



PROVINCIAL TREASURY

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Ref: 12/1/6/4

Date: 29 November 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: OCTOBER 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 31 October 2011.

Kind regards,

**HEAD OF DEPARTMENT
PROVINCIAL TREASURY**

DATE: 30/11/2011

LIMPOPO PROVINCIAL TREASURY

**Report on Consolidated Monthly Financial Statements
As at 31st October 2011**

MFMA S71 (Monthly Budget Statement)

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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
13.	SMME's	Small Micro & Medium Enterprises

1. Purpose

To provide consolidated monthly financial statements for the 30 municipalities in Limpopo Province as at 31 October 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, and variances are identified.

4. MFMA S71 Compliance Checklist

Table 1: MFMA S71 Submission Checklist

Municipality	Jul-11	Aug-11	Sep-11	Oct-11
	Date	Date	Date	Date
	Electronic	Electronic	Electronic	Electronic
DC 35 - CAPRICORN	22.8.2011	14.09.2011	14.10.2011	14.11.2011
LIM 351 - BLOUBERG		14.09.2011	14.10.2011	23.11.2011
LIM 352 - AGANANG	02.09.2011	14.09.2011		14.11.2011
LIM 353 - MOLEMOLE	15.8.2011	14.09.2011	10.10.2011	14.11.2011
LIM 354 - POLOKWANE	11.8.2011	13.09.2011	11.10.2011	14.11.2011
LIM 355 - LEPELLE-NKUMPI	31.8.2011	20.09.2011	17.10.2011	14.11.2011
DC - 47 - GREATER SEKHUKHUNE	15.8.2011	14.09.2011	17.10.2011	11.11.2011
LIM 471 - EPHRAIM MOGALE	15.8.2011	14.9.2011	14.10.2011	14.11.2011
LIM 472 - ELIAS MOTSOLEDI	11.8.2011	20.09.2011	07.10.2011	9.11.2011
LIM 473 - MAKHUDUTHAMAGA	15.8.2011	14.09.2011	14.10.2011	14.11.2011
LIM 474 - FETAKGOMO	15.8.2011	13.09.2011	14.10.2011	14.11.2011
LIM 475 - GREATER TUBATSE	11.8.2011	07.09.2011	21.10.2011	11.11.2011
DC 33 - MOPANI	15.8.2011	14.09.2011	12.10.2011	10.11.2011
LIM 331 - GREATER GIYANI	31.8.2011	03.10.2011	19.10.2011	
LIM 332 - GREATER LETABA	15.8.2011	14.09.2011	14.10.2011	14.11.2011
LIM 333 - GREATER TZANEEN	15.8.2011	19.09.2011	19.10.2011	15.11.2011
LIM 334 - BA- PHALABORWA	15.8.2011	14.09.2011	12.10.2011	14.11.2011
LIM 335 - MARULENG	22.8.2011	13.09.2011	13.10.2011	14.11.2011
DC 36 - WATERBERG	15.8.2011	09.09.2011	13.10.2011	14.11.2011
LIM 361 - THABAZIMBI	15.8.2011	19.09.2011	20.10.2011	14.11.2011
LIM 362 - LEPHALALE	11.8.2011	14.09.2011	17.10.2011	16.11.2011
LIM 364 - MOOKGOPONG	15.8.2011	19.09.2011	14.10.2011	14.11.2011
LIM 365 - MODIMOLLE	12.8.2011	09.09.2011	14.10.2011	14.11.2011
LIM 366 - BELA-BELA	22.8.2011	14.09.2011	19.10.2011	9.11.2011
LIM 367 - MOGALAKWENA	12.8.2011	14.09.2011	14.10.2011	11.11.2011
DC 34 - VHEMBE	12.8.2011	13.09.2011	14.10.2011	25.11.2011
LIM 341- MUSINA	15.8.2011	14.09.2011	14.10.2011	14.11.2011
LIM 342 - MUTALE	18.8.2011	20.09.2011	14.10.2011	23.11.2011
LIM 343 - THULAMELA	15.8.2011	14.09.2011	14.10.2011	14.11.2011
LIM 344 - MAKHADO	10.8.2011	12.09.2011	10.10.2011	14.11.2011

Source: In-year-monitoring database

Table 1 indicates that 29 (twenty-nine) out of the 30 (thirty) municipalities complied by submitting MFMA S71 Schedule C reports. Greater Giyani submitted the same S71 report for 2 consecutive months (August and September 2011). The reason provided by the municipality for this non-compliance is a lack of capacity in the CFO's office (CFO's contract has expired and the budget Manager is on leave). The following municipalities submitted reports after the due date - Blouberg, Lephale, Vhembe and Mutale.

