



treasury

Department of  
Treasury  
FREE STATE PROVINCE



CONSOLIDATED MUNICIPAL BUDGET  
PERFORMANCE REPORT  
FOR THE PERIOD ENDING  
31 MARCH 2024

## 1. EXECUTIVE SUMMARY

This report covers the performance against the adopted budgets of the Free State Municipalities for the municipal period ending on 31 March 2024 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 make submissions with errors but not correcting them.
- Municipal Managers have not implemented internal controls to improve data quality.

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 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 the Free State as at 31 March 2024 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 to monitor and improve municipal performance. The report also supports the improvement of the credibility of the datasets and data strings submitted by municipalities which must be used by Municipal Accounting Officers to correct these aberrations.

## **3. LEGISLATIVE FRAMEWORK**

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

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

## **4. COMPLIANCE**

### **4.1 mSCOA Governance**

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

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
<b>Financial Data</b>					
B	FS162	Kopanong	In-Year Monthly 09	2024/04/15	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
<b>Non Financial Data</b>					
B	FS162	Kopanong	Creditors Monthly-M09	2024/04/15	Outstanding
B	FS162	Kopanong	Debtors Monthly-M09	2024/04/15	Outstanding

4.1.2 Kopanong Municipality failed to submit the data strings timeously due to a backlog in capturing 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

Cat Code	Demarc Code	Demarcation Description	2024													MCUM	
			ORGB	PROR	ADJB	PRAD	M01	M02	M03	M04	M05	M06	M07	M08	M09		
A	MAN	Mangaung															
B	FS161	Letsemeng															
B	FS162	Kopanong															
B	FS163	Mohokare															
C	DC16	Xhariep															
B	FS181	Masilonyana															
B	FS182	Tokologo															
B	FS183	Tswelopele															
B	FS184	Matjhabeng															
B	FS185	Nala															
C	DC18	Lejweleputswa															
B	FS191	Setsoto															
B	FS192	Dihlabeng															
B	FS193	Nketoana															
B	FS194	Maluti-a-Phofung															
B	FS195	Phumelela															
B	FS196	Mantsopa															
C	DC19	Thabo Mofutsanyana															
B	FS201	Moqhaka															
B	FS203	Ngwathe															
B	FS204	Metsimaholo															
B	FS205	Mafube															
C	DC20	Fezile Dabi															

- 4.1.4 The data strings are analyzed monthly, and feedback are provided to municipalities on errors identified. The table below shows comparative of the progress made on data strings errors by municipalities.

<b>Municipality</b>	<b>Errors Identified</b>	<b>Corrections</b>
Masilonyana	Cash flow statement not correctly populated (receipts not recorded)	Cash receipts indicated in the cash flow statement
Tswelopele	Employee related cost not reported due to payroll system not integrating in financial system (understating total expenditure)	Employee related cost reported from March 2024.
Matjhabeng	Conditional grants (receipts & spending) not recorded	Conditional grant reporting corrected.
Thabo Mofutsanyana	Conditional grants (receipts & spending) not recorded	Conditional grant reporting corrected.

## 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 R17.595 billion or 70.2 per cent against the adjusted budget of R25.052 billion, which is below the expected performance of 75 per cent. 54.7 Per cent (R9.567 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc.); whilst 45.3 per cent (R7.965 billion) was generated from non-exchange revenue (i.e., property taxes, fines and transfers & subsidies). *The revenue generated refers 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 R4.498 billion, followed by *water service charges* at R1.945 billion and *interest earned from receivables* at R1.414 billion. Non-exchange revenue consists primarily of *transfers and subsidies* amounting to R4.886 billion and *property rates* amounting to R2.350 billion.
- 5.1.3 For the month under review an operating surplus of R1.176 billion was recorded with an accrual surplus for the financial year of R1.909 billion. The surplus reflected is because of the equitable share tranche paid during March. Municipalities generally report operating surpluses in the months the equitable share is transferred (July, December and March). This indicates that municipalities are **not generating sufficient revenue** to cover the

operational expenditure and are very reliant on transfers (equitable share) for payment of salaries and operational costs.

## 5.2 Operating expenditure

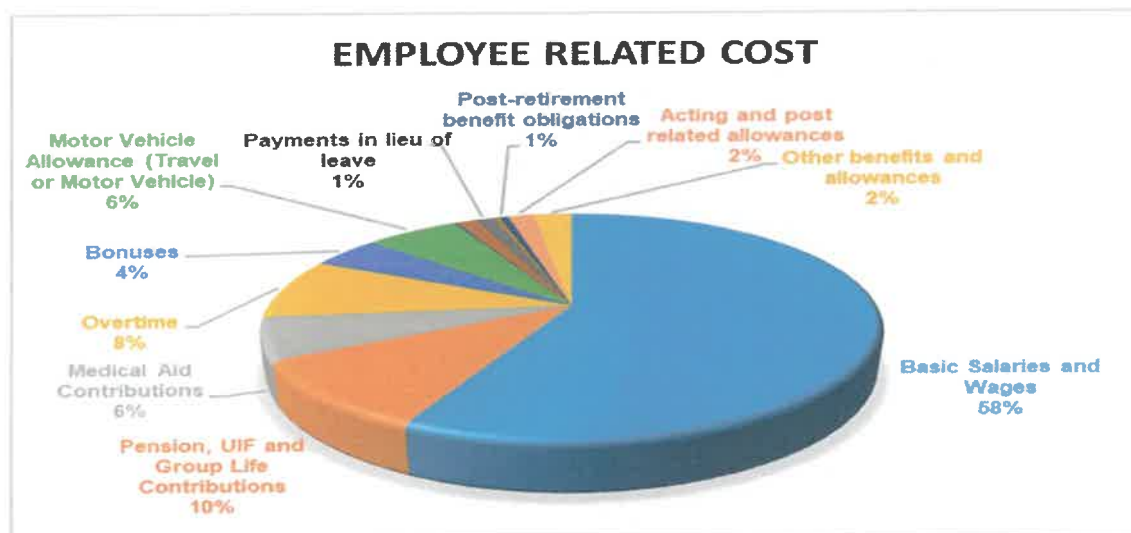
5.2.1 The total operating expenditure reported amounted to R17.595 billion or 70.2 per cent against the adjusted budget which is below the expected performance projected at 75 per cent. Incorrect or non-reporting of expenditure also contributes to the poor performance reported.

