



treasury
Department of
Treasury
FREE STATE PROVINCE



CONSOLIDATED MUNICIPAL BUDGET
PERFORMANCE REPORT
FOR THE PERIOD ENDING
31 AUGUST 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 August 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.

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 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 2024/25 Medium Term Revenue & Expenditure Framework (MTREF) of the 23 municipalities in the Free State as of 31 August 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 02	2024/09/13	Outstanding
B	FS163	Mohokare	In-Year Monthly 02	2024/09/13	Outstanding

Cat Code	Demarc Code	Demarcation Description		Due Date	Status of Schedule
Non Financial Data					
B	FS162	Kopanong	Creditors Monthly-M02	2024/09/13	Outstanding
B	FS162	Kopanong	Debtors Monthly-M02	2024/09/13	Outstanding
B	FS163	Mohokare	Creditors Monthly-M02	2024/09/13	Outstanding
B	FS163	Mohokare	Debtors Monthly-M02	2024/09/13	Outstanding

4.1.2 Kopanong and Mohokare Municipality failed to submit the data strings timeously due a backlog in capturing information and completion of reconciliations. 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	CAP	2025				
				ORGB	PROR	M01	M02	MCUM
A	MAN	Mangaung	H					
B	FS161	Letsemeng	M					
B	FS162	Kopanong	M					
B	FS163	Mohokare	L					
C	DC16	Xhariep	L					
B	FS181	Masilonyana	L					
B	FS182	Tokologo	L					
B	FS183	Tswelopele	M					
B	FS184	Matjhabeng	H					
B	FS185	Nala	M					
C	DC18	Lejweleputswa	L					
B	FS191	Setsoto	M					
B	FS192	Dihlabeng	M					
B	FS193	Nketoana	M					
B	FS194	Maluti-a-Phofung	H					
B	FS195	Phumelela	L					
B	FS196	Mantsopa	M					
C	DC19	Thabo Mofutsanya	L					
B	FS201	Moqhaka	H					
B	FS203	Ngwathe	M					
B	FS204	Metsimaholo	H					
B	FS205	Mafube	M					
C	DC20	Fezile Dabi	L					

5. OVERVIEW OF PERFORMANCE

This section provides a consolidated view on the budget performance of 23 municipalities for the month under review. Grants, cash, and cash coverage as well as debtors and creditors are discussed in this section.

5.1 Operating revenue

5.1.1 The total generated revenue (billed) amounts to R5.580 billion or 20.3 per cent against the adopted budget of R27.514 billion. 46.8 Per cent (R2.595 billion) is generated from exchange revenue (i.e service charges, interest, rental of facilities, etc.); whilst 53.2 per cent (R2.970 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.*

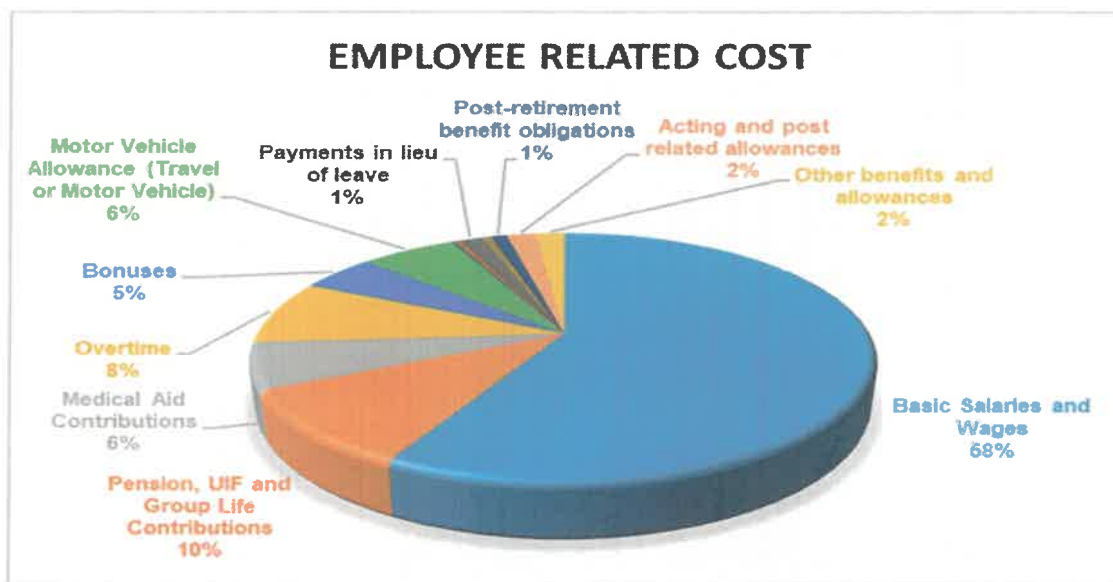
- 5.1.2 The majority of exchange revenue generated (billed) relates to *electricity service charges* at R1.295 billion, followed by *water service charges* at R551.9 million and *interest earned from receivables* at R351.5 million. Non-exchange revenue consists primarily of *transfers and subsidies* amounting to R2.321 billion and *property rates* amounting to R418.5 million.
- 5.1.3 An aggregate operating surplus of R1.912 billion was recorded. The operating surplus is mainly due to the equitable share tranche transferred in July 2024. 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 the reporting period amounted to R3.668 billion or 13.9 per cent against the adopted budget. Incorrect or non-reporting of expenditure also contributes to the poor performance reported.
- 5.2.2 The highest spending items reported at the end of August 2024 is *employee related cost* at R1.199 billion, followed by *electricity bulk purchases* amounting to R1.164 billion. *Contracted services* amounted to R125.7 million of which the majority related to *safeguard & security (R14.728 million)*, *security services (R12.954 million)*, *business and financial management consultants (R11.257 million)*, *maintenance of equipment (R10.721 million)*, *legal Advice and litigation (R10,525 million as well as pre-paid electricity vendors (R9.506 million)*.
- 5.2.3 The performance of employee related cost against the adopted budget is 15.3 per cent (R1.199 billion). Most of the expenditure reported (97.9 per cent) relates to salaries and wages for *municipal staff* as indicated in the table below:

