



treasury

Department of
Treasury
FREE STATE PROVINCE



FREE STATE PROVINCE

CONSOLIDATED MUNICIPAL BUDGET
PERFORMANCE REPORT
FOR THE PERIOD ENDING
30 JUNE 2024

1. EXECUTIVE SUMMARY

This report covers the performance against the adopted budgets of the Free State Municipalities for the municipal period ending on 30 June 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 (*m*SCOA) data strings. The *m*SCOA Regulations were promulgated on 22 April 2014 and prescribes the uniform recording and classification of municipal budget and financial information at a transaction level. All municipalities and municipal entities had to comply with the Regulations by 1 July 2017. The *m*SCOA Regulations require that municipalities upload their budget and financial information in a data string format to the Local Government portal across the six *m*SCOA regulated segments.

Moreover, this report is part of the In-year Management, Monitoring and Reporting System for Local Government (IYM), which enables provincial and national government to exercise oversight over municipalities and identify possible problems in implementing municipal budgets and conditional grants.

The credibility of the information contained in the *m*SCOA data strings is still a concern but is improving as the reform matures. The core of the problem on the data is:

- The incorrect use of the *m*SCOA and municipal accounting practices by municipalities;
- Many municipalities are not budgeting, transacting and reporting directly in or from their core financial systems. Instead, they prepare their budgets and reports on excel spreadsheet and then import the excel spreadsheets into the system. Often this manipulation of data lead to unauthorised, irregular, fruitful and wasteful (UIFW) expenditure and fraud and corruption as the controls that are built into the core financial systems are not triggered and transactions go through that should not;
- Municipalities are not locking their adopted budgets or their financial systems at month-end to ensure prudent financial management. To enforce municipalities to lock their budgets and close their financial system at month-end in 2023/24, the Local Government Portal will be locked on the 10th working day after the end of each month. System vendors were also requested to build this functionality into their municipal financial systems; and
- Some municipalities are not consistently submitting all the required monthly data strings and 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 of 30 June 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
Financial Data					
B	FS162	Kopanong	In-Year Monthly 12	2024/07/14	Outstanding
B	FS163	Mohokare	In-Year Monthly 12	2024/07/14	Outstanding
B	FS195	Phumelela	In-Year Monthly 12	2024/07/14	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
Non Financial Data					
B	FS162	Kopanong	Creditors Monthly-M12	2024/07/14	Outstanding
B	FS162	Kopanong	Debtors Monthly-M12	2024/07/14	Outstanding
B	FS163	Mohokare	Creditors Monthly-M12	2024/07/14	Outstanding
B	FS163	Mohokare	Debtors Monthly-M12	2024/07/14	Outstanding
B	FS195	Phumelela	Creditors Monthly-M12	2024/07/14	Outstanding
B	FS195	Phumelela	Debtors Monthly-M12	2024/07/14	Outstanding

4.1.2 Kopanong and Mohokare Municipality failed to submit the data strings timeously due to protest action and leading to a backlog in capturing information. Phumelela municipality Non-compliance letters were issued to the municipalities to improve compliance with legislation.

4.1.3 Table 1 below show the summary of the segment validation of financial and non-financial data strings from the beginning of the financial year. The 2nd phase errors (yellow) on the data strings should be corrected in the first open month on the financial system. Closed periods may not be opened to correct errors. 1st Phase errors (orange) was rejected due to errors on the data strings and is therefore still outstanding.

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

Cat Code	Demarc Code	Demarcation Description	2024												MCUM				
			ORGB	PROR	ADJB	PRAD	M01	M02	M03	M04	M05	M06	M07	M08		M09	M10	M11	M12
A	MAN	Mangaung																	
B	FS161	Letsemeng	Yellow																
B	FS162	Kopanong					Orange												
B	FS163	Mohokare					Orange												
C	DC16	Xhariep					Yellow												
B	FS181	Masilinyana					Orange												
B	FS182	Takologo																	
B	FS183	Tswelopele																	
B	FS184	Matjhabeng																	
B	FS185	Nala					Orange												
C	DC18	Lejweleputswa																	
B	FS191	Setsotho																	
B	FS192	Ditlhabeng																	
B	FS193	Nketoana																	
B	FS194	Maluti-e-Phoofung																	
B	FS195	Phumelela					Orange	Yellow											
B	FS196	Mantsoa																	
C	DC19	Thabo Mofutsanyana																	
B	FS201	Moghaka					Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange
B	FS203	Ngwethe																	
B	FS204	Metsimaholo																	
B	FS205	Matjabe					Orange	Yellow					Yellow						
C	DC20	Fezile Dabi																	

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 At the end of the financial year, the total generated revenue (billed) amounts to R21.845 billion or 87.3 per cent against the adjusted budget of R25.034 billion. 58.3 Per cent (R12.661 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc.); whilst 41.7 per cent (R9.101 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 R5.917 billion, followed by *water service charges* at R2.502 billion and *interest earned from receivables* at R1.943 billion. Non-exchange revenue consists primarily of *transfers and subsidies* amounting to R5.156 billion and *property rates* amounting to R3.110 billion.

5.1.3 For the month under review an operating deficit of R1.054 billion was recorded with an accrual deficit for the financial year of R58.066 million. 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. Operating surpluses are generally reported in the months when the equitable share is transferred (July, December and March).

5.2 Operating expenditure

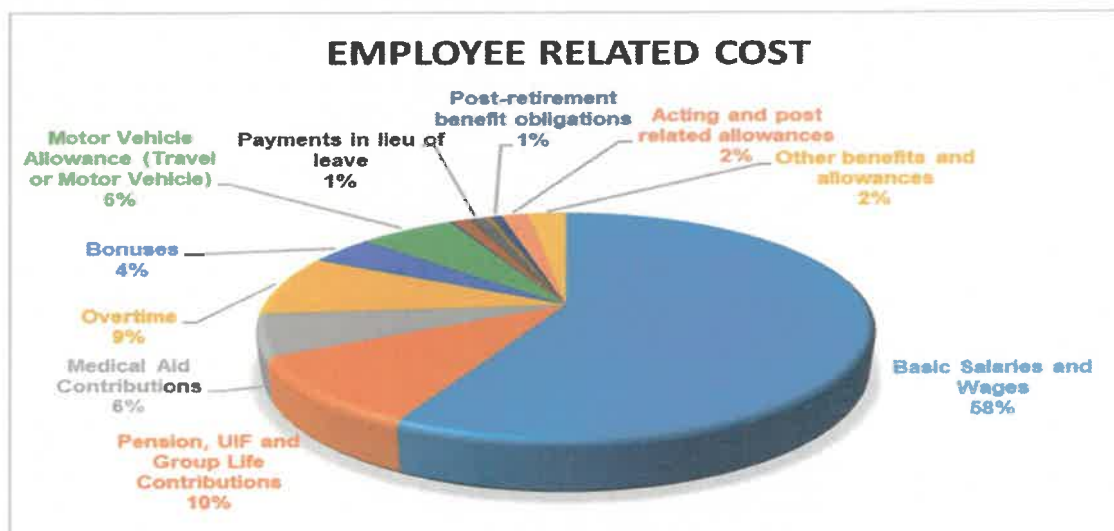
5.2.1 The total operating expenditure for the financial year amounted to R21.903 billion or 82.6 per cent against the adjusted budget which is below the expected performance. Incorrect or non-reporting of expenditure also contributes to the poor performance reported.