5.2.2 As expected, the highest spending item reported at the end of March 2023 remains *employee related cost* amounting to R5.177 billion, followed by *electricity bulk purchases* amounting to R4.006 billion.

5.2.3 The performance of employee related cost against the adopted budget is 69.2 per cent (R5.177 billion). Most of the expenditure reported (98.5 per cent) relates to salaries and wages for *municipal staff* as indicated in the table below:

Employee Related Cost (ERC)	Original Budget R'000	Adjusted Budget R'000	Actual Year To Date R'000	% Spent on Adjusted Budget	% of Total ERC
Senior Management	226 582	209 995	76 386	36.4%	1.5%
Municipal Staff	7 361 871	7 275 840	5 099 648	70.1%	98.5%
Board Members	827	450	733	162.8%	0.0%
<b>Total</b>	<b>7 589 280</b>	<b>7 486 285</b>	<b>5 176 767</b>	<b>69.2%</b>	<b>100.0%</b>

5.2.4 58 per cent (R2.978 billion) of the total employee related cost expenditure relates to *basic salaries and wages*, whilst *pension contributions* amounted to 10 percent (R521.926 million) to the total expenditure. *Overtime* contributed 8 per cent (R437.665 million) to the total expenditure, whilst expenditure on *acting and post related allowances* amounted to R83.416 million (2%).



5.2.5 The tables below indicate the total employee related cost and council remuneration per capacity of municipality. As expected the majority (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	Adjustment Budget	YTD March 2024	%	Original Budget	Adjustment Budget	YTD March 2024	%
Mangaung	2 447 868 378	2 342 858 524	1 858 867 213	75.9%	76 003 457	76 456 664	56 497 943	74.3%
Matjhabeng	952 980 245	952 980 245	695 984 374	73.0%	39 362 111	39 362 111	7 301 000	18.5%
Maluti-a-Phofung	743 436 701	743 444 328	501 439 679	67.4%	33 085 344	33 254 139	21 235 594	64.2%
Moqhaka	396 118 531	397 715 216	290 831 550	73.4%	25 032 003	28 195 950	17 123 399	68.4%
Metsimaholo	450 539 320	455 480 220	283 431 287	62.9%	21 704 660	26 332 690	16 933 931	78.0%
<b>Total</b>	<b>4 990 941 175</b>	<b>4 892 478 533</b>	<b>3 630 554 103</b>	<b>72.7%</b>	<b>195 187 575</b>	<b>203 601 554</b>	<b>119 091 867</b>	<b>61.0%</b>

**Employee Related Cost - Medium Capacity Municipalities**

Municipality	Employee Related Cost				Council Remuneration			
	Original Budget	Adjustment Budget	YTD March 2024	%	Original Budget	Adjustment Budget	YTD March 2024	%
Letsemeng	79 080 565	79 080 565		0.0%	5 446 461	5 446 461		0.0%
Kopanong	153 701 303	157 956 998	68 805 140	44.8%	6 995 823	6 900 001	664 900	9.5%
Tswelopele	88 638 862	89 451 953	67 104 063	75.7%	6 225 647	6 225 647	5 255 928	84.4%
Nala	181 572 622	214 570 574	108 688 078	59.9%	10 085 886	10 107 859	5 118 892	50.8%
Setsotho	235 002 972	238 874 802	178 247 725	75.8%	14 641 092	15 490 529	11 320 189	77.3%
Dihlabeng	374 545 474	348 982 307	257 105 456	68.6%	20 720 000	23 037 601	16 917 907	81.7%
Nketoana	160 533 769	160 533 769	40 563 563	25.3%	6 841 058	6 841 058	1 894 697	27.7%
Mantsopa	114 544 998	114 545 028	52 770 282	46.1%	7 731 598	7 187 611	2 760 083	35.7%
Ngwathe	280 898 461	280 898 461	210 657 239	75.0%	18 056 468	18 056 468	13 228 798	73.3%
Mafube	117 872 735	104 473 796	75 626 723	64.2%	6 625 780	7 684 696	5 013 011	75.7%
<b>Total</b>	<b>1 786 391 761</b>	<b>1 789 368 253</b>	<b>1 059 568 269</b>	<b>59.3%</b>	<b>103 369 813</b>	<b>106 977 931</b>	<b>62 174 405</b>	<b>60.1%</b>

Note: Letsemeng not reporting due to payroll system not integrating with financial system

