</b>	<b>1 119 563</b>	<b>130.2%</b>
<b>Total</b>	<b>7 589 280</b>	<b>357 809</b>	<b>7 947 089</b>	<b>5 576 371</b>	<b>142.5%</b>

Source: NT Local Government Database

### 5.3 Trading Services Profitability

- 5.3.1 When analyzing the profitability of the trading services, it is notable that two trading services (waste water and waste management) reported aggregated trading surpluses in the Province as at 30 November 2023. Whilst **energy sources** and **water services** recorded an operating **deficit** of **R692.4 million** and **R169.8 million** respectively. 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	(92 776)	118 008	49 201	184 249
Letsemeng	(5 475)	(2 350)	–	3 928
Kopanong	(13)	(17 273)	–	2
Mohokare	(1 208)	14 958	277	675
Masilonyana	1 706	(566 551)	3 758	7 058
Tokologo	(16 653)	(1 455)	9 143	12 396
Tswelopele	(2 348)	(6 744)	1 184	1 568
Matjhabeng	(32 666)	2 712	52 185	103 097
Nala	(22 941)	443	1 262	1 351
Setsoto	2 890	10 213	15 912	14 487
Dihlabeng	(32 056)	38 262	48 490	42 745
Nketoana	(38 440)	22 291	10 531	2 823
Maluti a Phofung	(308 343)	(1 096)	(13 627)	(19 627)
Phumelela	(17 844)	2 192	5 609	7 090
Mantsopa	(2 797)	(598)	1 031	(1 355)
Moghaka	–	–	–	–
Ngwathe	(75 074)	38 365	18 255	21 389
Metsimaholo	(47 111)	155 168	3 269	3 230
Mafube	(1 282)	23 627	–	18 300

## **5.4 Capital Expenditure and Sources of Finance**

- 5.4.1 The aggregate capital expenditure amounts to R470.2 million or 14.1 per cent against the adopted budget of R3.325 billion which is significantly below the straight line projection of 41.6 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 66 Per cent of the capital expenditure relates to trading services projects amounting to R311.8 million and consists of R56.8 million for energy services, R197.4 million for water management, R57.1 million for waste water management. Expenditure reported for waste management projects amounts to only R542 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 November 2023 shows a total spending of R452.5 million against the allocation (16 per cent).
- 5.4.4.2 The core of the problem remains that municipalities are still not recording the receipt 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 Nov 2023		Projected Over/Under Spending on Allocation	
	R'000	R'000	%	R'000	%
Mangaung	1 118 380	118 091	10.6%	1 000 289	89.4%
Letsemeng	59 493	–	0.0%	59 493	100.0%
Kopanong	58 434	–	0.0%	58 434	100.0%
Mohokare	52 603	(3 000)	-5.7%	55 603	105.7%
Xhariep	28 918	1 625	5.6%	27 293	94.4%
Masilonyana	48 887	–	0.0%	48 887	100.0%
Tokologo	45 606	116 795	256.1%	(71 189)	-156.1%
Tswelopele	37 918	(13 005)	-34.3%	50 923	134.3%
Matjhabeng	199 675	87 566	43.9%	112 109	56.1%
Nala	55 150	14 125	25.6%	41 025	74.4%
Lejweleputswa	4 629	1 627	35.2%	3 002	64.8%
Setso	224 148	27 975	12.5%	196 173	87.5%
Dihlabeng	73 239	18 865	25.8%	54 374	74.2%
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	1 678	13.5%	10 789	86.5%
Moghaka	74 044	–	0.0%	74 044	100.0%
Ngwathe	148 974	14 220	9.5%	134 754	90.5%
Metsimaholo	107 037	14 155	13.2%	92 882	86.8%
Mafube	52 561	3 474	6.6%	49 087	93.4%
Fezile Dabi	4 747	740	15.6%	4 007	84.4%
<b>Total</b>	<b>2 822 801</b>	<b>452 534</b>	<b>16.0%</b>	<b>2 370 267</b>	<b>84.0%</b>