5.2.2 As expected, the highest spending items reported at the end of June 2024 remains *employee related cost* amounting to R6.912 billion and *electricity bulk purchases* amounting to R5.616 billion. *Contracted services* amounted to R1.397 billion of which the majority related to *security services (R177.6 million)*, *maintenance of equipment (R155.9 million)*, *safeguarding & security (R124.4 million)*, *legal advice & litigation (R97.9 million)* as well as *project management services (R83 million)*.

5.2.3 The performance of employee related cost against the adopted budget is 92.3 per cent (R6.912 billion). Most of the expenditure reported (98.3 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	207 791	113 323	54.5%	1.6%
Municipal Staff	7 361 871	7 277 997	6 797 886	93.4%	98.3%
Board Members	827	450	954	211.9%	0.0%
Total	7 589 280	7 486 238	6 912 163	92.3%	100.0%

5.2.4 58 per cent (R3.988 billion) of the total employee related cost expenditure relates to *basic salaries and wages*, whilst *pension contributions* amounted to 10 percent (R699 million) to the total expenditure. *Overtime* contributed 9 per cent (R588.9 million) to the total expenditure, whilst expenditure on *acting and post related allowances* contributed R116.9 million (1%) to the total expenditure.



5.2.5 The tables below indicate the total employee related cost and council remuneration per capacity of municipality. As expected, the majority (65 per cent) of the total employee related cost budget is allocated to high-capacity municipalities (incl. Mangaung, Matjhabeng, Maluti a Phofung, Moqhaka and Metsimaholo). Also, 70 per cent of the total expenditure was reported by the high capacity municipalities.

Employee Related Cost - High Capacity Municipalities

Municipality	Employee Related Cost				Council Remuneration			
	Original Budget	Adjustment Budget	YTD June 2024	%	Original Budget	Adjustment Budget	YTD June 2024	%
Mangaung	2 447 868 378	2 340 493 375	2 436 806 038	99.5%	76 003 457	76 456 664	74 551 832	98.1%
Matjhabeng	952 980 245	952 980 245	950 605 356	99.8%	39 362 111	39 362 111	9 672 695	24.6%
Maluti-a-Phofung	743 436 701	745 757 784	648 551 878	87.2%	33 085 344	33 254 139	28 170 792	85.1%
Moqhaka	396 116 531	397 715 216	393 144 962	99.2%	25 032 003	28 195 950	22 251 176	88.9%
Metsimaholo	450 539 320	455 480 220	379 682 011	84.3%	21 704 660	26 332 690	22 469 826	103.5%
Total	4 990 941 175	4 892 426 840	4 808 790 245	96.4%	195 187 575	203 601 554	157 116 321	80.5%

Employee Related Cost - Medium Capacity Municipalities

Municipality	Employee Related Cost				Council Remuneration			
	Original Budget	Adjustment Budget	YTD June 2024	%	Original Budget	Adjustment Budget	YTD June 2024	%
Letsemeng	79 080 565	79 080 565	5 070	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	90 791 722	102.4%	6 225 647	6 225 647	6 929 475	111.3%
Nala	181 572 622	214 570 574	125 140 336	68.9%	10 085 886	10 107 859	5 939 311	58.9%
Setsotho	235 002 972	238 874 802	238 072 447	101.3%	14 641 092	15 490 529	14 864 283	101.5%
Dihlabeng	374 545 474	348 982 307	341 872 714	91.3%	20 720 000	23 037 601	22 146 387	106.9%
Nketoana	160 533 769	160 533 769	168 305 492	104.8%	6 841 058	6 841 058	5 818 902	85.1%
Mantsopa	114 544 998	114 545 028	78 798 773	68.8%	7 731 598	7 187 611	4 037 274	52.2%
Ngwathe	280 898 461	280 898 461	283 033 172	100.8%	18 056 468	18 056 468	17 782 021	98.5%
Mafube	117 872 735	104 473 796	92 705 280	78.6%	6 625 780	7 684 696	6 096 986	92.0%
Total	1 786 391 761	1 789 368 253	1 487 530 146	83.3%	103 369 813	106 977 931	84 279 539	81.5%

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 June 2024	%	Original Budget	Adjustment Budget	YTD June 2024	%
Mohokare	88 588 089	88 816 013	105 590 275	119.2%	5 326 732	5 519 666	5 609 064	105.3%
Xhariep	48 164 666	46 156 250	43 163 646	89.6%	4 808 333	5 409 367	4 741 644	98.6%
Masilonyana	142 588 578	142 588 578	11 732	0.0%	8 007 155	8 007 155		0.0%
Tokologo	67 777 068	67 777 068	51 033 354	75.3%	5 344 558	6 661 575	5 285 108	98.9%
Lejweleputswa	120 433 896	118 012 883	115 860 501	96.2%	11 219 884	11 219 884	11 211 495	99.9%
Phumelela	109 292 434	101 152 517	82 391 554	75.4%	7 096 352	7 230 695	5 281 331	74.4%
Thabo Mofutsanyana	102 318 012	104 888 976	90 780 536	88.7%	9 196 512	9 196 512	9 363 080	101.8%
Fezile Dabi	132 784 500	135 051 000	127 011 341	95.7%	8 252 000	8 288 000	7 928 513	96.1%
Total	811 947 243	804 443 285	615 842 939	75.8%	59 251 524	61 532 854	49 420 235	83.4%

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

5.2.6 Two municipalities, namely Letsemeng and Masilonyana municipalities are not reporting correctly on the employee related cost and council remuneration due to the non-integration of the payroll system with the main financial system.

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.