**Employee Related Cost - Low Capacity Municipalities**

Municipality	Employee Related Cost				Council Remuneration			
	Original Budget	Adjustment Budget	YTD March 2024	%	Original Budget	Adjustment Budget	YTD March 2024	%
Mohokare	88 588 089	88 816 013	98 591 905	111.3%	5 326 732	5 519 666	5 167 299	97.0%
Xhariep	48 164 666	46 156 250	31 520 485	65.4%	4 808 333	5 409 367	3 530 021	73.4%
Masilonyana	142 588 578	142 588 578	4 084	0.0%	8 007 155	8 007 155		0.0%
Tokoloso	67 777 068	67 777 068	37 939 230	56.0%	5 344 556	6 661 575	3 773 907	70.6%
Lejweleputswa	120 433 896	118 007 817	84 711 914	70.3%	11 219 884	11 219 884	8 442 548	75.2%
Phumelela	109 292 434	101 152 517	67 977 395	62.2%	7 096 352	7 230 695	4 073 705	57.4%
Thabo Mofutsanyana	102 318 012	104 888 976	74 644 174	73.0%	9 196 512	9 196 512	7 788 676	84.7%
Fezile Dabi	132 784 500	135 051 000	91 255 608	68.7%	8 252 000	8 288 000	5 981 430	72.5%
<b>Total</b>	<b>811 947 243</b>	<b>804 438 219</b>	<b>486 644 795</b>	<b>59.9%</b>	<b>59 251 524</b>	<b>61 532 854</b>	<b>38 757 586</b>	<b>65.4%</b>

Note: Masilonyana not reporting due to payroll system not integrating with financial system

5.2.6 Three municipalities, namely Letsemeng and Masilonyana 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. Tswelopele and Moqhaka municipalities did not report employee related cost expenditure in the previous months, however these challenges were attended to and they are now able to report correctly.

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.

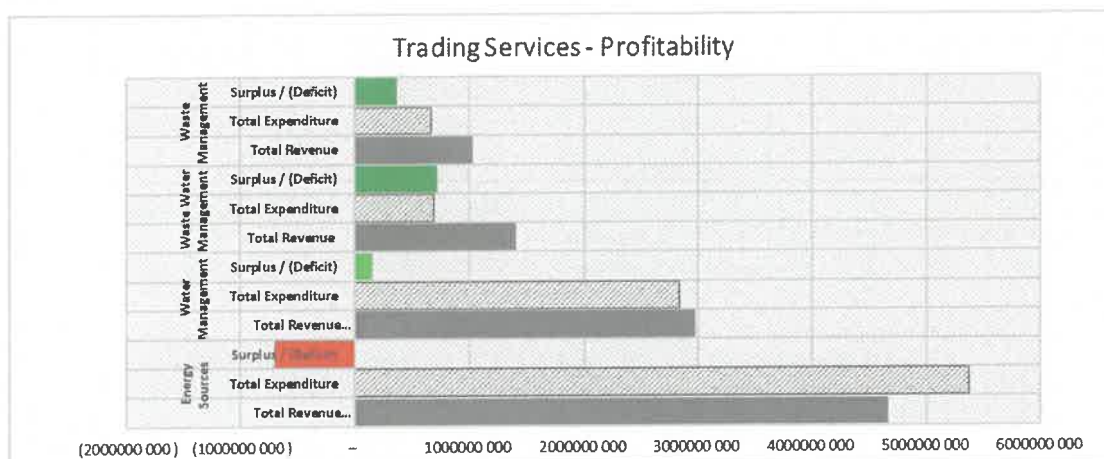
The table below provide the detail of the total compensation budget against the equitable share allocation for the 2023/24 financial year. The allocation indicated is as indicated in the Division of Revenue Act (DoRA) and does not reflect the repayment of the 2022/23 unspent grants which will be off 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>
Setsootso	235 003	14 641	249 644	251 487	99.3%
Dihlabeng	374 545	20 720	395 265	230 471	171.5%
Nketoana	160 534	6 841	167 375	130 625	128.1%
Maluti a Phofung	743 437	33 085	776 522	801 631	96.9%
Phumelela	109 292	7 096	116 389	99 870	116.5%
Mantsopa	114 545	7 732	122 277	110 130	111.0%
Thabo Mofutsanyana District	102 318	9 197	111 515	135 615	82.2%
<b>DC 19 Total</b>	<b>1 839 674</b>	<b>99 312</b>	<b>1 938 986</b>	<b>1 759 829</b>	<b>110.2%</b>
Moqhaka	396 117	25 032	421 149	279 982	150.4%
Ngwathe	280 898	18 056	298 955	261 348	114.4%
Metsimaholo	450 539	21 705	472 244	276 178	171.0%
Mafube	117 873	6 626	124 499	128 231	97.1%
Fezile Dabi	132 785	8 252	141 037	173 824	81.1%
<b>DC 20 Total</b>	<b>1 378 212</b>	<b>79 671</b>	<b>1 457 882</b>	<b>1 119 563</b>	<b>130.2%</b>
<b>Total</b>	<b>7 589 280</b>	<b>357 809</b>	<b>7 947 089</b>	<b>5 576 371</b>	<b>142.5%</b>