Employee Related Cost (ERC)	Original Budget R'000	Actual Year To Date R'000	% Spent on Adjusted Budget	% of Total ERC
Senior Management	213 131	25 217	11.8%	2.1%
Municipal Staff	7 640 943	1 173 694	15.4%	97.9%
Board Members	1 277	263	20.6%	0.0%
Total	7 855 351	1 199 174	15.3%	100.0%

- 5.2.4 58 per cent (R693.9 million) of the total employee related cost expenditure relates to *basic salaries and wages*, whilst *pension contributions* amounted to 10 percent (R119.6 million) to the total expenditure. *Overtime* contributed 8 per cent (R99 million) to the total expenditure, whilst expenditure on *acting and post related allowances* contributed R21.8 million (2%) 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, 69 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	YTD August 2024	%	Original Budget	YTD August 2024	%
Mangaung	2 513 360 341	411 162 397	16.4%	79 727 625	11 872 686	14.9%
Matjhabeng	999 676 278	180 050 354	18.0%	41 290 852	1 516 429	3.7%
Maluti-a-Phofung	686 359 249	103 372 410	15.1%	35 032 885	5 040 315	14.4%
Moqhaka	451 339 064	68 523 802	15.2%	29 577 550	3 483 818	11.8%
Metsimaholo	450 683 740	66 519 614	14.8%	27 515 980	3 779 706	13.7%
Total	5 101 418 672	829 628 577	16.3%	213 144 892	25 692 954	12.1%

Employee Related Cost - Medium Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD August 2024	%	Original Budget	YTD August 2024	%
Letsemeng	82 955 513	26 064 281	31.4%	5 713 337	2 211 657	38.7%
Kopanong	170 848 118		0.0%	7 519 860		0.0%
Tswelopele	96 643 231	42 617	0.0%	6 896 460		0.0%
Naia	204 011 592	40 099 369	19.7%	10 107 864	1 592 388	15.8%
Setsoto	267 542 412	40 585 027	15.2%	16 158 216	2 363 402	14.6%
Dihlabeng	358 935 950	58 078 354	16.2%	23 816 769	3 484 320	14.6%
Nketoana	168 399 911	28 714 898	17.1%	7 176 267	1 291 872	18.0%
Mantsopa	125 381 616	17 432 870	13.9%	7 704 924	882 435	11.5%
Ngwathe	293 008 656	51 053 514	17.4%	18 393 628	2 786 291	15.1%
Mafube	115 581 140	26 408 075	22.8%	12 461 338	1 590 801	12.8%
Total	1 883 308 139	288 479 005	15.3%	115 948 663	16 203 166	14.0%

Note: Kopanong did not submit data strings

Tswelopele did not report ERC due to the payroll system not integrated with the financial system

Employee Related Cost - Low Capacity Municipalities

Municipality	Employee Related Cost			Council Remuneration		
	Original Budget	YTD August 2024	%	Original Budget	YTD August 2024	%
Mohokare	90 284 460		0.0%	5 790 156		0.0%
Xhariep	51 022 968	8 055 547	15.8%	4 892 420	722 338	14.8%
Masilonyana	162 327 825		0.0%	7 796 271		0.0%
Tokologo	79 972 446	9 002 009	11.3%	5 384 774	964 112	17.9%
Lejweleputswa	136 048 005	20 676 594	15.2%	11 427 181	1 865 334	16.3%
Phumelela	108 649 884	15 782 473	14.5%	7 533 625	1 744 341	23.2%
Thabo Mofutsanyana	104 459 172	7 936 264	7.6%	8 795 880	684 927	7.8%
Fezile Dabi	137 859 000	19 655 533	14.3%	8 626 000	1 336 657	15.5%
Total	870 623 760	81 108 420	9.3%	60 246 307	7 317 709	12.1%

Notes: *Mohokare did not submit the data strings*

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

5.2.6 Two municipalities, namely Kopanong and Mohokare failed to submit the monthly data strings for August 2024. Furthermore, two municipalities (Tswelopele and Masilonyana) 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 The total equitable share allocation to municipalities amount to R5.925 billion in the 2024/25 financial year. It was however noted that 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 2024/25 financial year.