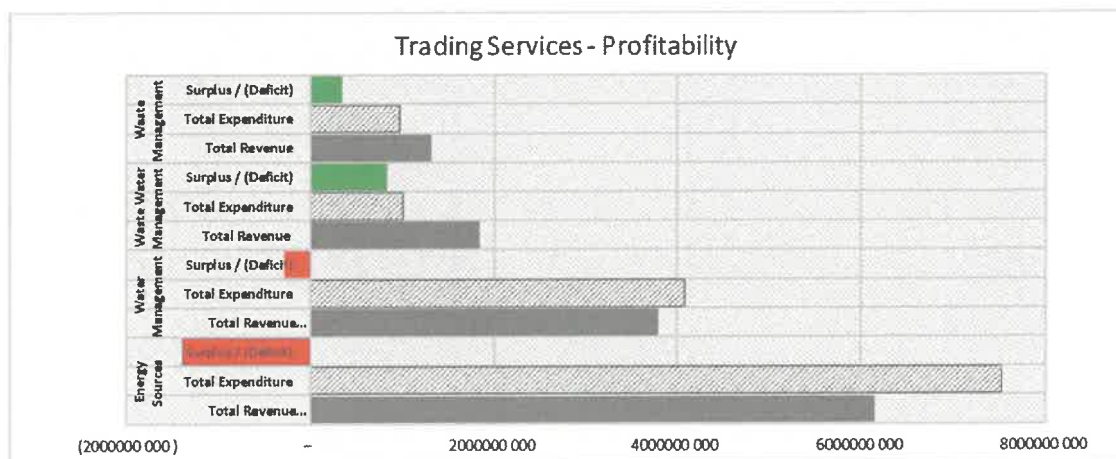
The table on the next page provide the detail of the total compensation budget against the equitable share allocation for the 2023/24 financial year. The allocation indicated is as indicated in the Division of Revenue Act (DoRA) and does not reflect the repayment of the 2022/23 unspent grants which will 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%
DC 16 Total	369 535	22 577	392 112	340 084	115.3%
Masilonyana	142 589	8 007	150 596	158 510	95.0%
Tokologo	67 777	5 345	73 122	75 080	97.4%
Tswelopele	88 639	6 226	94 865	97 242	97.6%
Matjhabeng	952 980	39 362	992 342	685 410	144.8%
Nala	181 573	10 086	191 659	153 857	124.6%
Lejweleputswa District	120 434	11 220	131 654	149 132	88.3%
DC 18 Total	1 553 991	80 245	1 634 237	1 319 231	123.9%
Setsotso	235 003	14 641	249 644	251 487	99.3%
Dihlabeng	374 545	20 720	395 265	230 471	171.5%
Nketoana	160 534	6 841	167 375	130 625	128.1%
Maluti a Phofung	743 437	33 085	776 522	801 631	96.9%
Phumelela	109 292	7 096	116 389	99 870	116.5%
Mantsopa	114 545	7 732	122 277	110 130	111.0%
Thabo Mofutsanyana District	102 318	9 197	111 515	135 615	82.2%
DC 19 Total	1 839 674	99 312	1 938 986	1 759 829	110.2%
Moqhaka	396 117	25 032	421 149	279 982	150.4%
Ngwathe	280 898	18 056	298 955	261 348	114.4%
Metsimaholo	450 539	21 705	472 244	276 178	171.0%
Mafube	117 873	6 626	124 499	128 231	97.1%
Fezile Dabi	132 785	8 252	141 037	173 824	81.1%
DC 20 Total	1 378 212	79 671	1 457 882	1 119 563	130.2%
Total	7 589 280	357 809	7 947 089	5 576 371	142.5%

Source: NT Local Government Database

5.3 Trading Services Profitability

5.3.1 When analyzing the profitability of the trading services, it is notable that two trading services (*waste water* and *waste management*) reported accumulated trading surpluses in the Province as at 30 June 2024. Whilst *energy sources and water management* recorded an operating deficit of R1.380 billion and R282.7 million respectively. It is estimated that the deficit for the trading services 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.**

<i>R thousands</i>	Energy Trading Service Surplus / (Deficit)	Water Trading Service Surplus / (Deficit)	Waste Water Trading Service Surplus / (Deficit)	Waste Trading Service Surplus / (Deficit)
Mangaung Metro	(973 694)	(201 526)	334 487	72 218
Letsemeng	39 769	(8 180)	22 576	–
Kopanong	(13)	(25 773)	0	–
Mohokare	(2 106)	12 609	944	1 289
Masilonyana	2 187	(544 949)	22 759	12 094
Tokologo	(34 851)	(3 581)	30 366	21 362
Tswelopele	(12 421)	(22 663)	(8 097)	(7 238)
Matjhabeng	125 349	3 158	216 002	91 492
Nala	(51 175)	(18 710)	(6 119)	(4 469)
Setsoto	8 535	(46 294)	27 648	24 986
Dihlabeng	31 978	87 694	101 068	112 333
Nketoana	(45 296)	32 721	4 177	11 134
Maluti a Phofung	(561 892)	23 897	(26 028)	(54 656)
Phumelela	(24 510)	5 420	12 879	13 142
Mantsopa	(9 537)	(19 437)	4 543	6 233
Moqhaka	331 794	133 451	12 332	1 718
Ngwathe	(71 365)	32 124	41 350	39 633
Metsimaholo	(130 263)	221 662	4 231	3 169
Mafube	(2 511)	55 684	38 358	–
Total	(1 380 021)	(282 693)	833 474	344 441

5.4 Capital Expenditure and Sources of Finance

- 5.4.1 The aggregate capital expenditure amounts to R1.893 billion or 56.8 per cent against the adjusted budget of R3.334 billion which is significantly lower than the expected performance for the financial year.
- 5.4.2 Of the total expenditure reported, R1.326 billion (70 per cent) relates to *trading services* projects which consists of R244.8 million for *energy services*, R697.4 million for *water management*, R372.1 million for *waste water management*. Expenditure reported for *waste management* projects amounts to only R11.7 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 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 and an additional R58 million was allocated to the Province for the *Municipal Disaster Grant*.

The total transfers and grants available for the current financial year are R2.418 billion and the performance at the end of June 2024 shows a total spending of R1.826 billion against the allocation (75.5 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 on the next page indicates the conditional grant performance per municipality. The negative spending reflected in the table indicates incorrect reporting by municipalities (Mohokare and Tswelopele).