Source: NT Local Government Database

### 5.3 Trading Services Profitability

5.3.1 When analyzing the profitability of the trading services, it is notable that three trading services (water, waste water and waste management) reported aggregated trading surpluses in the Province as at 31 March 2024. Whilst **energy sources** recorded an operating **deficit of R697.262 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	(356 324)	(146 306)	277 366	108 298
Letsemeng	42 417	(4 734)	15 149	–
Kopanong	(13)	(25 773)	0	–
Mohokare	(1 913)	10 651	600	1 109
Masilonyana	1 861	(553 505)	16 075	8 569
Tokologo	(28 254)	(3 364)	21 425	16 259
Tswelopele	(6 818)	(16 966)	(3 753)	(4 279)
Matjhabeng	54 078	72 315	187 875	93 521
Nala	(37 453)	(17 140)	(5 966)	(4 301)
Setsoto	23 547	27 867	37 738	34 902
Dihlabeng	8 651	62 955	75 017	82 867
Nketoana	(1 030)	57 692	9 389	20 721
Maluti a Phofung	(423 059)	20 088	(13 297)	(40 811)
Phumelela	(16 065)	4 986	11 471	9 483
Mantsopa	(296)	56	6 813	3 924
Moqhaka	126 499	108 805	7 961	1 957
Ngwathe	(52 832)	69 147	36 696	33 269
Metsimaholo	(28 130)	440 887	5 568	4 584
Mafube	(2 127)	42 094	31 652	–
<b>Total</b>	<b>(697 262)</b>	<b>149 755</b>	<b>717 779</b>	<b>370 072</b>

## 5.4 Capital Expenditure and Sources of Finance

5.4.1 The aggregate capital expenditure amounts to R1.172 billion or 34.2 per cent against the adjusted budget of R3.424 billion which is significantly lower than the expected performance of 75 per cent.

5.4.2 Of the total expenditure reported, R791.268 million (67 per cent) relates to *trading services* projects which consists of R120.265 million for *energy services*, R472.960 million for *water management*, R195.643 million for *waste water management*. Expenditure reported for *waste management* projects amounts to only R2.400 million, despite the challenges faced in municipalities regarding landfill sites and waste management services.

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.
- 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 An amount of R2.822 billion was allocated to municipalities in the Province for the 2023/24 financial year in terms of the Division of Revenue Act, 2023, which included direct infrastructure grants, capacity building and other current transfers. However, 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 included adjustments in allocations and expenditure based on policy priorities, and as well as reprioritisation, reconfiguration and rationalisation. Subsequently, the total allocations were reduced in the Division of Revenue Adjustment Act with R463.651 million. The total transfers and grants available for the current financial year are R2.359 billion and the performance at the end of March 2024 shows a total spending of R1.065 billion against the allocation (45.2 per cent).

5.4.4.2 The low spending on conditional grants remains a concern and the core of the problem persist that municipalities are 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.

5.4.4.4 The table below show the actual performance per grant:

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end Mar 2024		Projected Over/Under Spending on Allocation	
		R'000	R'000	%	R'000
Mangaung	886 503	394 825	44.5%	491 678	55.5%
Letsemeng	48 781	–	0.0%	48 781	100.0%
Kopanong	32 574	–	0.0%	32 574	100.0%
Mohokare	34 315	(3 000)	-8.7%	37 315	108.7%
Xhariep	51 158	33 310	65.1%	17 848	34.9%
Masilonyana	15 704	–	0.0%	15 704	100.0%
Tokologo	44 172	197 446	447.0%	(153 274)	-347.0%
Tswelopele	51 855	(19 726)	-38.0%	71 581	138.0%
Matjhabeng	173 329	120 880	69.7%	52 449	30.3%
Nala	62 653	23 073	36.8%	39 580	63.2%
Lejweleputswa	27 566	3 767	13.7%	23 799	86.3%
Setsoto	185 401	51 143	27.6%	134 258	72.4%
Dihlabeng	65 418	37 116	56.7%	28 302	43.3%
Nketoana	30 995	3 328	10.7%	27 667	89.3%
Maluti a Phofung	226 133	95 607	42.3%	130 526	57.7%
Phumelela	57 866	92	0.2%	57 774	99.8%
Mantsopa	35 915	7 697	21.4%	28 218	78.6%
Thabo Mofutsanyana	12 267	2 359	19.2%	9 908	80.8%
Moqhaka	71 065	–	0.0%	71 065	100.0%
Ngwathe	104 701	56 073	53.6%	48 628	46.4%
Metsimaholo	98 496	45 368	46.1%	53 128	53.9%
Mafube	26 585	14 859	55.9%	11 726	44.1%
Fezile Dabi	15 698	1 282	8.2%	14 416	91.8%
<b>Total</b>	<b>2 359 150</b>	<b>1 065 499</b>	<b>45.2%</b>	<b>1 293 651</b>	<b>54.8%</b>

\* Source: DoRA 2023; LGDRS

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end Mar 2024		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	35 988	17 693	49.2%	18 295	50.8%
Finance Management Grant	59 120	11 921	20.2%	47 199	79.8%
Infrastructure Skills Development Grant	–	–	0.0%	–	0.0%
Integrated National Electrification Prog	108 273	36 319	33.5%	71 954	66.5%
Metro Informal Settlements Partnership Grant	175 532	78 571	44.8%	96 961	55.2%
Municipal Infrastructure Grant	759 699	270 628	35.6%	489 071	64.4%
Neighbourhood Dev Partnership Grant	16 908	10 564	62.5%	6 344	37.5%
Programme & Project Preperation Support Grant	7 138	2 831	39.7%	4 307	60.3%
Public Transport network Grant	170 028	18 783	11.0%	151 245	89.0%
Regional Bulk Infrastructure Grant	163 896	227 927	139.1%	(64 031)	-39.1%
Rural Roads Assets Man Systems Grant	9 692	3 032	31.3%	6 660	68.7%
Urban settlement Development Grant	513 434	282 238	55.0%	231 196	45.0%
Water Services Infrastructure Grant	323 442	102 990	31.8%	220 452	68.2%
<b>Total</b>	<b>2 359 150</b>	<b>1 065 499</b>	<b>45.2%</b>	<b>1 293 651</b>	<b>54.8%</b>

\*Source: DoRA 2023; LGDRS

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 R388.320 million, whilst the data strings reflect total expenditure of R270.628 million. These discrepancies are highlighted to municipalities to correct on the municipal financial systems.