5.4.4.4 The table below show the actual performance per grant:

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end Nov 2023		Projected Over/Under Spending on Allocation	
	R'000	R'000	%	R'000	%
Energy Efficiency & Demand Man Grant	16 000	2 002	12.5%	13 998	87%
Expanded Public Works Programme	37 963	13 481	35.5%	24 482	64.5%
Finance Management Grant	59 120	(747)	-1.3%	59 867	101.3%
Infrastructure Skills Development Grant	3 500	–	0.0%	3 500	100.0%
Integrated National Electrification Prog	143 903	2 062	1.4%	141 841	98.6%
Metro Informal Settlements Partnership Grant	291 940	21 185	7.3%	270 755	92.7%
Municipal Infrastructure Grant	857 868	145 297	16.9%	712 571	83.1%
Neighbourhood Dev Partnership Grant	21 739	1 815	8.3%	19 924	91.7%
Programme & Project Preperation Support Grant	14 276	–	0.0%	14 276	100.0%
Public Transport network Grant	270 028	10 177	3.8%	259 851	96.2%
Regional Bulk Infrastructure Grant	208 896	116 303	55.7%	92 593	44.3%
Rural Roads Assets Man Systems Grant	9 692	848	8.7%	8 844	91.3%
Urban settlement Development Grant	513 434	84 141	16.4%	429 293	83.6%
Water Services Infrastructure Grant	374 442	55 971	14.9%	318 471	85.1%
<b>Total</b>	<b>2 822 801</b>	<b>452 534</b>	<b>16.0%</b>	<b>2 370 267</b>	<b>84.0%</b>

\*Source: DoRA 2023

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 R203.5 million, whilst the data strings reflect total expenditure of R145.3 million. These discrepancies are highlighted to municipalities to correct on the municipal financial systems.

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.

#### *2022/23 Unspent Conditional Grants*

5.4.4.8 Letters dated 8 November 2023 were issued to municipalities indicating the total unspent funds which should be repaid to the National Revenue Fund and is indicated in the table below:

<b>Municipalities</b> <i>R'000</i>	<b>Total 2022/23 Unspent Conditional Grants</b>	<b>Payment arrangement</b>	<b>Nr of instalments</b>
Mangaung	297 000		
Letsemeng	21 500	Yes	3
Kopanong	24 900	Yes	3
Mohokare	29 600	Yes	4
Xhariep	-		
Masilonyana	21 100	Yes	3
Tokologo	6 700		
Tswelopele	-		
Matjhabeng	20 000		
Nala	2 700		
Lejweleputswa	1 000		
Setsoto	26 500		
Dihlabeng	23 500	Yes	3
Nketoana	6 300		
Maluti a Phofung	4 700		
Phumelela	8 300		
Mantsopa	28 600	Yes	3
Thabo Mofutsanyana	337		



<b>Municipalities</b> <i>R'000</i>	<b>Total 2022/23 Unspent Conditional Grants</b>	<b>Payment arrangement</b>	<b>Nr of instalments</b>
Moqhaka	2 000		
Ngwathe	68 500	Yes	3
Metsimaholo	6 900		
Mafube	21 000	Yes	3
Fezile Dabi	1 700		
<b>TOTAL</b>	<b>622 837</b>		

5.4.4.9 8 Municipalities requested the unspent amount to be repaid in 3 / 4 instalments. This implies that the unspent amount will be deducted from the equitable share tranches in equal portions from December 2023 to December 2024. It was noted with concern that it is the same municipalities requesting repayment arrangements repetitively, indicating the municipalities inability to cash back unspent grants. This impacts negatively on the finances of the municipalities.

5.4.4.10 The unspent funds of the remaining municipalities were off-set in full against the equitable share tranche of December 2023.