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end Jun 2024		Projected Over/Under Spending on Allocation	
		R'000	R'000	%	R'000
Mangaung	899 653	546 098	60.7%	353 555	39.3%
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	52 170	102.0%	(1 012)	-2.0%
Masilonyana	18 333	–	0.0%	18 333	100.0%
Tokologo	44 172	232 593	526.6%	(188 421)	-426.6%
Tswelopele	51 855	3 234	6.2%	48 621	93.8%
Matjhabeng	173 329	197 726	114.1%	(24 397)	-14.1%
Nala	62 653	26 173	41.8%	36 480	58.2%
Lejweleputswa	27 566	21 324	77.4%	6 242	22.6%
Setsoto	185 401	187 086	100.9%	(1 685)	-0.9%
Dihlabeng	82 271	82 901	100.8%	(630)	-0.8%
Nketoana	30 995	24 672	79.6%	6 323	20.4%
Maluti a Phofung	226 133	194 216	85.9%	31 917	14.1%
Phumelela	57 866	92	0.2%	57 774	99.8%
Mantsopa	49 999	10 003	20.0%	39 996	80.0%
Thabo Mofutsanyana	12 267	2 359	19.2%	9 908	80.8%
Moqhaka	82 065	43 081	52.5%	38 984	47.5%
Ngwathe	104 701	79 912	76.3%	24 789	23.7%
Metsimaholo	99 496	104 677	105.2%	(5 181)	-5.2%
Mafube	26 585	15 151	57.0%	11 434	43.0%
Fezile Dabi	15 698	5 768	36.7%	9 930	63.3%
Total	2 417 866	1 826 237	75.5%	591 629	24.5%

* Source: DoRA 2023; LGDRS

5.4.4.4 The table below show the actual performance per grant:

Municipalities	2023/24 Conditional Grants				
	Allocated	Actual as at end Jun 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	27 533	76.5%	8 455	23.5%
Finance Management Grant	59 120	23 897	40.4%	35 223	59.6%
Infrastructure Skills Development Grant	–	–	0.0%	–	0.0%
Integrated National Electrification Prog	108 273	71 321	65.9%	36 952	34.1%
Metro Informal Settlements Partnership Grant	175 532	91 942	52.4%	83 590	47.6%
Municipal Disaster Grant	58 716	–	–	58 716	–
Municipal Infrastructure Grant	759 699	589 797	77.6%	169 902	22.4%
Neighbourhood Dev Partnership Grant	16 908	16 908	100.0%	(0)	0.0%
Programme & Project Preperation Support Grant	7 138	7 218	101.1%	(80)	-1.1%
Public Transport network Grant	170 028	30 885	18.2%	139 143	81.8%
Regional Bulk Infrastructure Grant	163 896	383 914	234.2%	(220 018)	-134.2%
Rural Roads Assets Man Systems Grant	9 692	6 009	62.0%	3 683	38.0%
Urban settlement Development Grant	513 434	396 803	77.3%	116 631	22.7%
Water Services Infrastructure Grant	323 442	178 009	55.0%	145 433	45.0%
Total	2 417 866	1 826 237	75.5%	591 629	24.5%

*Source: DoRA 2023; LGDRS

5.5 Cash Coverage & Cash Flow

5.5.1 Municipalities in the Province closed the month of June 2024 with a surplus cash and cash equivalent balance of **R7.643 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 Six municipalities (Matjhabeng, Maluti a Phofung, 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.

Cash Flow - M11 May 2024

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 June 2024)
Mangaung Metro	1 242 772	6 888 249	(548 471)	(161 912)	6 177 866	7 420 638
Letsemeng	–	21 754	–	–	21 754	21 754
Kopanong	–	70 931	–	–	70 931	70 931
Mohokare	–	36 728	(15 422)	–	21 307	21 307
Xhariep District	–	28 741	–	–	28 741	28 741
DC 16 Total	–	158 155	(15 422)	–	142 733	142 733
Masilonyana	–	42 087	–	–	42 087	42 087
Tokologo	–	105 636	–	–	105 636	105 636
Tswelopele	10 481	425 679	(2 380)	–	423 298	433 779
Matjhabeng	173 088	(952 662)	(177 296)	–	(1 129 958)	(956 870)
Nala	–	–	–	–	–	–
Lejweleputswa District	106 197	(29 324)	(6 253)	–	(35 577)	70 620
DC 18 Total	289 766	(408 584)	(185 930)	–	(594 514)	(304 748)
Setsotho	66 208	387 779	(212 130)	–	175 649	241 857
Dihlabeng	18 178	164 044	(77 503)	(7 459)	79 081	97 259
Nketoana	1 575	274 976	(79 462)	–	195 515	197 089
Maluti a Phofung	118 498	(283 712)	(247 100)	–	(530 812)	(412 315)
Phumelela	–	126 513	(31 231)	–	95 282	95 282
Mantsopa	–	160 025	(7 066)	–	152 959	152 959
Thabo Mofutsanyana	–	(9 125)	–	–	(9 125)	(9 125)
DC 19 Total	204 458	820 500	(654 492)	(7 459)	158 548	363 006
Moqhaka	–	21 321	(75 120)	(3 003)	(56 803)	(56 803)
Ngwathe	46 761	(83 467)	(66 866)	–	(150 333)	(103 573)
Metsimaholo	158 041	140 007	(70 001)	–	70 006	228 048
Mafube	–	(55 294)	(13 049)	–	(68 343)	(68 343)
Fezile Dabi	103 701	(79 570)	(1 586)	(381)	(81 537)	22 164
DC 20 Total	308 503	(57 003)	(226 622)	(3 384)	(287 009)	21 494
Total	2 045 498	7 401 317	(1 630 937)	(172 755)	5 597 625	7 643 123

Source: NT Local Government Database

5.5.4 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.

5.5.5 It was identified that 14 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
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185
	-0.25	0.05	-13.57	0.84	0.72	64.21	-2.01	0.11
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	-19.68	0.00	0.00	0.38	0.00	-1.12	0.25	0.00
	Setsotho	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	0.00	-0.09	-14.92	0.00	-0.70	0.00	0.00	

Source: Local Government Database

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

5.5.6 The average year to date collection rate reported by municipalities for the province for the is only **61.6 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.

5.5.7 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.

5.5.8 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.

