

# LIMPOPO

PROVINCIAL GOVERNMENT  
REPUBLIC OF SOUTH AFRICA

## PROVINCIAL TREASURY

Enq: Ngoepe NA

Ref: 12/1/6/8/2/1

Date: 30 August 2012

Director-General: National Treasury

Private Bag x115

**PRETORIA**

0001

Attention: Mr. J. Hattingh

### **MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003: IN-YEAR-MONITORING: SECTION 71 (6) REPORTING: JUNE 2012**

In terms of section 71(6) of the MFMA, the Provincial Treasury must by no 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.

Attached please find the Limpopo Provincial Treasury's MFMA section 71(6) consolidated statements and narratives as at 30 June 2012.

Kind regards,

  
\_\_\_\_\_  
**Monde Tom**

Administrator: Provincial Treasury,

Limpopo Government Section 100(1)(b) Constitution, Intervention.

Int: Cell: +27(78) 893 2170, Office: +27(15) 291 5366

Date: 11/09/12

**LIMPOPO PROVINCIAL TREASURY**

**Report on Consolidated MFMA S71 (Monthly Budget Statements)**

**As at 30 June 2012**

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#### List of acronyms

1.	AO	Accounting Officer
2.	CFO	Chief Financial Officer
3.	HoD	Head of Department
4.	IYM	In year monitoring
5.	LPT	Limpopo Provincial Treasury
6.	MBRR	Municipal Budget & Reporting Regulations
7.	MEC	Member of Executive Council
8.	MFMA	Municipal Finance Management Act No 56 of 2003
9.	MM	Municipal Manager
10.	MTREF	Medium Term Revenue & Expenditure Framework
11.	NT	National Treasury
12.	PPE	Property, Plant and Equipments
13.	SMME's	Small Micro & Medium Enterprises
14.	YTD	Year to date

## 1. Purpose

To provide consolidated monthly financial statements for 30 municipalities in Limpopo Province as at 30 June 2012.

## 2. Background

In terms of section 71(1) of the MFMA, the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- a) Actual revenue, per revenue source;
- b) Actual borrowings;
- c) Actual operating expenditure, per vote;
- d) Actual capital expenditure, per vote;
- e) The amount of any allocation received;
- f) Actual expenditure on those allocations, excluding expenditure on –
  - i. Its share of the local government equitable share; and
  - ii. Allocations exempted by the annual Division of Revenue Act from compliance with this paragraph and;
- g) When necessary, an explanation of –
  - i. Any material variance from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
  - ii. Any material variance from the service delivery and budget implementation plan; and
  - iii. Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remains within the municipality's approved budget.

According to section 71(6) of the MFMA, the Provincial Treasury must by no 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' budget, per municipality and per municipal entity.

### **3. Methodology / Assessment Technique**

The consolidated monthly budget statement is compiled in terms of Section 71(6) of the Municipal Finance Management Act (No. 56 of 2003). The year-to date budget amounts reflected in statements are compared with the year-to date actual amounts and variances are identified.