R thousands	Employee Related Cost Budget	Council Remuneration Budget	Total ERC & Council Remuneration Budget	2024/25 Equitable Share Allocation	Total Compensation Budget vs ES Allocation
Mangaung Metro	2 513 360	79 728	2 593 088	1 113 938	232.8%
Letsemeng	82 956	5 713	88 669	90 162	98.3%
Kopanong	170 848	7 520	178 368	117 449	151.9%
Mohokare	90 284	5 790	96 075	99 365	96.7%
Xhariep District	51 023	4 892	55 915	52 396	106.7%
DC 16 Total	395 111	23 916	419 027	359 372	116.6%
Masilonyana	162 328	7 796	170 124	168 168	101.2%
Tokologo	79 972	5 385	85 357	79 467	107.4%
Tswelopele	96 643	6 896	103 540	102 959	100.6%
Matjhabeng	999 676	41 291	1 040 967	733 077	142.0%
Nala	204 012	10 108	214 119	163 318	131.1%
Lejweleputswa District	136 048	11 427	147 475	153 059	96.4%
DC 18 Total	1 678 679	82 903	1 761 583	1 400 048	125.8%
Setsotso	267 542	16 158	283 701	267 230	106.2%
Dihlabeng	358 936	23 817	382 753	246 088	155.5%
Nketoana	168 400	7 176	175 576	138 783	126.5%
Maluti a Phofung	686 359	35 033	721 392	851 701	84.7%
Phumelela	108 650	7 534	116 184	105 892	109.7%
Mantsopa	125 382	7 705	133 087	116 938	113.8%
Thabo Mofutsanyana District	104 459	8 796	113 255	139 749	81.0%
DC 19 Total	1 819 728	106 219	1 925 947	1 866 381	103.2%
Moghaka	451 339	29 578	480 917	298 568	161.1%
Ngwathe	293 009	18 394	311 402	278 095	112.0%
Metsimaholo	450 684	27 516	478 200	295 487	161.8%
Mafube	115 581	12 461	128 042	138 158	94.0%
Fezile Dabi	137 859	8 626	146 485	177 399	82.6%
DC 20 Total	1 448 472	96 574	1 545 046	1 185 707	130.3%
Total	7 855 351	389 340	8 244 690	5 925 446	139.1%

Source: NT Local Government Database

- 5.2.8 In light of the municipal trade unions and the South African Local Government Bargaining Council signing a five-year wage deal for 257 municipalities which secured above-inflation wage increases for municipal workers from 2025 to 2029.
- 5.2.9 An assessment was conducted to project the financial implication of the wage agreement. The assessment also may be used by municipalities to determine the funding envelope and the reciprocal implications in respect of raising higher local tax revenue, cost cutting staff headcount, municipal financial sustainability and implications on service standards. Accordingly, media statements, indicate that only 12 municipalities which equates to 4.7 percent of the 257 municipalities in South Africa rejected wage increases.
- 5.2.10 It should be noted that most municipalities had to hastily sign the deal mainly because it is a rare five-year agreement, which allows for slightly longer-term financial planning. Likewise, the approved increase in the first municipal financial year (2024/25) is a reasonable at a 5 percent average, which is aligned to the inflation rate.
- 5.2.11 The remaining four of the five-years wage agreement provides for increases inflation plus 0.75 percent for 2025/26 and 2026/27 municipal financial years and inflation plus 1.25 percent for 2027/28 and 2028/29.
- 5.2.12 From a high-level perspective these percentages may seem controllable but may not be affordable. This can be attributable to several factors. In the Free State Province it could be related to the high growth in unemployment rate case in point Xhariep jurisdiction, the rural nature of the small municipalities with limited economic activity and closure of mines

together with above inflation percentages aberrations in the financial sustainability of most Free State Municipalities. Presently numerous Free State Municipalities are struggling to meet their monthly salaries bill, pensions, SARS account and bulk services payments and are also saddled with dwindling ratepayer base shrinkage.

5.2.13 The summary of the rare five-year agreement is illustrated in the table below. The table shows the projected financial impact of inflation together with outer year increases of inflation plus 0.75 percent for 2025/26 and 2026/27 municipal financial years and inflation plus 1.25 percent for 2027/28 and 2028/29 for 23 Free State Municipalities. The total salary increases from 2024 to 2029 amounts to significant R2.4 billion.

R thousands	2024/25 Original Budget	2024/25 Adjusted Budget 4.5% Jul 24 1.5% from Mar 2024	2025/26 CPI + 0.75%	2026/27 CPI + 0.75%	2027/28 CPI + 1.25%	2028/29 CPI + 1.25%
Mangaung Metro	2 513 360	2 639 594	2 780 812	2 929 586	3 100 966	3 282 373
Letsemeng	82 956	87 122	91 783	96 693	102 350	108 337
Kopanong	170 848	179 429	189 028	199 141	210 791	223 122
Mohokare	90 284	94 819	99 892	105 236	111 392	117 909
Xhariep District	51 023	53 586	56 452	59 473	62 952	66 634
DC 16 Total	395 111	414 956	437 156	460 543	487 485	516 003
Masilonyana	162 328	170 481	179 601	189 210	200 279	211 995
Tokologo	79 972	83 989	88 482	93 216	98 669	104 442
Tswelopele	96 643	101 497	106 927	112 648	119 238	126 213
Matjhabeng	999 676	1 049 885	1 106 054	1 165 228	1 233 394	1 305 547
Nala	204 012	214 258	225 721	237 797	251 708	266 433
Lejweleputswa District	136 048	142 881	150 525	158 578	167 855	177 675
DC 18 Total	1 678 679	1 762 991	1 857 311	1 956 677	2 071 143	2 192 305
Setsotho	267 542	280 980	296 012	311 849	330 092	349 402
Dihlabeng	358 936	376 964	397 131	418 378	442 853	468 760
Nketoana	168 400	176 858	186 320	196 288	207 771	219 925
Maluti a Phofung	686 359	720 832	759 396	800 024	846 825	896 364
Phumelela	108 650	114 107	120 212	126 643	134 051	141 893
Mantsopa	125 382	131 679	138 724	146 145	154 695	163 745
Thabo Mofutsanyana District	104 459	109 706	115 575	121 758	128 881	136 421
DC 19 Total	1 819 728	1 911 124	2 013 369	2 121 084	2 245 168	2 376 510
Moqhaka	451 339	474 008	499 367	526 083	556 859	589 435
Ngwathe	293 009	307 725	324 188	341 532	361 512	382 660
Metsimaholo	450 684	473 319	498 642	525 319	556 050	588 579
Mafube	115 581	121 386	127 880	134 722	142 603	150 945
Fezile Dabi	137 859	144 783	152 529	160 689	170 089	180 040
DC 20 Total	1 448 472	1 521 221	1 602 606	1 688 346	1 787 114	1 891 660
Total	7 855 351	8 249 886	8 691 254	9 156 237	9 691 876	10 258 851
Increase (value) from previous year		394 534 982	441 368 877	464 982 112	535 639 838	566 974 768
Total increase from 2024/25 - 2028/29						2 403 500 578