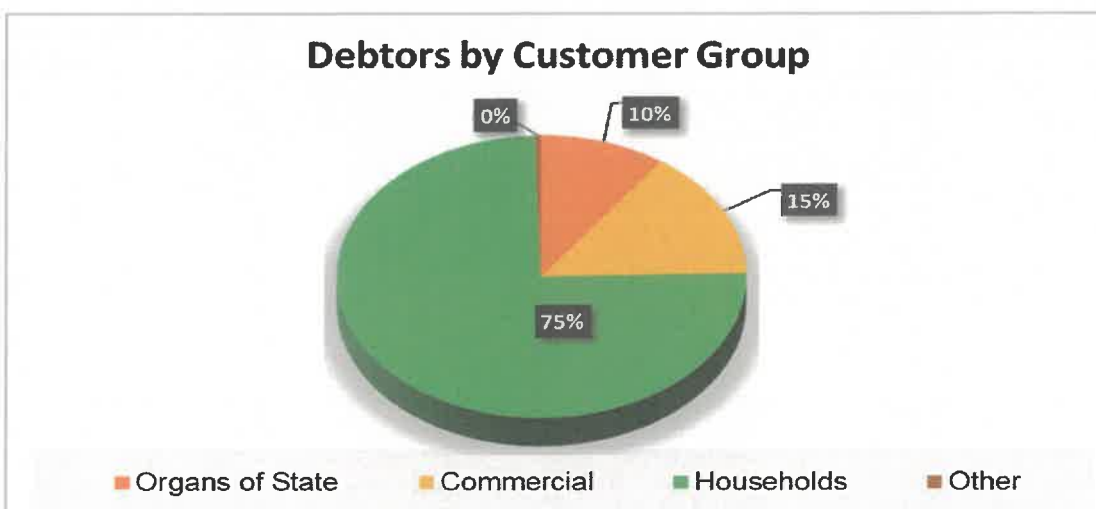
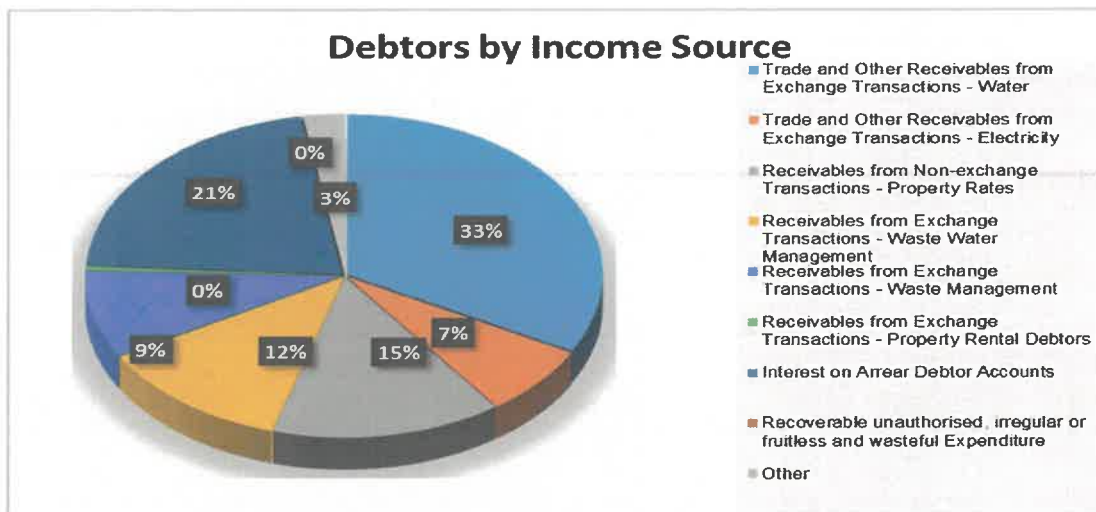
The table below indicates the liquidity ratio for the 23 municipalities that have submitted the information for June 2024. 20 Municipalities have a liquidity ratio of less than one.

Indicator 8 - Liquidity Ratio	Mangaung	Kopanong	Letsemeng	Mohokare	Xhariep	Masilonyana	Matjhabeng	Nala
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185
	-0.01	0.01	-0.16	0.02	0.20	-0.40	-0.02	0.01
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	0.05	0.08	0.05	0.14	0.04	-0.23	0.01	0.06
	Setsoto	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	0.24	0.10	-0.14	0.09	-0.02	0.02	0.00	

Source: Local Government Database

5.6 Debtors

- 5.6.1 The aggregated debtors as of 30 June 2024 amounted to R39.347 billion having **increased** by R0.453 billion from the previous month (*May 2024: R38.894 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 monthly**.
- 5.6.3 *Water services* remain the largest contributor to the total outstanding debt and amounts to R12.946 billion (32.9 per cent), followed by *interest on arrear debtor accounts* amounting to R8.417 billion (21.4 per cent). Debt relating to *property rates* contributes 14.5 per cent (R5.718 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.2 per cent (R4.793 billion) of the total debt.
- 5.6.4 *Electricity services* contribute only 7.1 per cent (R2.799 billion) to the total outstanding debt.
- 5.6.5 The report also shows that *Households* contribute the majority to the outstanding debt, amounting to R29.069 billion (74.7%), followed by *Businesses* with 14.6 per cent (R5.681 billion) and *Organs of state* with 10.1 per cent (R3.940 billion).



5.6.6 Debtors days ratio

5.6.6.1 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.

5.6.6.2 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	Masilonyana	Matjhabeng	Nala
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185
	127.39	-27 693.16	334.11	-1 597.61	0.00	464.07	465.32	140.07
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	485.15	254.52	0.00	156.55	1 227.08	330.30	169.40	637.22
	Setsoto	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	353.24	0.00	614.71	132.25	610.60	493.02	0.00	

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 R1.006 billion to R30.373 billion for the month under review (May 2024: R29.367 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 90.4 per cent or R27.447 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 (May 2024) the total overdue balance is R22.371 billion and the following actions were taken in

cases where municipalities (not part of the debt relief programme) defaulted on the payment of their accounts:

Municipality	Actions/Sanctions
Kopanong	An engagement notice was issued on 2 July 2024
Letsemeng	Litigation ongoing
Mafube	Litigation ongoing – Eskom to proceed with contempt of court application
Mantsopa	A breach notice was issued on 27 June 2024 – Eskom to pursue litigation.
Mohokare	An engagement notice was issued on 27 June 2024
Tokologo	Summons were filed at Bloemfontein High Court on 26 April 2024 and a breach notice was issued on 30 May 2024

5.7.7 Two municipalities, Setsoto and Metsimaholo municipalities' account payments are up to date.

5.7.8 According to the report submitted by Eskom in terms of section 41 of the MFMA (May 2024) the following status were reported for municipalities that are on the debt relief programme:

Municipality	Actions/Sanctions
Dihlabeng	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Mangaung	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Maluti a Phofung	On 24 June 2024, a letter of engagement was sent to the Municipality. DAA implementation activities are continuing.
Masilonyana	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Matjhabeng	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Moqhaka	An engagement meeting is being arranged.
Nala	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Ngwathe	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Nketoana	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Phumelela	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.
Tswelopele	The Municipality is not complying with the debt relief conditions. An escalation notice was issued.

Municipal Debt Relief

5.7.9 The table below, shows a summary of compliance by municipalities in the Free State Province to the conditions for debt relief programme. 4 Municipalities failed to reach 50% compliance in June 2024.