### **4. MFMA S71 Compliance Checklist**

Table 1: MFMA S71 Compliance Checklist

Municipality	Apr-12	May-12	Jun-12
	Date of submission		
DC 35 - CAPRICORN	17.05.2012	14.06.2012	13.07.2012
LIM 351 - BLOUBERG	11.05.2012	10.06.2012	13.07.2012
LIM 352 - AGANANG		25.06.2012	13.07.2012
LIM 353 - MOLEMOLE	15.05.2012	14.06.2012	13.07.2012
LIM 354 - POLOKWANE	15.05.2012	14.06.2012	13.07.2012
LIM 355 - LEPELLE-NKUMPI	14.05.2012	13.06.2012	13.07.2012
DC - 47 - GREATER SEKHUKHUNE	15.05.2012	12.06.2012	
LIM 471 - EPHRAIM MOGALE	14.05.2012	14.06.2012	10.07.2012
LIM 472 - ELIAS MOTSOLEDI	15.05.2012	12.06.2012	17.07.2012
LIM 473 - MAKHUDUTHAMAGA	15.05.2012	14.06.2012	14.07.2012
LIM 474 - FETAKGOMO	15.05.2012	14.06.2012	13.07.2012
LIM 475 - GREATER TUBATSE			
DC 33 - MOPANI	14.05.2012	14.06.2012	13.07.2012
LIM 331 - GREATER GIYANI	24.05.2012	18.06.2012	16.07.2012
LIM 332 - GREATER LETABA	15.05.2012		13.07.2012
LIM 333 - GREATER TZANEEN	15.05.2012	19.06.2012	13.07.2012
LIM 334 - BA- PHALABORWA	11.05.2012	15.06.2012	12.07.2012
LIM 335 - MARULENG	11.05.2012	14.06.2012	14.07.2012
DC 36 - WATERBERG	15.05.2012	14.06.2012	20.07.2012
LIM 361 - THABAZIMBI			11.07.2012
LIM 362 - LEPHALALE	14.05.2012	14.06.2012	16.07.2012
LIM 364 - MOOKGOPONG	15.05.2012	14.06.2012	13.07.2012
LIM 365 - MODIMOLLE	15.05.2012	14.06.2012	13.07.2012
LIM 366 - BELA-BELA	11.05.2012	15.06.2012	23.07.2012
LIM 367 - MOGALAKWENA	15.05.2012	20.06.2012	12.07.2012
DC 34 - VHEMBE	14.05.2012	14.06.2012	17.07.2012
LIM 341- MUSINA	15.05.2012	14.06.2012	13.07.2012
LIM 342 - MUTALE	14.05.2012	15.06.2012	14.07.2012
LIM 343 - THULAMELA	15.05.2012	14.06.2012	13.07.2012
LIM 344 - MAKHADO	14.05.2012	14.06.2012	13.07.2012

Source: In-year-monitoring database

Table 1 indicates that for the month of June 2012, twenty-seven (28) out of thirty (30) municipalities submitted MFMA S71 Schedule C reports. Out of the twenty-eight (28) submissions, five (5) submitted the reports after the due date prescribed by the MFMA, and none of the two (2) municipalities complied with MFMA S74 (2). Non-compliance letters were sent to Mayors requiring Accounting Officers' accountability in this regard.



## 5. Municipal Budget Implementation

This section of the report focuses on progress made by municipalities in budget implementation. It covers financial performance ending 30 June 2012.

### 5.1 Financial Performance

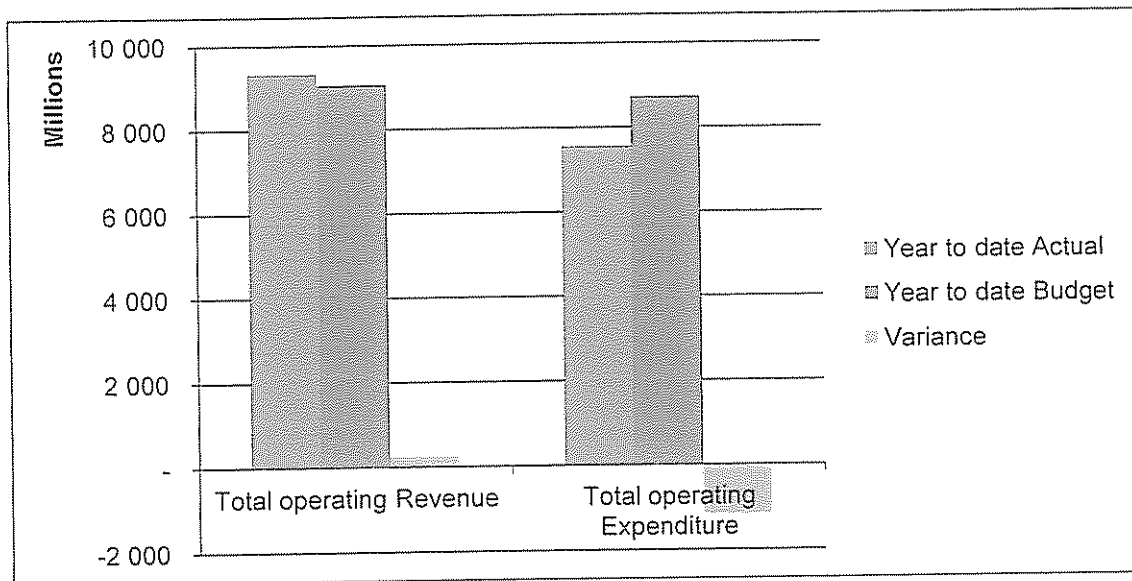
Financial performance statements show operating revenue and expenditure for the year to date. The variances between the budget and actual expenditure are reflected in these statements.