## 5.5 Cash Coverage & Cash Flow

5.5.1 Municipalities in the Province closed the month of November 2023 with a surplus cash and cash equivalent balance of **R4.918 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 (30 Nov 2023)
Mangaung Metro	1 242 772	3 110 857	(82 862)	(37 299)	2 990 695	4 233 467
Letsemeng	—	21 754	36	—	21 790	21 790
Kopanong	—	47 428	—	—	47 428	47 428
Mohokare	—	34 150	(5 953)	—	28 198	28 198
Xhariep District	—	8 240	—	—	8 240	8 240
<b>DC 16 Total</b>	<b>—</b>	<b>111 572</b>	<b>(5 917)</b>	<b>—</b>	<b>105 655</b>	<b>105 655</b>
Masilonyana	—	19 605	7	—	19 612	19 612
Tokologo	—	45 828	12	—	45 840	45 840
Tswelopele	10 481	152 430	(456)	—	151 974	162 455
Matjhabeng	173 088	(755 259)	(52 803)	1 063	(806 999)	(633 912)
Nala	—	—	—	—	—	—
Lejweleputswa District	106 197	(23 295)	17	—	(23 278)	82 919
<b>DC 18 Total</b>	<b>289 766</b>	<b>(560 691)</b>	<b>(53 223)</b>	<b>1 063</b>	<b>(612 852)</b>	<b>(323 086)</b>
Setsotso	66 208	203 410	(51 895)	(0)	151 515	217 722
Dihlabeng	18 178	80 362	(19 739)	(2 547)	58 076	76 253
Nketoana	1 575	107 368	(36 060)	(69)	71 240	72 814
Maluti a Phofung	118 498	224 218	(54 412)	128	169 933	288 431
Phumelela	—	64 666	(13 584)	—	51 082	51 082
Mantsopa	—	25 889	3 111	(4)	28 996	28 996
Thabo Mofutsanyana	—	1 177	—	—	1 177	1 177
<b>DC 19 Total</b>	<b>204 458</b>	<b>707 090</b>	<b>(172 579)</b>	<b>(2 493)</b>	<b>532 018</b>	<b>736 476</b>
Moghaka	—	—	22	—	22	22
Ngwathe	46 761	(9 281)	(12 368)	213	(21 436)	25 325
Metsimaholo	158 041	(44 494)	(14 467)	497	(58 464)	99 577
Mafube	—	(30 613)	(2 431)	37	(33 007)	(33 007)
Fezile Dabi	103 701	(29 295)	(312)	—	(29 607)	74 093
<b>DC 20 Total</b>	<b>308 503</b>	<b>(113 683)</b>	<b>(29 557)</b>	<b>747</b>	<b>(142 493)</b>	<b>166 010</b>
<b>Total</b>	<b>2 045 498</b>	<b>3 255 145</b>	<b>(344 139)</b>	<b>(37 982)</b>	<b>2 873 024</b>	<b>4 918 522</b>

Source: NT Local Government Database

5.5.3 Municipalities' financial viability is underpinned by their ability to enhance and sustain their own sources of funding. In this regard 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 9 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 (0.08)
- Xhariep (-6.58)
- Matjhabeng (-2.59)
- Nala (-2.73)
- Tokologo (-21.82)
- Mantsopa (-8.07)
- Nketoana (1.51)
- Thabo Mofutsanyana (0.04)
- Mafube (0.06)

5.5.5 The average year to date collection rate reported by municipalities for the province for the is only **59.1 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 November 2023. 19 Municipalities have a liquidity ratio of less than one.

	Benoni	Botetong	Buffalo City	Edenburg	George	Heidelberg	Kimberley	Kroonstad	Laingsburg	Letaba	Matrusburg	Midrand	Modderburg	Phalaborwa	Phokeng	Phuthi	Polokwane	Port Elizabeth	Robben Island	Stellenbosch	Thabazimbi	Worcester	Wynburg
	MAN	FS182	FS181	FS183	DC11	FS181	FS184	FS185	FS182	FS183	DC18	FS182	FS184	FS184	FS183	FS183	FS183	FS181	DC18	FS183	FS184	FS183	DC11
Indicator 8 -	0.48	0.21	0.44	0.34	0.47	0.13	0.07	0.32	0.14	0.13	0.14	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