*CPI calculated on 4.6% as at September 2024

Source: National Treasury, 2024 adapted by Free State Provincial Treasury

5.2.14 Across the province, municipalities are already struggling to manage their finances and providing quality basic services.

5.2.15 Municipal Councils together with the Municipal Managers must ensure that the salaries increases do not place municipalities in deeper financial difficulties in the outer municipal financial years which will result in municipalities tabling unfunded budgets. Given that approximately 70 percent of the municipal funding envelope is collected from the rate payers, it is therefore important that during the budget consultation process the municipal

councils engage with citizenry during the integrated development plan programme calendar on the implications on future tariffs to fund the salary increases.

5.2.16 Over the medium-term revenue framework 2024/25 to 2026/27 financial years, Free State Municipalities will receive R18.5 billion from the national fiscus (equitable share) for the main purpose to provide support for council salaries and provision of free basic services to the poor. Municipal Councils together with the Municipal Managers must ensure governance oversight and implementation of governments mandate to support for the poor/indigent households. The table below provides percentage comparative of compensation to equitable share.

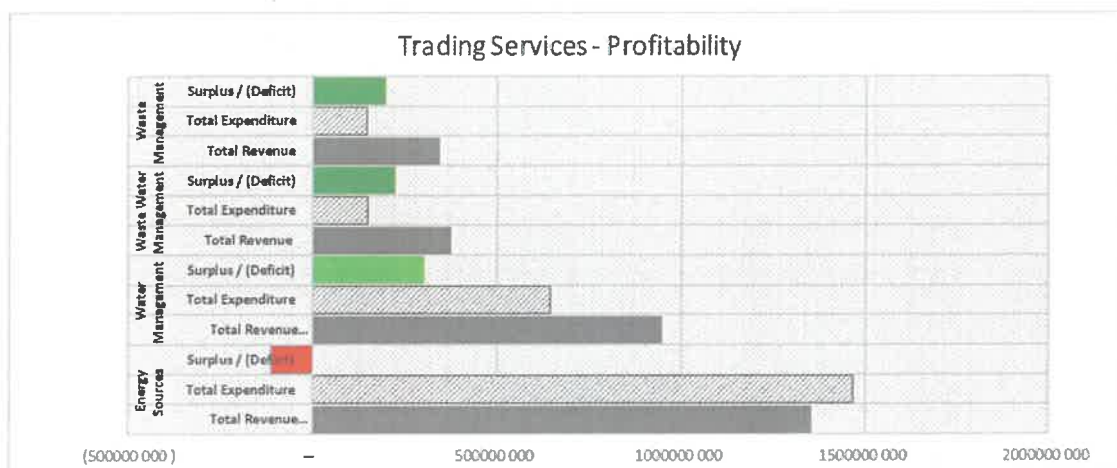
R thousands	2024/25 Equitable Share Allocation	% CoE / ES 2024/25	2025/26 Equitable Share Allocation	% CoE / ES 2025/26	2026/27 Equitable Share Allocation	% CoE / ES 2026/27
Mangaung Metro	1 113 938	237.0%	1 201 841	231.4%	1 298 009	225.7%
Letsemeng	90 162	96.6%	93 664	98.0%	96 485	100.2%
Kopanong	117 449	152.8%	121 954	155.0%	125 540	158.6%
Mohokare	99 365	95.4%	102 401	97.5%	104 370	100.8%
Xhariep District	52 396	102.3%	52 664	107.2%	52 231	113.9%
DC 16 Total	359 372	115.5%	370 683	117.9%	378 626	121.6%
Masilonyana	168 168	101.4%	172 975	103.8%	175 816	107.6%
Tokologo	79 467	105.7%	81 546	108.5%	82 648	112.8%
Tswelopele	102 959	98.6%	105 664	101.2%	107 094	105.2%
Matjhabeng	733 077	143.2%	777 846	142.2%	822 985	141.6%
Nala	163 318	131.2%	168 522	133.9%	172 029	138.2%
Lejweleputswa District	153 059	93.4%	155 598	96.7%	157 072	101.0%
DC 18 Total	1 400 048	125.9%	1 462 151	127.0%	1 517 644	128.9%
Setsofso	267 230	105.1%	276 616	107.0%	283 533	110.0%
Dihlabeng	246 088	153.2%	259 213	153.2%	271 732	154.0%
Nketoana	138 783	127.4%	143 781	129.6%	147 561	133.0%
Maluti a Phofung	851 701	84.6%	876 263	86.7%	890 621	89.8%
Phumelela	105 892	107.8%	109 260	110.0%	111 538	113.5%
Mantsopa	116 938	112.6%	120 953	114.7%	123 872	118.0%
Thabo Mofutsanyana District	139 749	78.5%	140 537	82.2%	139 508	87.3%
DC 19 Total	1 866 381	102.4%	1 926 623	104.5%	1 968 365	107.8%
Moqhaka	298 568	158.8%	312 620	159.7%	325 210	161.8%
Ngwathe	278 095	110.7%	288 372	112.4%	296 205	115.3%
Metsimaholo	295 487	160.2%	314 063	158.8%	332 997	157.8%
Mafube	136 158	89.2%	140 691	90.9%	143 887	93.6%
Fezile Dabi	177 399	81.6%	183 477	83.1%	190 008	84.6%
DC 20 Total	1 185 707	128.3%	1 239 223	129.3%	1 288 307	131.1%
Total	5 925 446	139.2%	6 200 521	140.2%	6 450 951	141.9%