Table 2: Financial performance

	2010/11	Budget Year 2011/12							Full Year Forecast
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
<b>R thousands</b>									
<b>Financial Performance</b>									
Property rates	711 215	760 421	780 290	68 703	739 145	661 889	77 256	12%	707 045
Service charges	2 203 281	2 469 205	2 467 850	254 314	2 530 977	2 364 370	166 607	7%	2 438 095
Investment revenue	570 339	572 899	606 999	40 500	626 160	599 148	27 012	5%	573 400
Transfers recognised - operational	3 894 753	4 290 949	4 386 670	199 139	4 471 746	4 106 159	365 586	9%	4 202 985
Other own revenue	996 743	1 268 110	1 449 077	88 972	957 388	1 325 158	(367 770)	-28%	1 355 262
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>8 376 332</b>	<b>9 381 585</b>	<b>9 712 875</b>	<b>651 628</b>	<b>9 325 416</b>	<b>9 056 724</b>	<b>268 692</b>	<b>3%</b>	<b>9 276 787</b>
Employee costs	2 329 219	2 696 064	2 702 351	208 224	2 346 123	2 476 140	(131 017)	-5%	2 565 698
Remuneration of Councilors	333 592	378 699	369 123	24 035	334 267	329 353	4 914	1%	333 978
Depreciation & asset impairment	792 579	486 909	686 574	147 498	383 959	556 866	(172 927)	-31%	541 877
Finance charges	132 646	123 573	118 311	24 050	93 742	106 053	(12 312)	-12%	106 113
Materials and bulk purchases	1 428 900	1 728 943	1 836 246	181 553	1 675 039	1 725 778	(50 740)	-3%	1 761 562
Transfers and grants	254 732	311 411	313 764	21 590	178 180	292 053	(113 873)	-39%	267 861
Other expenditure	3 061 518	3 114 312	3 543 105	274 998	2 534 256	3 228 834	(694 578)	-22%	3 339 932
<b>Total Expenditure</b>	<b>8 333 187</b>	<b>8 810 112</b>	<b>9 573 474</b>	<b>881 948</b>	<b>7 544 563</b>	<b>8 715 097</b>	<b>(1 170 534)</b>	<b>-13%</b>	<b>8 919 022</b>
<b>Surplus/(Deficit)</b>	<b>43 145</b>	<b>571 473</b>	<b>139 402</b>	<b>(230 320)</b>	<b>1 780 853</b>	<b>341 627</b>	<b>1 439 225</b>	<b>421%</b>	<b>357 765</b>

Source: In-year-monitoring database

Figure 1: Financial Performance



Source: In-year-monitoring database

The financial performance results to date reveal that municipalities achieved above the year-to-date budget for items such as property rates, operating grants and investment revenue. The line item other revenue on the other hand continues to record a high negative variance, in May 2012 the negative variance was forty-five (42) percent; which declined to forty-two (28) percent in June 2012. The overall performance for the province reflects over collection on operating revenue of three percent (3%).

The underperformance on the operating expenditure budget remains a challenge. All items underperformed against the year-to-date budget except remuneration of councilor's item. The average rate for the province is negative 13 percent. The poor performance on these items is assumed to be as a result of improper budgeting principles.