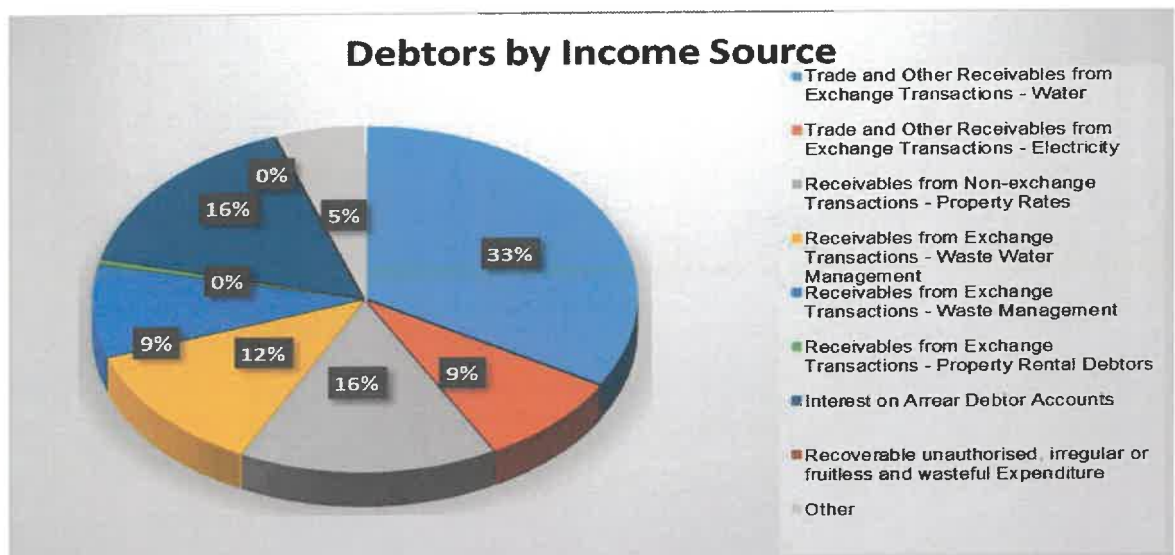
## 5.6 Debtors

5.6.1 The aggregated debtors as of 30 November 2023 amounted to R34.587 billion having **decreased** by R0.212 million from the previous month (Oct 2023: R34.799 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.

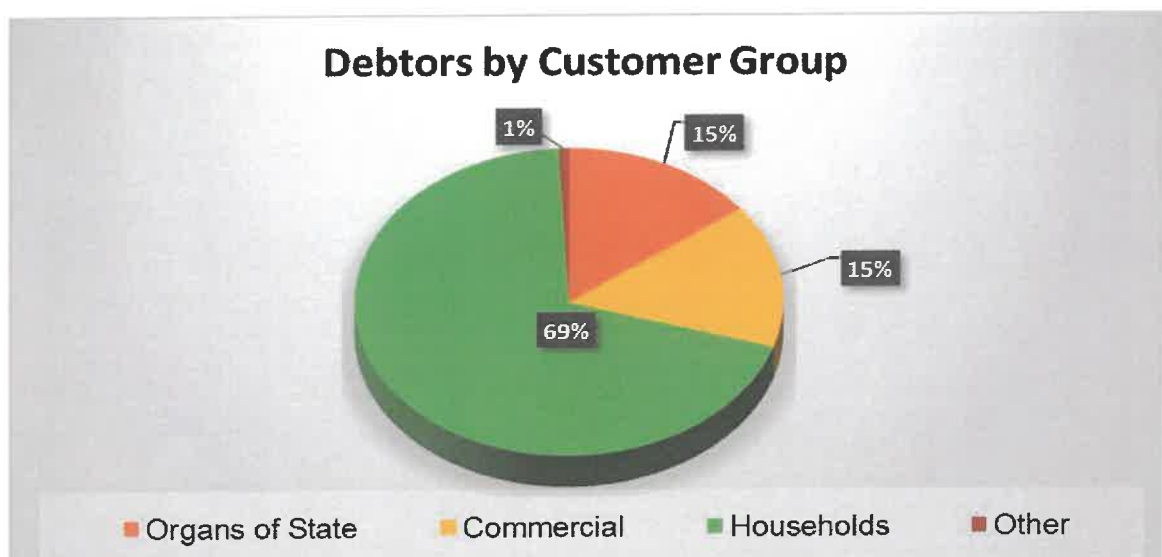
5.6.2 Although section 75A of the Municipal Systems Act, 2000 (MSA) empowers a municipality to levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and to recover collection charges and interest on any outstanding amount subject to the provisions of the National Credit Act, 2005 (Act 34 of 2005), the **debt is increasing on a monthly basis**.