## 5.5 Cash Coverage & Cash Flow

5.5.1 Municipalities in the Province closed the month of March 2024 with a surplus cash and cash equivalent balance of **R8.695 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 Five municipalities (Matjhabeng, Thabo Mofutsanyana, Moqhaka, Ngwathe and Mafube municipalities) reported negative closing balances which might indicate eminent financial constraints.

5.5.3 The cash flow table below 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 Mar 2024)
Mangaung Metro	1 242 772	6 181 854	(300 397)	(83 725)	5 797 732	7 040 504
Letsemeng	–	21 754	–	–	21 754	21 754
Kopanong	–	70 931	–	–	70 931	70 931
Mohokare	–	36 178	(15 395)	–	20 783	20 783
Xhariep District	–	20 317	–	–	20 317	20 317
<b>DC 16 Total</b>	<b>–</b>	<b>149 181</b>	<b>(15 395)</b>	<b>–</b>	<b>133 786</b>	<b>133 786</b>
Masilonyana	–	31 328	–	–	31 328	31 328
Tokologo	–	79 519	–	–	79 519	79 519
Tswelopele	10 481	360 487	(1 472)	–	359 015	369 495
Matjhabeng	173 088	(633 546)	(106 176)	–	(739 722)	(566 634)
Nala	–	–	–	–	–	–
Lejweleputswa District	106 197	14 635	17	–	14 651	120 849
<b>DC 18 Total</b>	<b>289 766</b>	<b>(147 578)</b>	<b>(107 632)</b>	<b>–</b>	<b>(255 210)</b>	<b>34 556</b>
Setsotho	66 208	367 757	(144 436)	–	223 321	289 528
Dihlabeng	18 178	131 479	(52 559)	(5 595)	73 326	91 504
Nketoana	1 575	230 343	(62 755)	–	167 588	169 163
Maluti a Phofung	118 498	576 020	(116 939)	–	459 081	577 579
Phumelela	–	126 506	(25 859)	–	100 647	100 647
Mantsopa	–	124 674	(6 213)	–	118 460	118 460
Thabo Mofutsanyana	–	(289)	–	–	(289)	(289)
<b>DC 19 Total</b>	<b>204 458</b>	<b>1 556 490</b>	<b>(408 761)</b>	<b>(5 595)</b>	<b>1 142 134</b>	<b>1 346 592</b>
Moqhaka	–	1 644	(54 080)	(2 110)	(54 545)	(54 545)
Ngwathe	46 761	(6 360)	(46 750)	–	(53 109)	(6 349)
Metsimaholo	158 041	30 776	(35 388)	–	(4 611)	153 430
Mafube	–	(35 544)	(12 533)	–	(48 077)	(48 077)
Fezile Dabi	103 701	(7 155)	(1 065)	–	(8 220)	95 481
<b>DC 20 Total</b>	<b>308 503</b>	<b>(16 638)</b>	<b>(149 815)</b>	<b>(2 110)</b>	<b>(168 563)</b>	<b>139 940</b>
<b>Total</b>	<b>2 045 498</b>	<b>7 723 309</b>	<b>(982 000)</b>	<b>(91 429)</b>	<b>6 649 879</b>	<b>8 695 377</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 23 municipalities that have submitted the monthly data strings, have a cash coverage ratio of less than the recommended norm of one to 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:

Indicator 3 - Cash Coverage	Mangaung	Kopanong	Letsemeng	Mohokare	Xhariep	Masilonyana	Matjhabeng	Nala	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185	FS182	FS183	DC18	FS182
		0.22	0.19	0.19	0.19	0.27	0.81	0.88	0.27	0.21	0.19	0.22
	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela	Setsotho	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS194	FS196	FS193	FS195	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	

Source: Local Government Database

Note: Ration indicated in orange – incorrect due to incorrect reporting

5.5.5 The average year to date collection rate reported by municipalities for the province for the is only **59.3 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 short-term debt obligations. If the value is greater than one, it means that short-term obligations are fully covered.

The table below indicates the liquidity ratio for the 23 municipalities that have submitted the information for March 2024. 20 Municipalities have a liquidity ratio of less than one.

	Mangung	Kopanong	Letsemeng	Mohokare	Xhariap	Masibonyana	Muthabeng	Nala	Tokololo	Tswelopele	Lajweloqutswa	Ditlabeng
	MAN	FS162	FS161	FS163	DC16	FS161	FS164	FS165	FS162	FS163	DC18	FS192
	0.11	0.01	-1.06	0.02	0.21	-0.25	0.00	0.05	1.00	0.25	0.10	0.03
Indicator 8 - Liquidity Ratio	Makuti-e-Phofung	Nantsopa	Nkaloana	Phumelela	Setsolo	Thabo Mofutsanyana	Mafube	Matsimholo	Moghaka	Ngwathe	Fezile Dabi	
	FS194	FS196	FS193	FS195	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	0.07	0.21	0.01	0.03	0.47	-40.00	-0.14	0.13	-0.05	0.00	0.10	