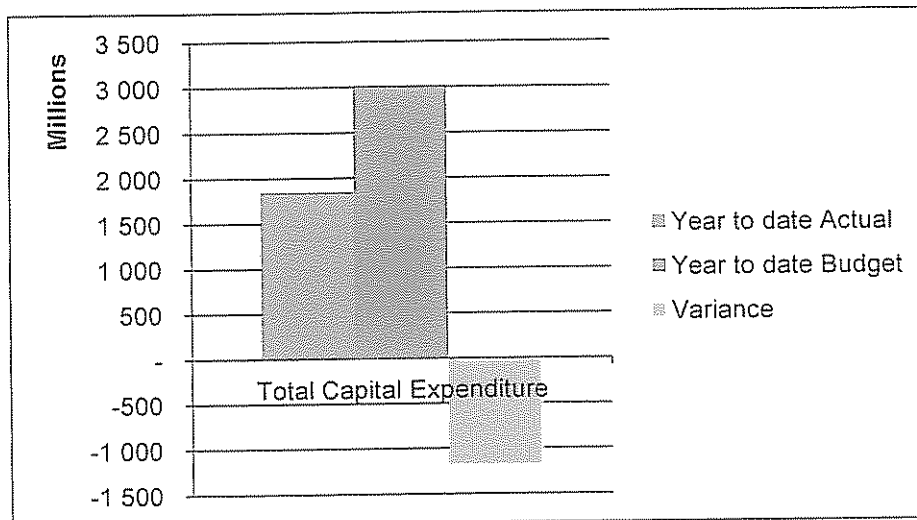
## 5.2 Capital Expenditure

Table 3: Capital Expenditure and Sources of funds

R thousands	2010/11	Budget Year 2011/12							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
<b>Capital expenditure &amp; funds sources</b>									
Capital expenditure	2 466 359	4 102 427	3 388 642	330 325	1 845 334	3 014 847	(1 169 513)	-39%	2 301 052
Capital transfers recognised	1 172 628	3 270 519	2 615 258	147 085	1 664 776	2 460 788	(796 012)	-32%	2 361 763
Public contributions & donations	9 913	-	-	-	-	-	-	-	-
Borrowing	33 674	153 950	66 359	1 992	37 377	65 407	(28 030)	-43%	70 309
Internally generated funds	657 297	1 021 883	958 578	95 096	400 622	790 514	(389 892)	-49%	843 409
<b>Total sources of capital funds</b>	<b>1 873 512</b>	<b>4 446 352</b>	<b>3 640 195</b>	<b>244 173</b>	<b>2 102 776</b>	<b>3 316 710</b>	<b>(1 213 934)</b>	<b>-37%</b>	<b>3 275 501</b>

Source: In-year-monitoring database

Figure 2: Capital Expenditure



Source: In-year-monitoring database

For the period (twelve months) under review, the capital expenditure budget records under spending by thirty seven (37) percent. Municipalities continue to disclose unsatisfactory capacity to spend on grant funded projects; the same applies to projects funded from borrowings and internally generated revenue (surplus funds). Capital projects funded from internally generated funds underperform due to the budget not being cash backed or the collection rate from the current year's billing being unrealistic. This is still assumed to be as a result of improper budgeting principles for borrowings and internally generated funds.

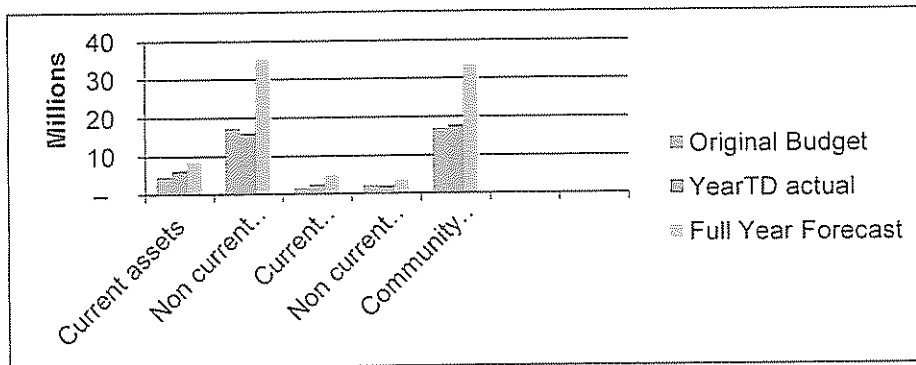
### 5.3 Financial Position

Table 4: Financial position.

R thousands	2010/11	Budget Year 2011/12			
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	Full Year Forecast
<b>Financial position</b>					
Total current assets	5 901 689	4 578 702	4 926 449	6 098 926	8 470 297
Total non current assets	24 093 376	17 232 575	14 679 085	16 008 242	35 496 484
Total current liabilities	3 197 272	1 545 988	2 101 021	2 412 050	5 058 613
Total non current liabilities	1 970 663	2 169 744	2 360 635	1 970 963	3 520 610
Community wealth/Equity	21 444 195	16 906 722	13 889 940	17 650 255	33 727 368

Source: In-year-monitoring database

Figure 3: Financial positions



Source: In-year-monitoring database

This table reveals gross breach of budgeting principles. A horizontal comparison of each line item reveals that this information is not credible, the year-to date actual has already exceeded the adjustment budget amounts for all items except non current liabilities item. Due to this reason, no reliance should be placed on these results.