Source: National Treasury, 2024 adapted by Free State Provincial Treasury

5.2.17 Mangaung Metro's compensation of employees exceeds 200 percent over the equitable share whilst the four district and with their respective locals are aggregate over 100 percent. This indicates that municipalities must improve their collection rate to 95 percent to meet their operational expenditure. It's incumbent on Municipal Managers and Chief Financial Officers of Free State to not rely on equitable share as a *bailout* for funding of salaries, pensions and bulk service providers.

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 accumulated trading surpluses in the Province as at 31 August 2024. However, **energy sources** recorded an operating deficit of **R109.8 million**. It is estimated that the deficit for the trading services, especially for energy services will continue to increase during the financial year mainly due to tariffs not being cost reflective.



5.3.2 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	(146 975)	(87 977)	85 351	103 012
Letsemeng	(1)	(2 136)	846	(30)
Kopanong	–	–	–	–
Mohokare	–	–	–	–
Masilonyana	261	1 353	2 920	1 567
Tokologo	(9 330)	134	5 677	3 500
Tswelopele	(7)	224	(1 362)	863
Matjhabeng	341 012	197 982	43 411	20 155
Nala	479	36 329	10 605	15 087
Setsoto	4 778	25 667	26 452	20 545
Dihlabeng	15 109	19 376	17 754	20 146

<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)
Nketoana	(8 967)	3 324	(4 123)	(222)
Maluti a Phofung	(259 974)	9 027	3 033	(2 034)
Phumelela	578	181	–	1 463
Mantsopa	3 183	7 262	3 345	2 052
Moqhaka	32 393	27 522	4 591	2 683
Ngwathe	(73 487)	4 864	8 089	6 688
Metsimaholo	(8 196)	47 336	5 212	686
Mafube	(711)	12 894	12 447	–
Total	(109 855)	303 362	224 247	196 1

5.4 Capital Expenditure and Sources of Finance

5.4.1 The aggregate capital expenditure amounts to R215.9 million or 6.6 per cent against the budget of R3.289 billion which is significantly lower than the expected performance for the financial year.

5.4.2 R164.8 million (76 per cent) of the total expenditure relates to *trading services* projects which consists of R23.3 million for *energy services*, R105.2 million for *water management*, R34.3 million for *waste water management*. Expenditure reported for *waste management* projects amounts to only R1.9 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 R2.810 billion was allocated to municipalities in the Province for the 2024/25 financial year in terms of the Division of Revenue Act, 2024, which included direct infrastructure grants, capacity building and other current transfers. The expenditure performance at the end of August 2024 shows a total spending of R209 million against the allocation (7.4 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.

Municipalities	2024/25 Conditional Grants				
	Allocated	Actual as at end Aug 2024		Projected Over/Under Spending on Allocation	
		R'000	R'000	%	R'000
Mangaung	1 155 380	49 256	4.3%	1 106 124	95.7%
Letsemeng	50 841	–	0.0%	50 841	100.0%
Kopanong	41 931	–	0.0%	41 931	100.0%
Mohokare	63 984	–	0.0%	63 984	100.0%
Xhariep	5 372	1 792	33.4%	3 580	66.6%
Masilonyana	67 581	–	0.0%	67 581	100.0%
Tokologo	44 896	50 241	111.9%	(5 345)	-11.9%
Tswelopele	49 455	9 027	18.3%	40 428	81.7%
Matjhabeng	188 134	15 779	8.4%	172 355	91.6%
Nala	70 729	8 479	12.0%	62 250	88.0%
Lejweleputswa	4 883	909	18.6%	3 974	81.4%
Setsoto	222 275	28 149	12.7%	194 126	87.3%
Dihlabeng	67 812	–	0.0%	67 812	100.0%
Nketoana	60 199	–	0.0%	60 199	100.0%
Maluti a Phofung	243 232	16 226	6.7%	227 006	93.3%
Phumelela	51 824	2 030	3.9%	49 794	96.1%
Mantsopa	37 962	9 684	25.5%	28 278	74.5%
Thabo Mofutsanyana	12 412	–	0.0%	12 412	100.0%
Moqhaka	68 226	–	0.0%	68 226	100.0%
Ngwathe	139 727	16 410	11.7%	123 317	88.3%
Metsimaholo	90 336	250	0.3%	90 086	99.7%
Mafube	68 086	460	0.7%	67 626	99.3%
Fezile Dabi	4 955	346	7.0%	4 609	93.0%
Total	2 810 232	209 037	7.4%	2 601 195	92.6%

