



LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

Enq: Ntuli P S

Ref: 12/1/6/4

Date: 28 October 2011

Director-General: National Treasury

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Attention: Mr. J. Hattingh

**MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003: IN-YEAR-MONITORING:
SECTION 71 (6) REPORTING: SEPTEMBER 2011**

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 September 2011.

Kind regards,

**HEAD OF DEPARTMENT
PROVINCIAL TREASURY**

DATE: 28/10/2011

LIMPOPO PROVINCIAL TREASURY

Report on Consolidated Monthly Financial Statements

MFMA S71 (Monthly Budget Statement)

Contents

- 1. Purpose4
- 2. Background4
- 3. Methodology / Assessment Technique5

- 4. MFMA S71 Compliance Checklist.....5
- 5. Municipal Budget Implementation7
 - 5.1. Financial Performance.....7
 - 5.2 Capital Expenditure9
 - 5.3 Financial Position 10
 - 5.4 Cash Flow Statement 11
 - 5.5 Debtors and Creditors Ageing..... 12
- 6 Conclusion..... 14
- 7 Recommendations..... 14

LIST OF ACRONYMS

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

1. Purpose

To provide consolidated monthly financial statements for the 30 Municipalities in Limpopo Province as at 30 September 2011.

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.

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 amounts reflected in statements are compared to amounts as reflected in the municipalities' original budgets as submitted to Provincial Treasury. The YTD budget is compared with the YTD actual, identified variances are explained.

4. MFMA S71 Compliance Checklist

Table 1 indicates that 29 (twenty-nine) out of the 30 (thirty) municipalities complied by submitting MFMA S71 Schedule C reports. Greater Giyani and Greater Tubatse municipalities did not submit the Schedule C reports in August, this month, both municipalities are amongst the 6 (six) that submitted the reports late; while Lepelle-Nkumpi did not submit the MFMA S71 reports. The other municipalities that submitted reports late are Greater Tzaneen, Greater Sekhukhune, Thabazimbi, and Lephalale.

In August, letters were sent to Greater Giyani and Greater Tubatse requesting the respective Accounting Officers to provide reasons for non compliance. Greater Giyani responded and outlined challenges experienced and committed to put processes in place to remedy the situation. Of the six municipalities that submitted reports late this month, Thabazimbi and Greater Tzaneen were amongst the six that submitted reports late in August. Non compliance letters were again sent to all municipalities including Lepelle-Nkumpi. For the three months depicted below, Lepelle-Nkumpi and Greater Giyani have been consistent in non compliance with MFMA S71; both have one non submission and two late submissions.