Municipalities	Debt Relief Compliance Score			
	March 2024	April 2024	May 2024	June 2024
FS181 Masilonyana	27%	17%	34%	27%
FS183 Tswelopele	41%	27%	49%	51%
FS184 Matjhabeng	78%	46%	59%	68%
FS185 Nala	20%	27%	41%	41%
FS192 Dihlabeng	34%	39%	71%	71%
FS193 Nketoana	34%	37%	61%	68%
FS194 Maluti a Phofung	56%	46%	71%	71%
FS195 Phumelela	41%	44%	51%	56%
FS 201 Moqhaka	39%	32%	61%	46%
FS203 Ngwathe	34%	29%	59%	44%

Source: Provincial Treasury, 2024

Red - Decrease from previous month

Green - Improvement from previous month

5.7.10 The main reasons for low compliance by municipalities can be attributed to the following:

- Non-Payment of bulk accounts for water and electricity;
- Collection level below 85 per cent;
- Unrealistic budget funding plans;
- No alignment between general valuation rolls and municipal systems whilst municipalities have not developed a credible plan to address identified misalignment;
- Tariffs are not cost reflective;
- For the period of assessment municipalities failed to provide evidence in the form of disconnection lists in areas where the municipality supply electricity and water restriction list in areas where Eskom is the main supplier of electricity; and
- Non-reporting to governance structures for oversight to ensure that corrective actions are taken to improve compliance to legislative requirements.

5.7.11 Condition 6.3 of the programme which relates to maintaining the Eskom bulk current account, was not met by the 10 municipalities participating in the Eskom Debt Relief Programme, as shown in the tables on the next page.

Municipalities	Maluti a phofung		Matjhabeng		Ngwathe		Moghaka		Dihlabeng	
	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Mar-23	116 766	(13 440)	81 119	(483)	17 332	(1 058)	24 926	(702)	14 778	-
Apr-23	60 219	(15 733)	45 189	(15 000)	18 456	(1 000)	29 001	(1 169)	17 438	(2 534)
May-23	63 800	(11 535)	52 766	-	18 894	(1 063)	24 370	-	16 383	(4 334)
Jun-23	105 280	(21 394)	95 773	(40 000)	34 896	(6 056)	33 993	(60 970)	20 958	(20 573)
Jul-23	126 387	(15 330)	112 259	(20 468)	40 434	(2 085)	52 778	(948)	33 871	(5 263)
Aug-23	118 479	(28 061)	110 306	(6 617)	43 052	(1 091)	58 501	(798)	36 618	(547)
Sep-23	82 426	(22 977)	57 347	(20 000)	26 839	(1 187)	50 826	(691)	33 172	(3 325)
Oct-23	70 793	(8 643)	59 694	(20 711)	23 929	(1 000)	33 368	(676)	21 605	(2 784)
Nov-23	63 539	(17 058)	57 576	(72 206)	23 922	(5 085)	34 181	(40 828)	21 947	(27 981)
Dec-23	66 407	(19 020)	55 115	(10 386)	22 345	(1 091)	32 599	(708)	20 110	-
Jan-24	54 112	(57 864)	56 566	(4 341)	23 080	(1 169)	31 915	(890)	19 458	(5 204)
Feb-24	59 049	(25 905)	53 627	(75 393)	23 342	(6 000)	33 364	(30 540)	20 642	-
Mar-24	46 609	(19 698)	54 377	(10 344)	22 465	(1 248)	31 233	(1 657)	19 866	(24 058)
Apr-24	67 361	(18 980)	59 401	(5 000)	25 608	(1 000)	33 416	(221)	20 778	(21 818)
May-24	85 702	(34 955)	63 348	(26 373)	25 654	(1 127)	34 854	(712)	20 724	(4 831)
Jun-24	136 461	(11 598)	112 456	(130 000)	42 936	-	42 282	(568)	28 911	(22 449)
Total	1 323 390	(342 191)	1 126 918	(457 302)	433 186	(31 260)	581 606	(141 878)	367 259	(145 478)

Source: Eskom data - June 2024

Note: The month highlighted indicates the inception date for the municipalities in the programme.

Municipalities	Nketoana		Masilonya		Phumelela		Tswelopele		Nala	
	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom	Eskom Billing	Payments to Eskom
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Mar-23	11 931	-	5 526	(3 726)	3 050	(780)	5 634	(599)	15 882	(66)
Apr-23	5 854	(779)	3 051	(3 549)	808	(676)	2 859	(665)	7 734	(395)
May-23	6 407	(448)	3 054	-	1 961	(271)	3 181	(602)	8 905	(2 539)
Jun-23	10 673	-	5 626	(7 976)	3 718	(1 045)	6 028	(790)	17 036	(4 772)
Jul-23	13 299	(345)	6 676	(327)	4 037	(1 042)	6 320	(818)	20 144	(996)
Aug-23	14 570	(754)	7 022	-	3 873	(883)	6 509	(934)	19 632	(65)
Sep-23	8 848	(595)	4 418	-	1 938	(716)	3 916	(796)	10 678	(429)
Oct-23	9 237	(707)	3 918	-	2 061	(998)	4 332	(764)	11 742	-
Nov-23	7 995	(533)	3 726	(468)	1 686	(817)	4 105	(784)	11 225	(3 283)
Dec-23	7 974	(400)	3 351	(1 590)	2 048	(644)	4 157	(760)	11 066	-
Jan-24	8 659	(1 200)	3 367	(100)	2 906	(875)	4 272	(767)	11 826	(455)
Feb-24	8 699	(558)	3 586	-	1 249	(396)	4 010	(1 001)	10 914	(1 019)
Mar-24	8 670	(468)	3 427	(443)	1 299	(1 062)	3 841	(148)	11 540	(3 547)
Apr-24	9 052	(479)	3 671	-	2 496	(519)	4 308	(3 736)	11 780	(220)
May-24	9 468	-	3 531	-	2 230	(689)	4 483	(3 756)	11 978	(853)
Jun-24	14 469	(1 146)	5 955	-	3 791	(73)	6 917	(6 525)	20 129	-
Total	155 806	(8 412)	69 904	(18 179)	39 152	(11 487)	74 872	(23 444)	212 212	(18 618)

Source: Eskom data - June 2024

Note: The month highlighted indicates the inception date for the municipalities in the programme.

5.7.12 Municipalities that are not complying with the condition of maintaining the Eskom bulk current account are accumulating arrears which may impede the benefit of debt write-off at the end of the 12 months of participating in the programme. Furthermore, defaulting municipalities may be removed from the debt relief programme and municipalities will be liable for the full amount due including the accumulated debt prior 1 April 2023 and Eskom will implement full credit control including legal actions against those municipalities to recover outstanding debt.