* Source: DoRA 2024; LGDRS

5.4.4.4 The table below show the actual performance per grant:

Municipalities	2024/25 Conditional Grants				
	Allocated	Actual as at end Aug 2024		Projected Over/Under Spending on Allocation	
	R'000	R'000	%	R'000	%
Energy Efficiency & Demand Man Grant	22 500	–	0.0%	22 500	100%
Expanded Public Works Programme	33 584	1 964	5.8%	31 620	94.2%
Finance Management Grant	59 120	7 651	12.9%	51 469	87.1%
Integrated National Electrification Prog	104 521	2 541	2.4%	101 980	97.6%
Metro Informal Settlements Partnership Grant	302 002	22 887	7.6%	279 115	92.4%
Municipal Disaster Grant	–	3 591	0.0%	(3 591)	0.0%
Municipal Infrastructure Grant	877 969	60 094		817 875	93.2%
Neighbourhood Dev Partnership Grant	42 042	–	0.0%	42 042	100.0%
Programme & Project Preperation Support Grant	10 000	–	0.0%	10 000	100.0%
Public Transport network Grant	266 686	8 268	3.1%	258 418	96.9%
Regional Bulk Infrastructure Grant	220 112	76 304	34.7%	143 808	65.3%
Rural Roads Assets Man Systems Grant	10 126	436	4.3%	9 690	95.7%
Urban settlement Development Grant	530 611	18 039	3.4%	512 572	96.6%
Water Services Infrastructure Grant	330 959	7 261	2.2%	323 698	97.8%
Total	2 810 232	209 037	7.4%	2 601 195	92.6%

*Source: DoRA 2024; LGDRS

5.5 Cash Coverage & Cash Flow

- 5.5.1 Municipalities in the Province closed the month of August 2024 with a surplus cash and cash equivalent balance of **R3.571 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 Four municipalities (Tokologo, Matjhabeng, Thabo Mofutsanyana 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 2024)	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 Aug 2024)
Mangaung Metro	(170 178)	2 548 873	(23 401)	(3 458)	2 522 014	2 351 836
Letsemeng	-	-	-	-	-	-
Kopanong	-	-	-	-	-	-
Mohokare	-	-	-	-	-	-
Xhariep District	307	5 200	-	-	5 200	5 508
DC 16 Total	307	5 200	-	-	5 200	5 508
Masilonyana	-	7 553	-	-	7 553	7 553
Tokologo	-	(84 517)	-	-	(84 517)	(84 517)
Tswelopele	17 826	119 538	(4 400)	-	115 138	132 965
Matjhabeng	(354 058)	62 240	(17 890)	-	44 351	(309 708)
Nala	-	-	-	-	-	-
Lejweleputswa District	-	19 489	(87)	-	19 402	19 402
DC 18 Total	(336 232)	124 304	(22 376)	-	101 928	(234 304)
Setsotso	57 063	158 235	(48 453)	-	109 783	166 845
Dihlabeng	65 821	77 689	(19 325)	(1 243)	57 121	122 942
Nketoana	8 691	67 694	(39 392)	-	28 301	36 992
Maluti a Phofung	485 495	401 191	(14 173)	49	387 068	872 563
Phumelela	4 779	38 029	(170)	0	37 859	42 638
Mantsopa	(3 341)	75 102	(7 388)	-	67 714	64 373
Thabo Mofutsanyana	-	(7 797)	-	-	(7 797)	(7 797)
DC 19 Total	618 509	810 142	(128 901)	(1 194)	680 048	1 298 557
Moqhaka	44 985	2 330	(9 551)	(554)	(7 775)	37 209
Ngwathe	62 899	32 611	(11 710)	-	20 901	83 800
Metsimaholo	74 372	74 114	(8 467)	87	65 734	140 106
Mafube	(144 997)	(17 577)	-	42	(17 535)	(162 532)
Fezile Dabi	126 332	(74 935)	(220)	-	(75 155)	51 177
DC 20 Total	163 591	16 543	(29 948)	(426)	(13 831)	149 760
Total	275 997	3 505 063	(204 626)	(5 077)	3 295 360	3 571 357

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 4 of the 21 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
	1.00	*	1.00	*	1.00	357.56	588.65	1.00
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	-11.93	1.00	1.00	7.94	1.00	1.00	1.00	1.00
	Setsoto	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	17.00	1.00	116.69	1.00	1.00	1.00	1.00	

Source: Local Government Database

Note 1: Ratio indicated in orange – incorrect due to incorrect reporting

Note 2: * M02 data strings not submitted

5.5.6 The average year to date collection rate reported by municipalities for the province for the is only **55.4 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:

- Credit control and debt collection policies not implemented;
- Increase in rates and tariffs year-on-year is not affordable;
- Illegal connections and tampering of water and electricity meters; and
- Non billing and system challenges.

Liquidity ratios

5.5.8 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.

5.5.9 The table below indicates the liquidity ratio for the 23 municipalities that have submitted the information for August 2024. 16 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
	0.04	*	1.52	*	0.80	0.57	0.03	17.54
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	0.02	0.26	3.72	0.06	0.28	0.05	0.01	0.07
	Setsoto	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	0.47	-4.84	-0.14	0.41	0.01	0.04	-0.83	

Source: Local Government Database
Note 1: * M02 data strings not submitted

5.6 Debtors

5.6.1 The aggregated debtors as of 31 August 2024 amounted to R37.973 billion having **increased** by R0.129 billion from the previous month (*July 2024: R37.844 billion*). The municipal debt has grown substantially over the last financial years for debtors exceeding 90 days due to declining collection rates.