Source: Local Government Database

5.6 Debtors

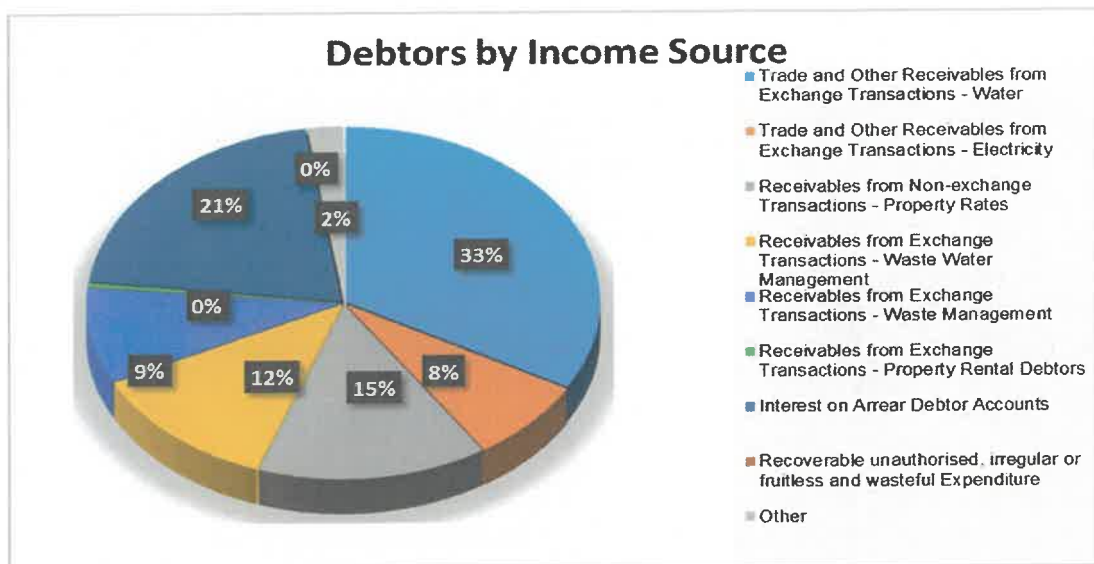
5.6.1 The aggregated debtors as of 31 March 2024 amounted to R38.063 billion having **increased** by R1.131 billion from the previous month (Feb 2024: R36.932 billion). The municipal debt has grown substantially for debtors exceeding 90 days due to declining collection rates.

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**.

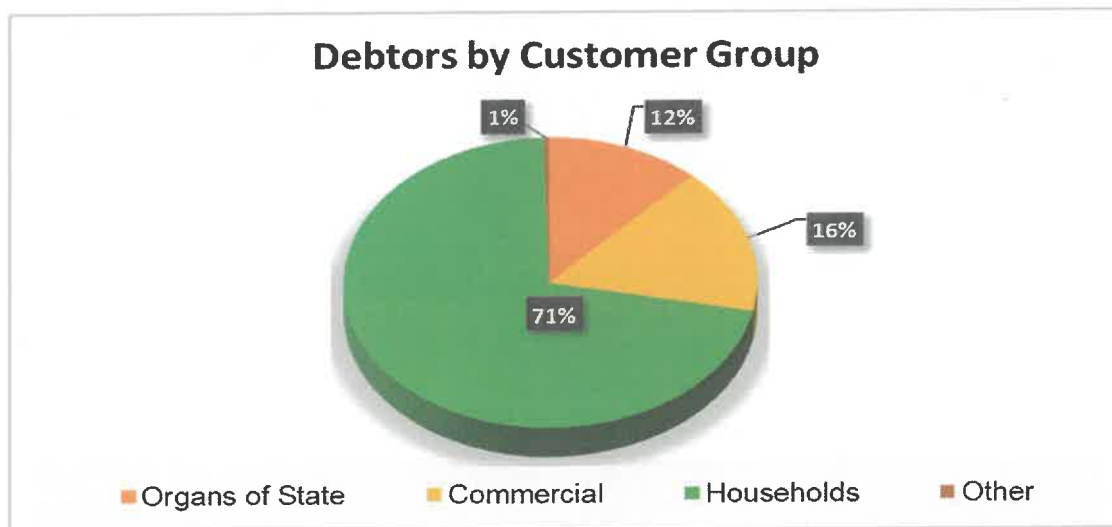
5.6.3 *Water services* remains the largest contributor to the total outstanding debt and amounts to R12.641 billion (33.2 per cent), followed by *interest on arrear debtor accounts*

amounting to R7.892 billion (20.7 per cent). Debt relating to *property rates* contributes 14.6 per cent (R5.573 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.2 per cent (R4.657 billion) of the total debt.

5.6.4 *Electricity services* contributes only 7.6 per cent (R2.899 billion) to the total outstanding debt.



5.6.5 The report also shows that *Households* contribute the majority to the outstanding debt, amounting to R27.149 billion (71.3%), followed by *Businesses* with 16.3 per cent (R6.198 billion) and *Organs of state* with 11.9 per cent (R4.546 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.

Indicator 9 - Debtors Days	Mangaung	Kopanong	Letsemeng	Mohokare	Xhariep	Masibong	Matjhabeng	Nala	Tokolologo	Tswelopele	Lejolejole	Ditlhabeng
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185	FS182	FS183	DC18	FS192
	170.87	-27680.16	292.70	-2013.64	7.07	444.41	562.92	144.38	524.39	321.75	1140	308.90
Indicator 9 - Debtors Days	Matjhabeng	Mantsoa	Nketoana	Phumelela	Setso	Thabo Mofutsanyana	Mafube	Metsimotlo	Moghaka	Ngwathe	Fezile Dabi	
	FS194	FS196	FS193	FS195	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
1487.75	310.47	152.28	657.06	530.76	5190	945.45	228.80	928.72	419.18	1140		

Source: Local Government Database

Note: Ration indicated in orange – incorrect due to incorrect reporting

## 5.7 Creditors

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

5.7.2 The total creditors **increased** with R1.225 billion to R28.587 billion for the month under review (Feb 2024: R27.362 billion).