5.7.13 The table below reflects the total outstanding debt by municipalities taking part in the Eskom debt relief programme as well as new arrear debt accumulated from 1 April 2023 to 30 June 2024.

Municipality	Eskom debt as at 31 March 2023 MFMA s.41 report	Eskom debt as at 30 June 2024 MFMA s.41 report	New municipal arrears from 01 April 2023 to 30 June 2024	% of new municipal arrears to the debt as at 31 March 2023
FS183 Tswelopele	R90 660 796.00	R150 979 809.18	R60 319 013.18	67%
FS181 Masilonyana	R148 844 341.00	R202 913 443.82	R54 069 102.82	36%
FS195 Pumelela	R172 728 440.00	R201 576 465.87	R28 848 025.87	17%
FS193 Nketoana	R620 011 420.00	R779 200 522.53	R159 189 102.53	26%
FS185 Nala	R653 553 960.00	R857 043 938.67	R203 489 978.67	31%
FS192 Dihlabeng	R843 710 217.00	R1 100 358 145.24	R256 647 928.24	30%
FS201 Mochaka	R843 592 626.00	R1 306 021 182.66	R462 428 556.66	55%
FS203 Ngwathe	R1 712 631 136.00	R2 138 028 479.15	R425 397 343.15	25%
FS184 Matjhabeng LM	R5 250 171 833.00	R6 100 638 040.56	R850 466 207.56	16%
FS194 Maluti-a-Phofung	R7 239 483 764.00	R8 185 753 342.11	R8 295 956 805.22	115%
Total debt for Eskom Relief	R17 575 388 533.00	R21 022 513 369.79	R10 796 812 063.90	61%

5.7.14 The following support are provided to municipalities participating in the debt relief programme:

- National Treasury has appointed technical advisors through the Municipal Finance Improve Programme (MFIP) that provides assistance to the municipalities.
- Training is provided to municipalities on the Valuation Roll Reconciliation and Cost Reflective Tariff settings.
- Guidance is provided to municipalities on the preparation of reports to oversight structures within the municipalities.
- Compliance to the debt relief programme conditions are also emphasised during the Audit Action Plan meetings with municipalities.

PAYE and Pension/Retirement Contributions Debt

5.7.8 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R316.3 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.

5.7.9 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.

5.7.10 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	8 177	100.0%	–	0.0%	–	0.0%	–	0.0%	8 177	20.9%
Nala	13	100.0%	–	0.0%	–	0.0%	–	0.0%	13	0.0%
Ngwathe	8 086	31.5%	4 007	15.6%	2 992	11.7%	10 560	41.2%	25 645	65.6%
Mafube	1 437	27.2%	1 212	23.0%	1 320	25.0%	1 311	24.8%	5 280	13.5%
Total Debt	17 715	45.3%	5 219	13.3%	4 312	11.0%	11 871	30.3%	39 116	100.0%

Creditors Age Analysis Pension/Retirement	0-30 Days		31-60 Days		61-90 Days		Over 90 Days		Total	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
Matjhabeng	26 084	55.5%	10 420	22.2%	10 497	22.3%	–	0.0%	47 001	17.0%
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	1.0%
Ngwathe	3 160	100.0%	–	0.0%	–	0.0%	–	0.0%	3 160	1.1%
Mafube	1 215	0.5%	1 221	0.5%	1 224	0.5%	220 588	98.4%	224 248	80.9%
Total Debt	30 464	11.0%	11 641	4.2%	11 721	4.2%	223 387	80.6%	277 212	100.0%

Source: Local Government Database

5.7.11 Creditors days ratio

5.7.11.1 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.

5.7.11.2 From the analysis most of the municipalities are far exceeding the ratio. The credit reported by Thabo Mofutsanyana is due to incorrect reporting. Furthermore, the zero reported by Kopanong is due to non-reporting of expenditure.

Indicator 10 - Creditors Days	Mangaung	Kopanong	Letsemeng	Mohokare	Xhariep	Masilonyana	Matjhabeng	Nala
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185
	279.70	0.00	-3 647.45	6 796.15	117.84	21.17	-2 908.97	255.24
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	104.92	605.72	197.31	75.03	3 018.63	175.05	-1 309.46	-2 051.99
	Setsotho	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	98.34	-179.59	9 541.50	159.74	2 629.87	3 626.20	187.04	

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)	State of LG Finance & Fin Management Report 2022 (Financial Distress)
Mangaung	3	✓	✓		✓
Letsemeng	4	✓	✓	✓	✓
Kopanong	4	✓	✓	✓	✓
Mohokare	4	✓	✓	✓	✓
Xhariep	2	✓			✓
Masilonyana	4	✓	✓	✓	✓
Tokologo	4	✓	✓	✓	✓
Tswelopele	4	✓	✓	✓	✓
Matjhabeng	4	✓	✓	✓	✓
Nala	4	✓	✓	✓	✓
Lejweleputswa	1	✓			
Setso	2	✓	✓		
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsope	4	✓	✓	✓	✓
Thabo Mofutsanyana	2	✓			✓
Moghaka	4	✓	✓	✓	✓
Ngwathe	4	✓	✓	✓	✓
Metsimaholo	3	✓	✓		✓
Mafube	4	✓	✓	✓	✓
Fezile Dabi	1	✓			

Notes:
S138 Triggers = Failure to make payments as & when due (s138(a)) (90 days > R1m) / Operating Deficit > 5% of total direct revenue (s138(d)) / Negative or Outstanding Audit Opinions
S140 Triggers = Eskom / Water Boards or Total Creditors >2% of Opex Budget
S140 Triggers (Severe) = Eskom / Water Boards or Total Creditors >40% of Opex Budget

6.1.4 The table above show that 18 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 Adopted Budgets

7.1 In terms of section 16 of the MFMA, the budget should be tabled in Council for consideration at least 30 days before the start of the financial year (31 May). Furthermore, Provincial Treasury analyzed the adopted budgets to determine if the budgets were funded as per section 18 of the MFMA. The table below indicate the tabling and/or approval dates of the 2024/25 MTREF budgets well as the funded position:

Name of Municipality	Date of Adoption	Funded / Unfunded
Mangaung Metro	31/05/2024	Funded
Letsemeng	12/06/2024	Unfunded
Kopanong	22/05/2024	Unfunded
Mohokare	24/05/2024	Unfunded
Xhariep	31/05/2024	Funded
Masilonyana	31/05/2024	Unfunded
Tokologo	31/05/2024	Unfunded
Tswelopele	22/05/2024	Funded
Matjhabeng	31/05/2024	Unfunded
Nala	14/06/2024	Unfunded
Lejweleputswa	31/05/2024	Funded
Setsoto	24/05/2024	Funded
Dihlabeng	22/05/2024	Unfunded
Nketoana	21/05/2024	Unfunded
Maluti a Phofung	21/05/2024	Unfunded
Phumelela	24/05/2024	Unfunded
Mantsopa	31/05/2024	Unfunded
Thabo Mofutsanyana	22/05/2024	Funded
Moqhaka	31/05/2024	Unfunded
Ngwathe	24/05/2024	Unfunded
Metsimaholo	31/05/2024	Funded
Mafube	23/05/2024	Unfunded
Fezile Dabi	21/05/2024	Funded

7.2 The table above show that 8 municipalities have funded budgets. Municipalities with unfunded budgets are required to compile and adopt a budget funding plan which clearly outlines strategies to be implemented to move towards a funded position. This implementation of these funding plans will be monitored monthly.