Table 1: MFMA S71 Submission Checklist as at 30 September 2011

Municipality	July	August	September
	Date of submission	Date of submission	Date submitted
	Electronic	Electronic	Electronic
DC 35 - CAPRICORN	22.8.2011	14.09.2011	14.10.2011
LIM 351 - BLOUBERG		14.09.2011	14.10.2011
LIM 352 - AGANANG	02.09.2011	14.09.2011	14.10.2011
LIM 353 - MOLEMOLE	17.2011	14.09.2011	10.10.2011
LIM 354 - POLOKWANE	11.8.2011	13.09.2011	11.10.2011
LIM 355 - LEPELLE-NKUMPI	31.8.2011	20.09.2011	
DC - 47 - GREATER SEKHUKHUN	15.8.2011	14.09.2011	17.10.2011
LIM 471 - EPHRAIM MOGALE	15.8.2011	14.9.2011	14.10.2011
LIM 472 - ELIAS MOTSOLEDI	11.8.2011	20.09.2011	07.10.2011
LIM 473 - MAKHUDUTHAMAGA	15.8.2011	14.09.2011	14.10.2011
LIM 474 - FETAKGOMO	15.8.2011	13.09.2011	14.10.2011
LIM 475 - GREATER TUBATSE	11.8.2011	21.10.2011	21.10.2011
DC 33 - MOPANI	15.8.2011	14.09.2011	13.10.2011
LIM 331 - GREATER GIYANI	31.8.2011		19.10.2011
LIM 332 - GREATER LETABA	15.8.2011	14.09.2011	14.10.2011
LIM 333 - GREATER TZANEEN	15.8.2011	19.09.2011	19.10.2011
LIM 334 - BA- PHALABORWA	15.8.2011	14.09.2011	12.10.2011
LIM 335 - MARULENG	22.8.2011	13.09.2011	13.10.2011
DC 36 - WATERBERG	15.8.2011	09.09.2011	13.10.2011
LIM 361 - THABAZIMBI	15.8.2011	19.09.2011	20.10.2011
LIM 362 - LEPHALALE	11.8.2011	14.09.2011	17.10.2011
LIM 364 - MOOKGOPONG	15.8.2011	19.09.2011	14.10.2011
LIM 365 - MODIMOLLE	12.8.2011	09.09.2011	14.10.2011
LIM 366 - BELA-BELA	22.8.2011	14.09.2011	19.10.2011
LIM 367 - MOGALAKWENA	12.8.2011	14.09.2011	14.10.2011
DC 34 - VHEMBE	12.8.2011	13.09.2011	14.10.2011
LIM 341- MUSINA	15.8.2011	14.09.2011	14.10.2011
LIM 342 - MUTALE	18.8.2011	20.09.2011	14.10.2011
LIM 343 - THULAMELA	15.8.2011	14.09.2011	14.10.2011
LIM 344 - MAKHADO	10.8.2011	12.09.2011	10.10.2011

Source: In-year-monitoring database

5. Municipal Budget Implementation

This section of the report focuses on progress made by municipalities in budget implementation. It depicts the extent to which Accounting Officers are complying with Section 69 of the MFMA in terms of budget management.

5.1. Financial Performance

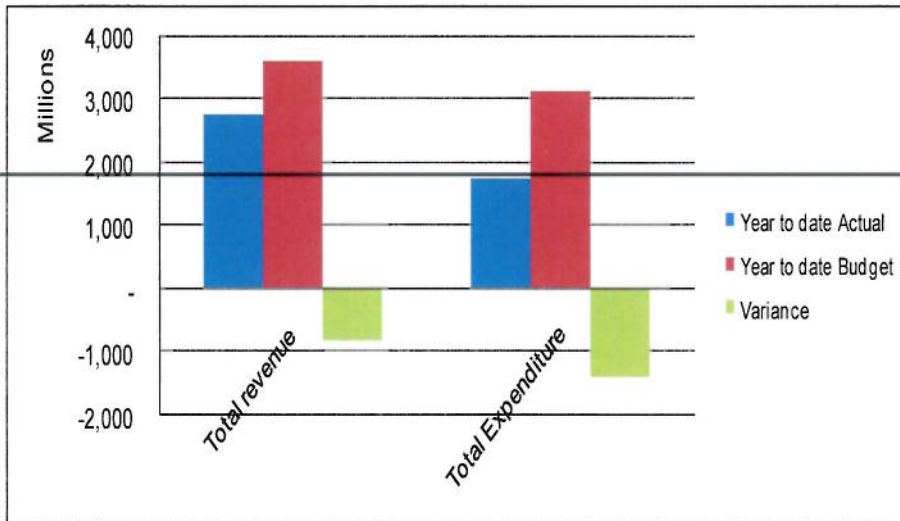
Financial performance statement depicts the operating revenue and expenditure recognised by municipalities to date. The surplus or deficit is reflected accordingly in this statement.