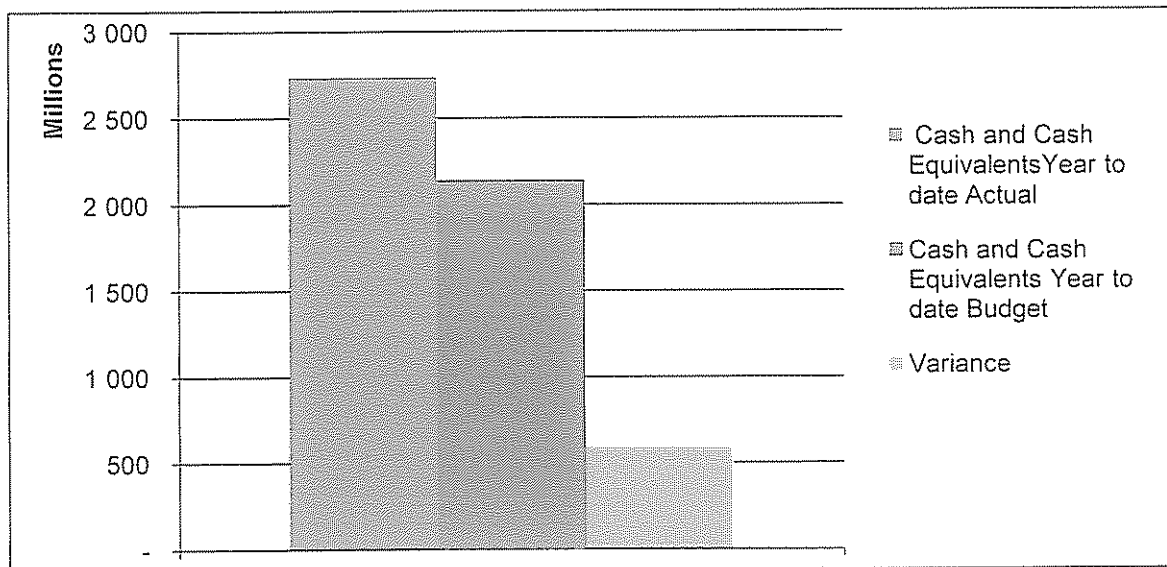
## 5.4 Cash Flow Statement

Table 5: Statement of Cash Flow

	2010/11	Budget Year 2011/12							
	Audited Outcome	Original Budget	Adjusted Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands									
<b>Cash flows</b>									
Net cash from (used) operating	3 639 895	4 599 468	3 192 129	(38 705)	3 048 274	3 231 536	(183 262)	-6%	3 695 065
Net cash from (used) investing	(3 052 887)	(2 444 042)	(2 035 599)	(25 067)	(1 148 864)	(1 916 579)	767 715	-40%	(1 277 681)
Net cash from (used) financing	465 134	23 409	(2 110)	31 485	266 537	16 974	249 564	1470%	879 952
Cash/cash equivalents at the month/year end	1 986 390	2 984 000	1 983 060	-	2 735 859	2 139 697	595 862	28%	4 157 505

Source: In-year-monitoring database

Figure 4: Statement of Cash Flow



Source: In-year-monitoring database

Due to the current challenges regarding the credibility of the cash flow statement of municipalities (cash projection/ forecasting), reliance on these financial results should be exercised with caution.

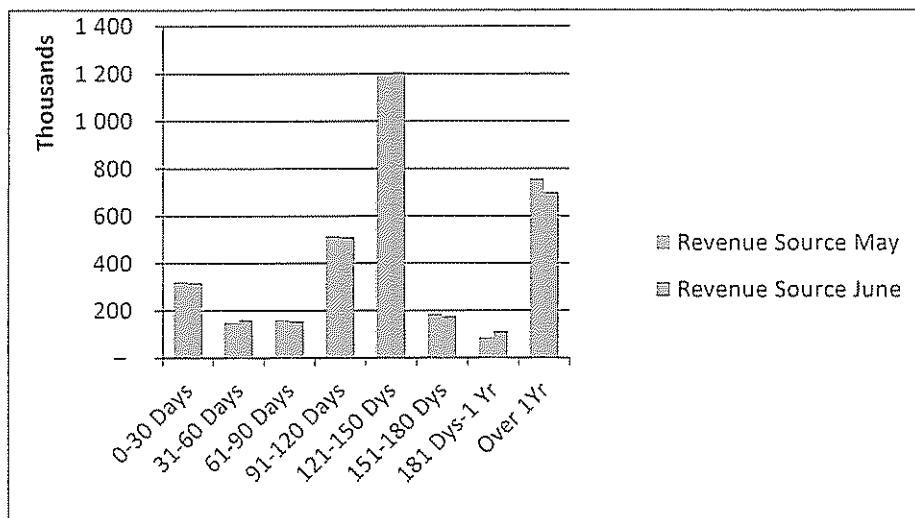
## 5.5 Debtors and Creditors Ageing

Table 6: Debtors Ageing

Debtors	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total
Revenue Source May	322 616	149 858	160 099	515 538	1 200 407	165 011	85 114	756 070	3 374 723
Revenue Source June	318 234	160 253	155 512	511 416	1 205 346	175 043	110 065	698 643	3 334 513