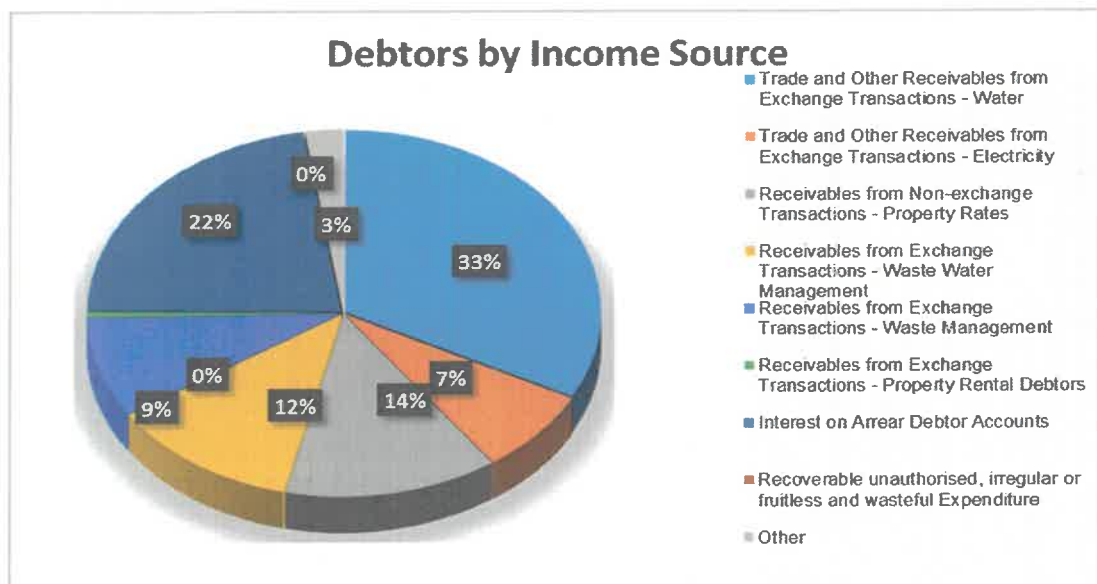
5.6.2 Although section 75A of the Municipal Systems Act, 2000 (MSA) empowers a municipality to levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and to recover collection charges and interest on any outstanding amount

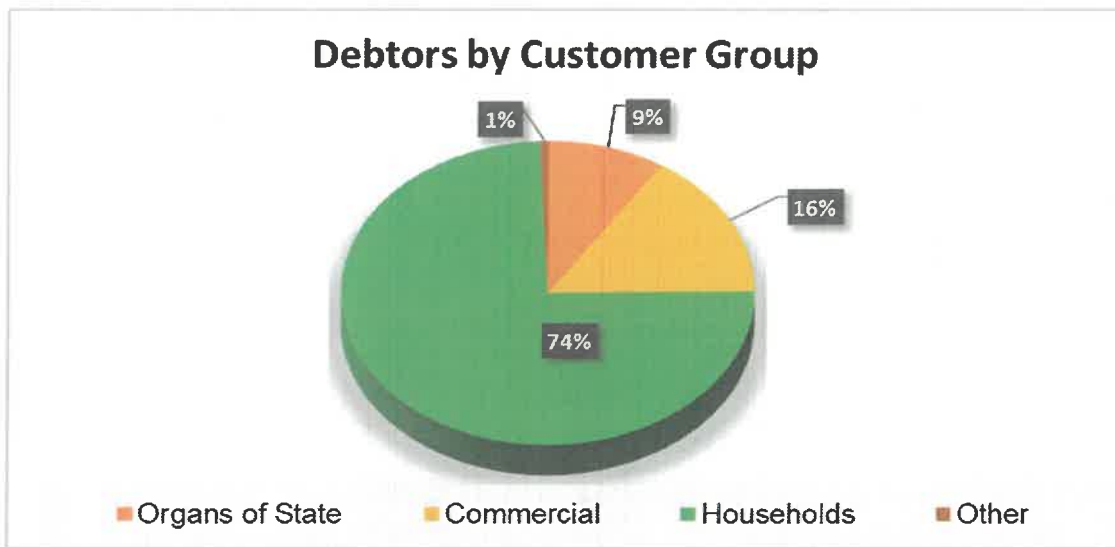
subject to the provisions of the National Credit Act, 2005 (Act 34 of 2005), the **debt is continuously increasing year on year.**

5.6.3 *Water services* remain the largest contributor to the total outstanding debt and amounts to R12.422 billion (32.7 per cent), followed by *interest on arrear debtor accounts* amounting to R8.508 billion (22.4 per cent). Debt relating to *property rates* contributes 13.5 per cent (R5.139 billion) to the total outstanding debt, whilst *waste water services* accounts for 12.1 per cent (R4.596 billion) of the total debt.

5.6.4 *Electricity services* contribute only 7.4 per cent (R2.824 billion) to the total outstanding debt.

5.6.5 The report also shows that *Households* contribute the majority to the outstanding debt, amounting to R28299 billion (74.5%), followed by *Businesses* with 15.6 per cent (R5.931 billion) and *Organs of state* with 9.2 per cent (R3.482 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 not collecting debt owed and 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.