Table 2: Financial performance as at 30 September 2011

Description	2010/11	Budget Year 2011/12						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands								
Financial Performance								
Property rates	261401	664,791	63,344	207,133	202,577	4,556	2%	521825
Service charges	1,198,328	2,544,821	197,979	627,650	825,537	(197,887)	-24%	2,130,691
Investment revenue	88,409	237,788	21,295	52,557	97,219	(44,662)	-46%	168,773
Transfers recognised - operational	2,548,291	4,726,937	125,581	1,762,467	2,187,068	(424,600)	-19%	3,485,696
Other own revenue	407,799	924,658	34,810	140,706	299,479	(158,773)	-53%	647,103
Total Revenue (excluding capital transfers and contributions)	4,504,228	9,098,995	443,010	2,790,513	3,611,879	(821,366)	-23%	6,974,088
Employee costs	1,355,070	2,757,212	230,516	637,749	965,960	(328,211)	-34%	2,190,860
Remuneration of Councillors	145,319	293,553	22,861	64,156	111,280	(47,125)	-42%	221,932
Depreciation & asset impairment	192,689	557,447	23,725	24,435	173,318	(148,883)	-86%	460,443
Finance charges	29,799	65,236	4,028	4,769	16,028	(11,259)	-70%	56,611
Materials and bulk purchases	715,983	1,885,505	178,475	464,717	571,090	(106,373)	-19%	1,625,279
Transfers and grants	91,238	142,126	7,514	20,253	52,510	(32,257)		128,677
Other expenditure	1,376,773	3,075,506	245,166	545,075	1,248,136	(703,062)	-56%	1,964,013
Total Expenditure	3,906,871	8,776,583	712,275	1,761,154	3,138,324	(1,377,170)	-44%	6,647,813
Surplus/(Deficit)	597,357	322,411	(269,265)	1,029,359	473,556	555,803	117%	326,275

Source: In-year-monitoring database

Figure 1: Financial performance as at 30 September 2011



Source: In-year-monitoring database

As depicted in table 2 and figure 1 above, the operating revenue budget for the first quarter was R3.6 billion. The revenue realised to date amounts to R2.7 billion with a negative variance of R821 million (23 percent). As a result of the material under collection of revenue, it is projected that the annual budgets will decline from R9 billion to R6.9 billion at year end. This represents a decline in budgeted operating revenue by 23 per cent.

All line items in the operating revenue budget achieved negative variances with the exception of property rates, which achieve a positive variance of 2 percent. It is alarming to note that municipalities are also not able to depict accurate projections for transfers and grants which are found in the DoRA and the National Treasury payment schedule. This may be an indication that municipalities are not using scientific methods in forecasting but adopt the linear projection method.

The operating expenditure budget also reveals material under performance. The budgeted expenditure for the first quarter amounted to R3.1 billion; the actual expenditure is R1.7 billion achieving a negative variance of R1.3 billion (44 percent).

Due to this material under expenditure on the operating budget, the full year forecast stands at R6.6 billion which translates to a decline of R2.1 billion (24 percent) from the annual budget of R8.7 billion. All line items in the operating budget under performed.