Unauthorised Expenditure

7.3 The table below show the total identified unauthorised expenditure for the past 3 financial years:

UNAUTHORISED EXPENDITURE					
Municipality	2022_23	%Change	2021_22	%Change	2020_21
Dihlabeng	1 257 111 682	0,36	927 560 239	0,42	651 452 569
Fezile Dabi District	61 368 112	0,09	56 201 036	0,21	46 301 181
Kopanong	709 070 455	2,26	217 652 643	- 0,65	614 934 943
Lejweleputswa District	2 912 252	-	2 912 252	0,17	2 481 005
Letsemeng	537 781 078	- 0,40	901 155 139	0,56	576 508 900
Mafube	1 184 356 609	- 0,33	1 754 750 730	0,62	1 084 038 267
Maluti-A-Phofung	3 863 482 514	0,11	3 488 477 702	0,05	3 319 678 052
Mantsopa	343 311 797	0,88	182 819 770	-	-
Masilonyana	1 122 588 189	-	1 122 588 189	-	1 122 588 189
Matjhabeng	2 492 276 126	1,39	1 043 438 576	- 0,69	3 324 021 307
Metsimaholo	141 415 280	-	141 415 280	0,25	113 318 000
Mohokare	322 309 815	- 0,47	604 652 506	0,23	492 843 230
Moghaka	451 772 673	-	451 772 673	0,30	347 616 301
Nala	508 280 260	0,25	406 474 334	0,40	289 786 166
Ngwathe	545 451 788	0,56	350 557 400	2,54	99 115 148
Nketoana	980 785 456	- 0,07	1 054 334 594	0,28	824 843 449
Phumelela	729 415 155	0,11	657 281 301	- 0,11	742 288 445
Setsoto	774 012 578	0,24	623 533 626	0,40	446 916 335
Thabo Mofutsanyana District	2 830 568	1,12	1 333 435	- 0,69	4 267 519
Tokologo	687 905 120	-	687 905 120	0,12	616 921 153
Tswelopele	9 251 424	- 0,71	31 767 931	1,44	13 004 222
Xhariep District	35 072 743	0,14	30 851 530	0,25	24 741 453
Grand Total	16 762 761 674	0,14	14 739 436 006	- 0,00	14 757 665 834

7.4 Municipalities are required to develop and implement an Unauthorised, Irregular, Fruitless & Wasteful Expenditure (UIF&W) reduction strategy. Unauthorised expenditure relates to expenditure which is not in accordance with the budget vote / overspending of the budget. Most of the identified unauthorised expenditure in the province relates to 'non-cash' items (debt impairment and depreciation) which is because of not budgeting sufficiently for these items in the budgets. Provincial Treasury is supporting municipalities on the reduction and elimination of the UIF&W expenditure, which includes training to the MPAC members. The following support were provided during July 2024:

Visitation Dates	Municipality	Discussions
09 July 2024	Setsoto	FSPT and Technical Advisor attended the MPAC committee meeting during the discussion of the unauthorised expenditure relating to the 2019/20 and 2020/21 financial years.
15 - 16 July 2024	Matjhabeng	An MPAC workshop was facilitated by FSPT, NT Technical Advisor, SALGA and COGTA for Matjhabeng Local Municipality's officials and MPAC members.

- 7.5 As per the resolution of the Provincial MPAC Stakeholder meeting held on 12th August 2024, please find below the dates confirmed for the upcoming MPAC UIF&W workshops as follows:

Name of Municipality	Date	Venue/Place
1. Mafube LM	13 August 2024	Municipal Offices – Frankfort
2. Nketoana LM	14 August 2024	Municipal Offices – Rietz
3. Maluti-A-Phofung LM	15 August 2024	Municipal Offices – Qwa Qwa
4. Dihlabeng LM	16 August 2024	Municipal Offices – Bethlehem
5. Mantsopa LM	19 August 2024	Municipal Offices – Ladybrand
6. Letsemeng LM	20 August 2024	Municipal Offices – Koffiefontein
7. Kopanong LM	21 August 2024	Municipal Offices – Trompsburg
8. Tokologo LM	22 August 2024	Municipal Offices – Boshoff

- 7.6 In addition to these workshops the Provincial MPAC Chairpersons' Forum will be held on 4 September 2024 in Bloemfontein.

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.
- Municipalities are **not complying with the debt relief programme conditions**.

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;
- Support municipalities in compliance to of the **Eskom Debt Relief agreements**;
- Support municipalities in compliance to the **Budget Funding Plans**;
- Support municipalities to ensure accuracy and credibility of data, **reports (data strings)**.
- **Monthly feedback to municipalities on Section 71 reports and mSCOA data string errors** for correction.
- Support municipalities in **reduction of identified unauthorized expenditure**.

Approved / Not approved:


Ms. MA Sesing
HEAD: FREE STATE PROVINCIAL TREASURY

DATE: 1/06/24

ANNEXURES:

Annexure 1 – S71 Summary Report per municipality

Annexure 2 – Indicators (State of Local Government Report)



**TO: MEMBERS OF THE EXECUTIVE COUNCIL
DIRECTOR GENERAL
HEADS OF DEPARTMENTS
STAFF IN THE DEPARTMENT OF TREASURY**

APPOINTMENT AS ACTING HOD: TREASURY: DR M. NOKWEQU

Kindly be advised that in terms of Section 32 of the Public Service Act, 1994 (Proclamation No. 103 of 1994), I have appointed Dr. M. Nokwequ Acting HOD: Treasury from 31 July – 07 August 2024, as the current HOD of the Department, Ms. M. Sesing will not be available during this period.

This official will be responsible for the performance of duties of the above-mentioned post and the concomitant delegated powers attached to the said post.

Yours sincerely,

**MAQUEEN LETSOHA-MATHAE (MPL)
PREMIER: FREE STATE PROVINCE**

31/07/2024

DATE