	Mangaung	Kopanong	Letsemeng	Mohokare	Xhariep	Masilonyana	Matjhabeng	Nala
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185
	449.33	*	436.23	*	0.00	42.63	2 123.44	240.71
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	507.44	940.36	0.00	511.55	-1 736.14	4 306.80	3 005.92	1 626.76
	Setsoto	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	2 017.13	0.00	3 311.38	632.51	2 088.50	1 052.27	0.00	

Source: Local Government Database
 Note 1: * M02 data strings not submitted

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 R1.027 billion to R31.463 billion for the month under review (*July 2024: R30.436 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 90.6 per cent or R28.508 billion of the total outstanding debt.
- 5.7.5 Despite the interventions, no corrective measures were implemented by the Municipal Councils to ensure that the payment agreements were implemented and that current accounts were paid in full. These corrective measures to be taken by municipalities 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 (August 2024) the total overdue balance is R23.103 billion.
- 5.7.7 Only two municipalities in the FS Province, namely, Setsoto and Metsimaholo are up to date with the payments to Eskom.

PAYE and Pension/Retirement Contributions Debt

- 5.7.8 Payables relating to 3rd parties (i.e PAYE and pensions/retirement contributions) amounted to R397.4 million of which 63 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 R200 million.
- 5.7.9 The **non-payment** of PAYE, pension/retirement contributions and other 3rd parties, 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 and have legal implications for the municipalities. Furthermore, municipal employees hoping to take advantage of the 'two-pot' system may not be able to access the funds because of the municipality's non-compliance.

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	40 223	100.0%	–	0.0%	–	0.0%	–	0.0%	40 223	46.9%
Matjhabeng	13 455	100.0%	–	0.0%	–	0.0%	–	0.0%	13 455	15.7%
Nala	13	100.0%	–	0.0%	–	0.0%	–	0.0%	13	0.0%
Ngwathe	11 598	43.5%	4 250	16.0%	4 252	16.0%	6 538	24.5%	26 639	31.0%
Mafube	1 356	24.7%	1 391	25.3%	–	0.0%	2 747	50.0%	5 494	6.4%
Total Debt	66 646	77.7%	5 642	6.6%	4 252	5.0%	9 286	10.8%	85 824	100.0%

Source: Local Government Database

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	56 090	100.0%	–	0.0%	–	0.0%	–	0.0%	56 090	18.0%
Matjhabeng	13 343	55.1%	10 867	44.9%	–	0.0%	–	0.0%	24 210	7.8%
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	0.9%
Ngwathe	3 205	100.0%	–	0.0%	–	0.0%	–	0.0%	3 205	1.0%
Mafube	1 214	0.5%	587	0.3%	1 198	0.5%	222 272	98.7%	225 271	72.3%
Total Debt	73 857	23.7%	11 454	3.7%	1 198	0.4%	225 071	72.2%	311 579	100.0%

Source: Local Government Database

Creditors days ratio

5.7.11 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.

5.7.12 From the analysis most of the municipalities are far exceeding the ratio. The credit reported is due to incorrect reporting.

Indicator 10 - Creditors Days	Mangaung	Kopanong	Letsemeng	Mohokare	Xhariep	Masilonyana	Matjhabeng	Nala
	MAN	FS162	FS161	FS163	DC16	FS181	FS184	FS185
	1 710.94	*	1 220.67	*	2 625.48	-49 035.77	-19 504.28	-63.74
	Tokologo	Tswelopele	Lejweleputswa	Dihlabeng	Maluti-a-Phofung	Mantsopa	Nketoana	Phumelela
	FS182	FS183	DC18	FS192	FS194	FS196	FS193	FS195
	23.15	2 477.04	1 643.08	3 306.95	866.00	5 067.37	5 985.91	10 607.98
	Setsotho	Thabo Mofutsanyana	Mafube	Metsimaholo	Moqhaka	Ngwathe	Fezile Dabi	
	FS191	DC19	FS205	FS204	FS201	FS203	DC20	
	503.83	-1 193.86	408 901.48	768.23	14 233.65	5 223.56	-15 424.72	

Source: Local Government Database

Note 1: * M02 data strings not submitted

6. OTHER MFMA RELATED MATTERS

Unauthorised Expenditure

6.1 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.

6.2 The following support were provided during August 2024:

No:	Municipality:	Date of training:
1.	Mafube Local Municipality	13 August 2024 - (Not top 12)
2.	Nketoana Local Municipality	14 August 2024
3.	Maluti-A-Phofung Local Municipality	15 August 2024
4.	Dihlabeng Local Municipality	16 August 2024
5.	Mantsopa Local Municipality	19 August 2024 – (Not top 12)
6.	Letsemeng Local Municipality	20 August 2024
7.	Tokologo Local Municipality	22 August 2024

6.3 Currently the UIF&W reduction strategies to be submitted by the Municipalities are still on hold, waiting for the Department of Planning, Monitoring and Evaluation to issue the detailed Medium-Term Strategic Framework for 2024-2029 strategic framework period.

6.4 The table on the next page indicate the unauthorized expenditure from the past three financial years (2020/21 to 2022/23):

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
Moqhaka	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. 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.

7.1 MFMA s138 and 140 triggers

7.1.1 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.

7.1.2 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.

7.1.3 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	0				
Setso	1		✓		
Dihlabeng	4	✓	✓	✓	✓
Nketoana	4	✓	✓	✓	✓
Maluti-a-Phofung	4	✓	✓	✓	✓
Phumelela	4	✓	✓	✓	✓
Mantsopa	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

7.1.4 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.

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: 01-10-2024

ANNEXURES:

Annexure 1 – S71 Summary Report per municipality

Annexure 2 – Indicators (State of Local Government Report)