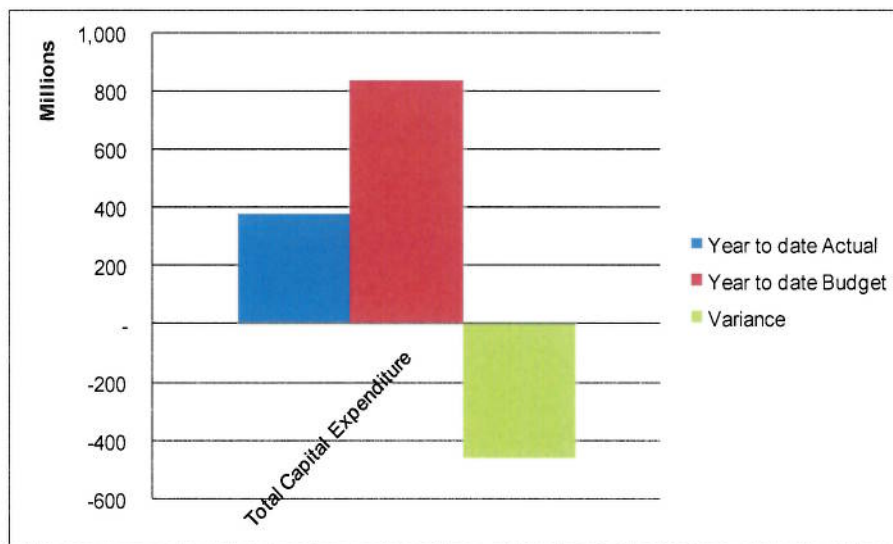
5.2 Capital Expenditure

Table 3: Capital Expenditure and Sources of funds as at 30 September 2011

R thousands	2010/11	Budget Year 2011/12						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
Capital expenditure	-	-	-	-	-	-	-	-
Capital transfers recognised	885,870	2,477,212	92,792	318,202	698,053	(379,851)	-54%	1,454,992
Public contributions & donations	-	-	-	-	-	-	-	-
Borrowing	45,866	53,950	13,202	13,355	-	13,355		53,950
Internally generated funds	189,224	510,972	18,267	46,994	141,429	(94,435)	-67%	482,734
Total sources of capital funds	1,120,959	3,042,134	124,262	378,550	839,482	(460,931)	-55%	1,991,676

Source: In-year-monitoring database

Figure 2: Capital Expenditure and Sources of funds as at 30 September 2011



Source: In-year-monitoring database

Table 3 and figure 2 depict the extent to which municipalities earned capital revenue. The YTD budget was R839 million while the YTD actual is R378 million; thus earning an unfavorable variance of R460 million (55 percent). This suggests that municipalities are not able to implement capital projects as per plans. This has a negative impact on the ability to spend the allocated conditional grants which also poses a threat of decline in future infrastructure grants allocation on the basis of inability to spend the prior year allocated funds.

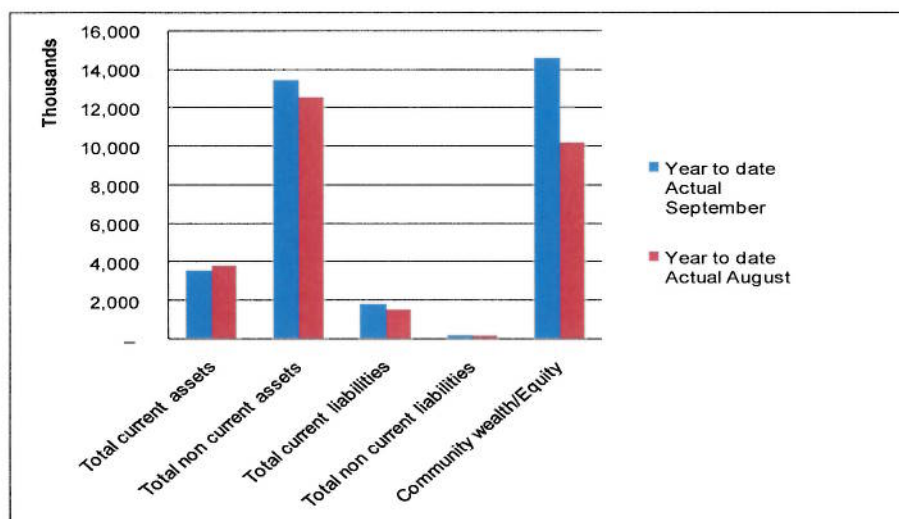
5.3 Financial Position

Table 4: Financial positions as at 30 September 2011

Description	2010/11	Budget Year 2011/12		
	Audited Outcome	Original Budget	YearTD actual	Full Year Forecast
Financial position				
Total current assets	2,598,731	2,596,525	3,592,790	5,201,509
Total non current assets	9,966,686	17,409,323	13,464,894	27,708,611
Total current liabilities	1,609,919	1,383,205	1,845,877	4,507,686
Total non current liabilities	148,184	710,227	170,627	990,045
Community wealth/Equity	7,693,914	16,935,165	14,603,739	27,143,970

Source: In-year-monitoring database

Figure 3: Financial positions as at 30 September 2011



Source: In-year-monitoring database

The table above provides the current financial position of municipalities. In terms of figure 3, the total current assets of the municipality declined from R3.8 billion to R3.5 billion between August and September 2011. While the total current assets revealed a decline, the total current liabilities increase from R1.5 billion to R1.8 billion, the recorded increase in obligations within a month amount to R300 thousand, while the decrease in current assets is also the same. This suggests that municipalities have increased current obligations with less cash/liquid funds to meet such obligation. The decrease in liquid funds is assumed to be the reason municipalities have creditors owed for more than thirty days thus resulting in contravention of the MFMA.