Source: In-year-monitoring database

Figure 5: Debtors Ageing



Source: In-year-monitoring database

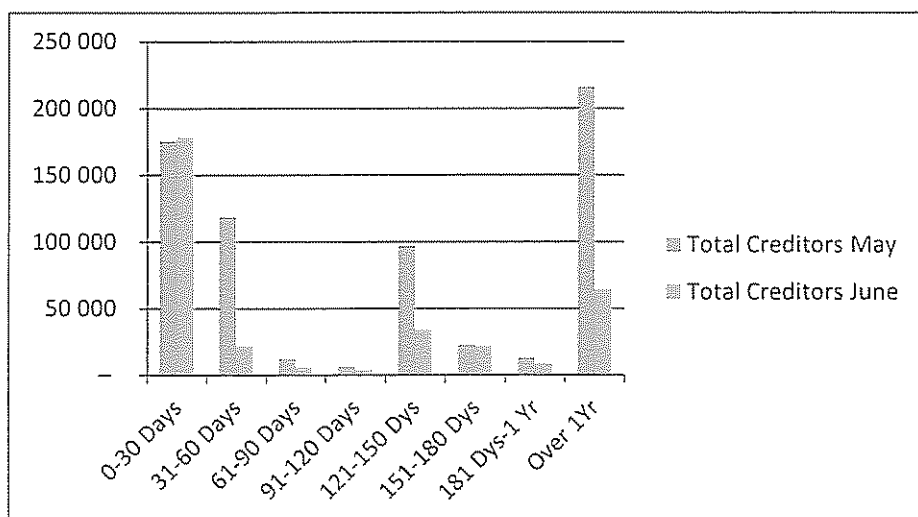
The table above reflects progression in terms of collection of revenue due to the municipalities. All debt categories recorded higher closing balances with the exception of the category over one eighty one which recorded an increase.

**Table 7: Creditors Ageing**

Creditors	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total
Total Creditors May	175 409	118 360	12 097	6 014	96 660	22 239	12 629	216 098	662 445
Total Creditors June	178 071	21 288	5 802	3 265	34 034	21 471	8 242	63 905	336 078

Source: In-year-monitoring database

**Figure 6: Creditors Ageing**



Source: In-year-monitoring database

The creditors' book also recorded a decrease in the total owed by municipalities, the total decrease between May and June 2012 amounts to R326 million (51 percent). The decrease in this book commended however non payment of creditors is a concern as municipalities continue to reflect a serious non compliance with MFMA S65 and MFMA Circular 49 by having monies owed for more than thirty days.

## 6. Conclusion

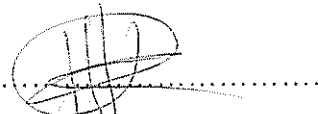
The average performance to date reveal serious challenges related to revenue collection, expenditure/contract/supply chain management and cash flow projection. The poor performance on the capital projects and the low collection rate on outstanding debtors pose serious challenges on the sustainability of municipalities. This is an indication that municipalities in the Province were not able to perform as per the approved Service Delivery and Budget Implementation Plans, this implies that the majority of municipalities have huge unspent conditional grants at the end of the

2011/12 financial year. Provincial Treasury is currently advising municipalities to ensure that applications for roll-over of funds are processed to National Treasury for consideration. A consolidated report on the state of municipal finance for the Province shall be presented at the Premier Intergovernmental Forum to be held in September 2012 for consideration and intervention on the challenges that have highlighted in this report.



2011/12 financial year. Provincial Treasury is currently advising municipalities to ensure that applications for roll-over of funds are processed to National Treasury for consideration. A consolidated report on the state of municipal finance for the Province shall be presented at the Premier Intergovernmental Forum to be held in September 2012 for consideration and intervention on the challenges that have highlighted in this report.

Prepared by:

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Signature

Ngoepe N.A: MFMA Coordinator

Reviewed by:

A handwritten signature in black ink, featuring a large, stylized initial 'N' followed by several loops and a long horizontal stroke extending to the right, positioned above a dotted line.

Signature

Ntimbela Khaya : Acting Senior General Manager Programme 2