5.7.3 Municipalities are not transacting correctly within the financial systems and therefore the total outstanding creditors are understated. Eskom, water boards, pensions, medical, PAYE and audit fees debt are not reflected correctly on the financial systems. The total outstanding debt reported by municipalities are therefore understated.

5.7.4 Payables relating to bulk service providers (Eskom & Water Boards) contribute 89 per cent or R25.449 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 should 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 (March 2024), the following actions were taken in cases where municipalities defaulted on the payment of their accounts:

**Municipality    Actions/Sanctions**

Kopanong	Engagement letter issued on 5 April 2024.
Letsemeng	Litigation ongoing – Writ of execution was issued.
Mafube	Litigation ongoing
Mantsopa	A breach notice was issued on 20 March 2024.
Mohokare	Payment reminders were issued on overdue accounts
Tokologo	Litigation ongoing

*Municipal Debt Relief*

5.7.7 Provincial Treasury monitors the adherence by delegated municipalities to the conditions as set out in MFMA Circular 124. There are several conditions which are all essentially aimed in the main:

- To restore a sense of basic or minimum financial management best practices in municipalities that are owing Eskom;
- To change the municipal culture of not paying bulk service providers; and
- To change the municipal culture to not collect revenue.

5.7.8 Critical components of the conditions therefore relate to achieving a funded budget, the setting of cost reflective tariffs, ensuring a complete revenue base, aligning spending patterns to collection levels and enforcing collection strategies.

5.7.9 Moreover, the full payment of the current Eskom account is also one of the conditions set and it was noted with concern that the municipalities approved for the debt relief programme are not adhering to this condition, mainly due to the low revenue collections reported. The municipalities are therefore accumulating new arrear debt (from 1 April 2023), as indicated in the table below.

Municipality	Eskom debt as at 31 March 2023 (Eskom S41 Report)	Eskom debt as at 31 March 2024 (Eskom S41 Report)	"New" arrear debt as at 31 March 2024
	R'000	R'000	R'000
Mangaung	386 821	666 803	279 982
Masilonyana	148 844	186 223	37 379
Tswelopele	90 661	144 616	53 956
Matjhabeng	5 250 172	5 760 732	510 561
Nala	653 554	791 592	138 038
Dihlabeng	843 710	1 065 063	221 353
Nketoana	620 011	722 894	102 883
Maluti a Phofung	7 239 484	7 975 804	736 320
Phumelela	172 728	192 800	20 071
Moqhaka	843 593	1 153 965	310 372
Ngwathe	1 712 631	2 009 193	296 562
<b>Total</b>	<b>17 962 209</b>	<b>20 669 686</b>	<b>2 707 476</b>

Source: Eskom S41 reports

#### PAYE and Pension/Retirement Contributions Debt

5.7.10 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R275.905 million of which 82 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.

5.7.11 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.

5.7.12 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	8 409	100.0%	–	0.0%	–	0.0%	–	0.0%	8 409	34.8%
Matjhabeng	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Nala	13	100.0%	–	0.0%	–	0.0%	–	0.0%	13	0.1%
Setsotho	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Thabo Mofutsanyana District	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Ngwathe	7 362	56.1%	3 583	27.3%	2 536	19.3%	(347)	-2.6%	13 134	54.4%
Mafube	1 546	59.5%	1 189	45.7%	–	0.0%	(135)	-5.2%	2 601	10.8%
<b>Total Debt</b>	<b>17 330</b>	<b>71.7%</b>	<b>4 773</b>	<b>19.8%</b>	<b>2 536</b>	<b>10.5%</b>	<b>(482)</b>	<b>-2.0%</b>	<b>24 157</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	–	0.0%	–	0.0%	–	0.0%	–	0.0%	–	0.0%
Matjhabeng	25 196	100.0%	–	0.0%	–	0.0%	–	0.0%	25 196	10.0%
Nala	4	100.0%	–	0.0%	–	0.0%	–	0.0%	4	0.0%
Mantsopa	–	0.0%	–	0.0%	–	0.0%	2 799	100.0%	2 799	1.1%
Ngwathe	3 160	100.0%	–	0.0%	–	0.0%	–	0.0%	3 160	1.3%
Mafube	1 260	0.6%	1 260	0.6%	1 267	0.6%	216 802	98.3%	220 588	87.6%
<b>Total Debt</b>	<b>29 621</b>	<b>11.8%</b>	<b>1 260</b>	<b>0.5%</b>	<b>1 267</b>	<b>0.5%</b>	<b>219 600</b>	<b>87.2%</b>	<b>251 748</b>	<b>100.0%</b>

Source: Local Government Database

### 5.7.13 Creditors days ratio

5.7.13.1 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.

5.7.13.2 From the analysis most of the municipalities are far exceeding the ratio. Credits reported by Masilonyana and Thabo Mofutsanyana is due to incorrect reporting. Furthermore, the zero reported by Kopanong is due to non-reporting of expenditure.