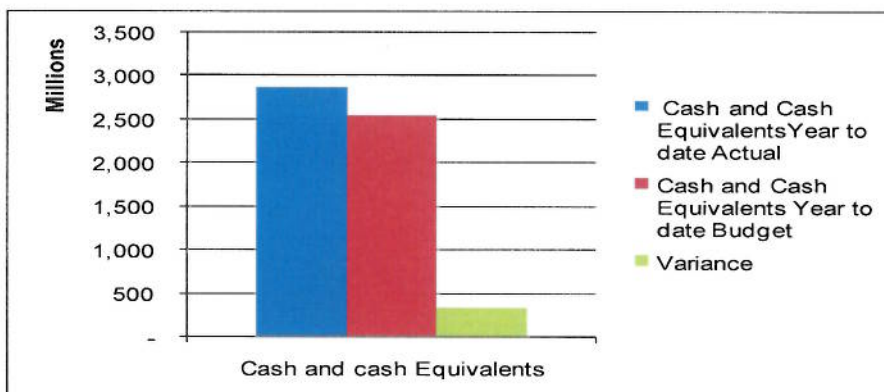
5.4 Cash Flow Statement

Table 5: Statement of Cash Flow as at 30 September 2011

Description	2010/11	Budget Year 2011/12						
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance	Full Year Forecast
Cash flows								
Net cash from (used) operating	3,253,906	6,568,055	(63,145)	2,599,671	2,456,339	143,332	6%	6,887,043
Net cash from (used) investing	(268,950)	(1,654,310)	34,866	(189,657)	(443,993)	254,336	-57%	(1,342,659)
Net cash from (used) financing	44,903	(24,233)	11,931	(26,141)	16,728	(42,869)	-256%	48,899
Cash/cash equivalents at the month end	3,287,263	5,410,477	-	2,875,665	2,550,039	325,625	13%	6,085,074

Source: In-year-monitoring database

Figure 4: Statement of Cash Flow as at 30 September 2011



Source: In-year-monitoring database

The cash/cash equivalents at month end reflect that municipalities budgeted to close the quarter with R2.5 billion, the actual closing balance amounts to R2.8 billion positive balance. Though the closing balance is positive, it should be noted that municipalities have for the first quarter incurred huge cash outflows in both financing and investing activities, this explains the increase in total noncurrent assets in the statement of financial position as well as the reduction in total current assets. It is assumed that the positive closing balance and the positive variance might be unspent conditional grants received by municipalities in terms of the National Treasury payment schedule. The underperformance in capital expenditure budget and the huge positive bank balance have a close correlation.