5.6.3 *Water services* remains the largest contributor to the total outstanding debt and amounts to R11.571 billion (33.5 per cent), followed by *interest on arrear debtor accounts* amounting to R5.446 billion (15.7 per cent). Debt relating to *property rates* contributes 15.5 per cent (R5.351 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.1 per cent (R4.185 billion) of the total debt.

5.6.4 *Electricity services* contributes only 8.6 per cent (R2.991 billion) to the total outstanding debt.



5.6.5 The report also shows most of the debt is owed by *Households*, contributing 69.4 per cent (R24.021 billion) to the total debt, followed by *Businesses* with 15.1 per cent (R5.217 billion) and *Organs of state* with 14.7 per cent (R5.081 billion).





#### 5.6.7 Debtors days ratio

5.6.7.1 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.

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

[illegible]

Source: Local Government Database

5.6.7.3 The credit ratio reported by Kopanong, 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 **decreased** with R1.546 billion to R27.482 billion for the month under review (Oct 2023: R29.028 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 88.7 per cent or R24.382 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
Tokolologo	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:

	<b>Municipality</b>	<b>Status</b>
1.	Mangaung	Approved
2.	Nketoana	Approved
3.	Matjhabeng	Approved
4.	Dihlabeng	Awaiting approval
5.	Maluti a Phofung	Awaiting approval
6.	Masilonyana	Awaiting approval
7.	Moghaka	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 R319.5 million of which 64 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 more than R100 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	7 663	100.0%	—	0.0%	—	0.0%	—	0.0%	7 663	21.4%
Matjhabeng	11 540	100.0%	—	0.0%	—	0.0%	—	0.0%	11 540	32.2%
Nala	13	100.0%	—	0.0%	—	0.0%	—	0.0%	13	0.0%
Thabo Mofutsanyana Distric	1 321	100.0%	—	0.0%	—	0.0%	—	0.0%	1 321	3.7%
Ngwathe	6 135	66.4%	3 002	32.5%	224	2.4%	(123)	-1.3%	9 238	25.8%
Mafube	2 439	40.5%	1 326	22.0%	1 711	28.4%	544	9.0%	6 020	16.8%
<b>Total Debt</b>	<b>29 112</b>	<b>81.3%</b>	<b>4 328</b>	<b>12.1%</b>	<b>1 935</b>	<b>5.4%</b>	<b>421</b>	<b>1.2%</b>	<b>35 796</b>	<b>100.0%</b>

Creditors Age Analysis Pension/Retirement	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Mangaung Metro	54 716	100.0%	—	0.0%	—	0.0%	—	0.0%	54 716	19.3%
Matjhabeng	24 551	100.0%	—	0.0%	—	0.0%	—	0.0%	24 551	8.7%
Nala	4	100.0%	—	0.0%	—	0.0%	—	0.0%	4	0.0%
Ngwathe	3 198	100.0%	—	0.0%	—	0.0%	—	0.0%	3 198	1.1%
Mafube	1 286	0.6%	1 294	0.6%	1 294	0.6%	197 329	98.1%	201 204	70.9%
<b>Total Debt</b>	<b>83 755</b>	<b>29.5%</b>	<b>1 294</b>	<b>0.5%</b>	<b>1 294</b>	<b>0.5%</b>	<b>197 329</b>	<b>69.6%</b>	<b>283 673</b>	<b>100.0%</b>

Source: Local Government Database

### 5.7.10 Creditors days ratio

5.7.10.1 A period of longer than 30 days to settle creditors is normally an indication that a municipality may be experiencing cash flow problems, however in certain instances this may be because of disputes, processing of payments, etc. In addition, a ratio that exceeds the norm indicates that the Municipality may not be adequately managing its working capital or that effective controls are not in place to ensure prompt payments.

5.7.10.2 From the analysis it is clear that the majority of the municipalities are exceeding the ratio. Credits reported by Letsemeng, Mantsopa and Thabo Mofutsanyana is due to

incorrect reporting. Furthermore, the zero reported by Kopanong and Masilonyana is due to non-reporting of expenditure.

[illegible]

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				
Setso	3	✓	✓		✓
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsope	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. 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:** 08-01-2024

**ANNEXURES:**

Annexure 1 – S71 Summary Report per municipality

Annexure 2 – Indicators (State of Local Government Report)