	Mangaung	Kopanong	Letsemeeng	Mohokare	Xhariep	Masilonyana	Matjhabeng	Nala	Tokologo	Tswelopele	Lefweloputswa	Dhlabeng
Indicator 10 - Creditors Days	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185	FS182	FS183	DC18	FS192
	488.04	0.00	2186.39	6810.87	226.78	-258.68	3763.38	245.54	93.99	773.85	217.88	1482.04
	Matjhabeng	Mantsopa	Nketoana	Phumelela	Setsotho	Thabo Mofutsanyana	Mafube	Metsimahole	Moghaka	Ngwathe	Fezile Dabi	
	FS194	FS196	FS193	FS195	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	4272.25	53.76	1984.70	2445.79	97.46	-94.84	8725.19	137.04	3387.99	2875.27	243.03	

Source: Local Government Database

Note: Ratios indicated in orange – incorrect due to incorrect reporting

## 6. FISCAL AND SERVICE DELIVERY RISKS

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

## 6.1 MFMA s138 and 140 triggers

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

- The municipality has failed to make payments as and when due;
- The municipality has defaulted on financial obligations for financial reasons;
- The actual current expenditure of the municipality has exceeded the sum of its actual current revenue plus available surpluses for at least two consecutive financial years (cash flow position);
- The municipality had an operating deficit in excess of five per cent of revenue in the most recent financial year for which financial information is available;
- The municipality is more than 60 days late in submitting its annual financial statements to the Auditor-General in accordance with section 126;
- The Auditor-General has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements or records of the municipality, or has issued an opinion which identifies a serious financial problem in the municipality;
- Any of the above conditions exists in a municipal entity under the municipality's sole control;
- Any other material condition exists which indicates that the municipality, or a municipal entity under the municipality's sole control, is likely to be unable for financial reasons to meet its obligations.

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

6.1.3 The table on the 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 2021/22
Mangaung	3	✓	✓		✓
Letsemeng	4	✓	✓	✓	✓
Kopanong	4	✓	✓	✓	✓
Mohokare	4	✓	✓	✓	✓
Xhariep	3	✓	✓		✓
Masilonyana	4	✓	✓	✓	✓
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	✓			

6.1.4 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.

## 7. OTHER MFMA RELATED MATTERS

### 2024/25 Tabled Budgets

7.1 Section 16(2) of the MFMA prescribes that the mayor of a municipality must table the annual budget at least 90 days before the start of the financial year. In this financial year, the due date for the tabling was 28 March 2024.

7.2 The table below shows the tabling date of the main adjustment budgets.

Description	Tabled by due date (28 March 2024)	Comments
Mangaung	Yes	
Letsemeng	No	Requested extension
Kopanong	Yes	
Mohokare	Yes	
Xhariep	Yes	
Masilonyana	Yes	
Tokologo	Yes	
Tswelopele	Yes	
Matjhabeng	Yes	
Nala	Yes	
Lejweleputswa	Yes	
Setsoto	Yes	
Dihlabeng	No	Requested extension
Nketoana	No	Requested extension
Maluti-a-Phofung	Yes	
Phumelela	Yes	
Mantsopa	Yes	
Thabo Mofutsanyana	Yes	
Moqhaka	No	Requested extension
Ngwathe	Yes	
Metsimaholo	Yes	
Mafube	Yes	
Fezile Dabi	Yes	

7.3 In line with Section 154 the Provincial Treasury will be supporting municipalities on budget bilaterals and work sessions to support funded budgets and also compliance to Section 18 of the MFMA. Table below provides the support schedule of Provincial Treasury in April and May 2024.

Municipality	Budget Bilateral dates	Virtual/ Physical	Budget Work Session
FS184 Matjhabeng Local Municipality	15/04/2024	Virtual	10-May-24
DC19 Thabo Mofutsanyana District Municipality	17/04/2024	Virtual	N/A
FS163 Mohokare Local Municipality	19/04/2024	Virtual	07-May-24
FS193 Nketoana local municipality	22/04/2024	Virtual	<i>To be confirmed</i>
FS195 Phumelela Local Municipality	22/04/2024	Virtual	<i>To be confirmed</i>
FS183 Tswelopele Local Municipality	23/04/2024	Virtual	09-May-24
FS182 Tokologo Local Municipality	23/04/2024	Virtual	<i>To be confirmed</i>
DC16 Xhariep District Municipality	N/A	N/A	24-Apr-24
FS203 Ngwathe Local Municipality	25/04/2024	Virtual	08-May-24
FS205 Mafube Local Municipality	25/04/2024	Virtual	30-Apr-24
FS192 Dihlabeng Local Municipality	26/04/2024	Virtual	<i>To be confirmed</i>
FS196 Mantsopa Local Municipality	26/04/2024	Virtual	03-May-24
FS185 Nala Local Municipality	29/04/2024	Virtual	13-May-24

<b>Municipality</b>		<b>Budget Bilateral dates</b>	<b>Virtual/ Physical</b>	<b>Budget Work Session</b>
FS181	Masilonyana Local Municipality	29/04/2024	Virtual	<i>To be confirmed</i>
FS194	Maluti-a-Phofung Local Municipality	30/04/2024	Virtual	15-May-24
FS201	Moqhaka Local Municipality			<i>To be confirmed</i>
FS162	Kopanong Local Municipality			<i>To be confirmed</i>
FS161	Letsemeng Local Municipality			<i>To be confirmed</i>

## 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.
- **Nine (9) municipalities may be in a state of insolvency** (*in terms of the State of Local Government Finances (monthly actual)*). 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 in 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:** 06-05-2024

**ANNEXURES:**

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