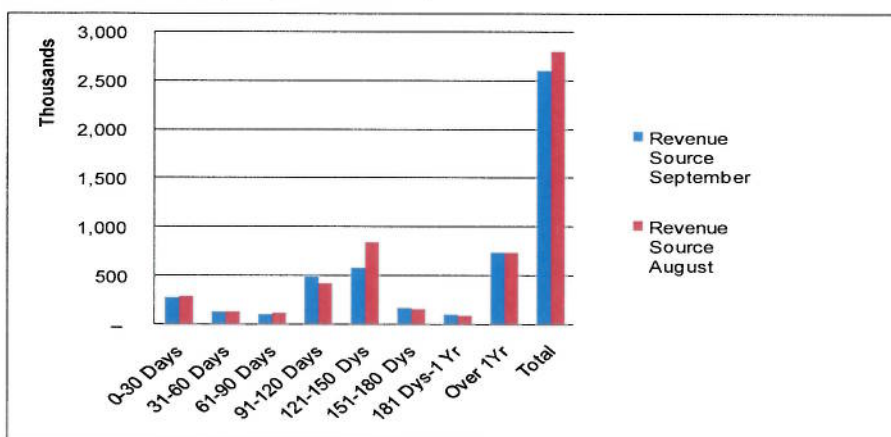
5.5 Debtors and Creditors Ageing

Table 5: Debtors and Creditors Ageing as at 30 September 2011

Debtors & creditors analysis	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
Debtors Age Analysis									
Total By Revenue Source	271,383	135,620	107,745	482,436	584,620	167,496	104,967	745,321	2,599,587
Creditors Age Analysis									
Total Creditors	188,996	6,889	85,562	6,979	19,475	2,344	4,440	170,387	485,072

Source: In-year-monitoring database

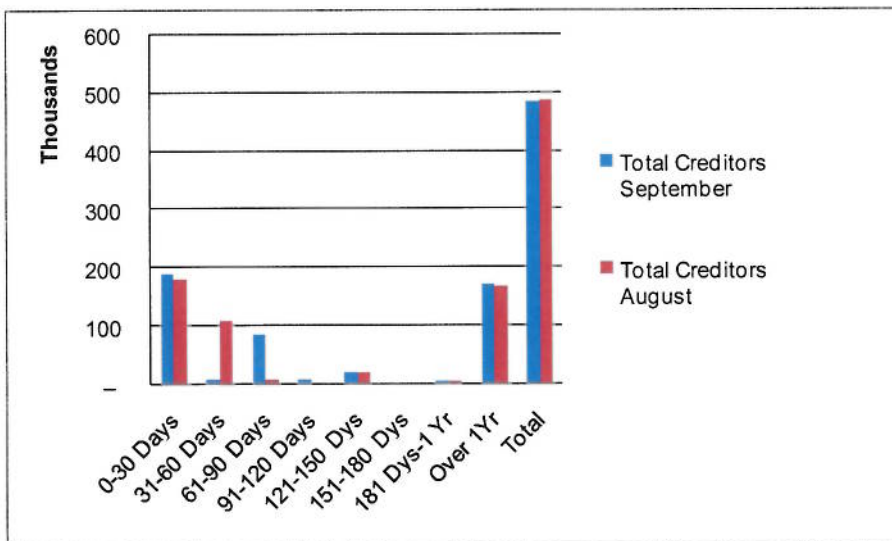
Figure 5: Debtors Ageing as at 30 September 2011



Source: In-year-monitoring database

The debtors' book has declined from R2.8 billion to R2.6 billion from August to September. Though the debtors' book recorded a decline of R200 million, the R2.3 billion (90 percent) which is long outstanding is a concern as it affects the municipalities' ability to meet short term obligations.

Figure 5: Creditors Ageing as at 30 September 2011



Source: In-year-monitoring database

The creditors' book on the other hand depicts non compliance with Section 65 of the MFMA and MFMA Circular 49. In terms of this section, municipalities are required to pay all creditors within 30 (thirty) days. Out of the total balance of R485 million, R170 million (35 percent) is aged over one year. Total creditors decreased from R488 million to R485 million. The R3 million decrease in total creditors converts to 0.6 percent.

6 Conclusion

Compliance with the MFMA in terms of submission deadline is improving, however; there is a concern regarding under performance on both the operating and capital budget. The material underperformance on the capital budget remains a distressing factor as the consequences are overwhelming. The training rolled out in October 2011 seem to be yielding good results as the quality of data is showing signs of improvements

7 Recommendations

It is recommended that the Provincial Treasury:

- Continues to offer support to municipalities. The support provided should be aimed at empowering municipalities to ensure that procurement and action plans developed are implemented in order to ensure that the spending patterns of municipalities improve, leading to improved service delivery.
- Engage with municipalities and provide assistance with the development and /or implementation of revenue enhancement strategy.

Prepared by:

Ntuli PS

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