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

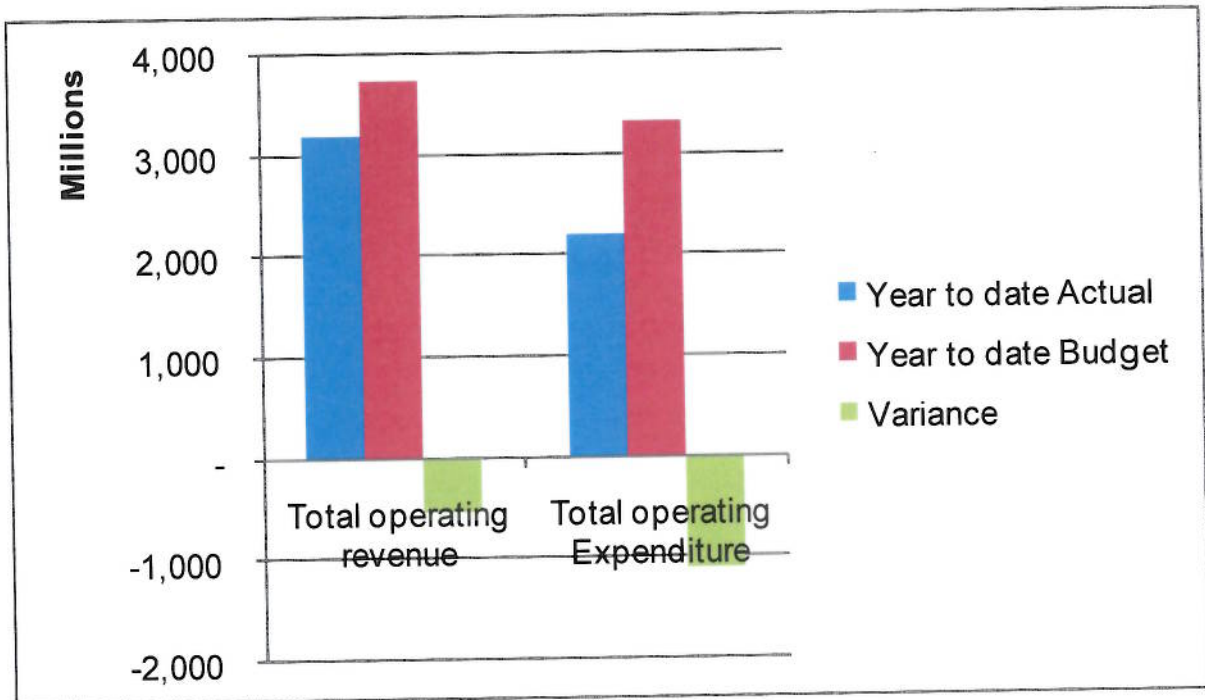
The financial performance statement depicts the operating revenue and expenditure recognised by municipalities to date. The surplus or deficit is reflected accordingly in this statement.

Table 2: Financial performance

Description	Budget Year 2011/12						
	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands							
Financial Performance							
Property rates	709,858	64,338	272,084	239,880	32,205	13%	568,100
Service charges	2,555,601	199,092	826,195	950,309	(124,114)	-13%	2,151,887
Investment revenue	251,058	26,635	77,399	91,296	(13,897)	-15%	201,856
Transfers recognised - operational	4,786,067	121,453	1,851,609	2,142,892	(291,282)	-14%	3,467,736
Other own revenue	963,124	33,635	163,416	308,476	(145,060)	-47%	650,380
Total Revenue (excluding capital transfers and contributions)	9,265,709	445,153	3,190,703	3,732,851	(542,149)	-15%	7,039,958
Employee costs	2,807,145	232,243	800,923	973,027	(172,104)	-18%	2,220,350
Remuneration of Councillors	306,119	23,125	82,223	110,268	(28,045)	-25%	232,384
Depreciation & asset impairment	564,347	16,761	42,364	202,760	(160,396)	-79%	462,928
Finance charges	65,436	408	6,167	19,653	(13,486)	-69%	56,787
Materials and bulk purchases	1,885,505	122,045	561,117	676,202	(115,085)	-17%	1,616,161
Transfers and grants	142,126	7,460	27,773	44,117	(16,344)		120,084
Other expenditure	3,145,199	218,166	688,403	1,310,794	(622,391)	-47%	2,021,459
Total Expenditure	8,915,876	620,208	2,208,970	3,336,820	(1,127,850)	-34%	6,730,153

Source: In-year-monitoring database

Figure 1: Financial Performance



Source: In-year-monitoring database

Table 2 and figure 1 above indicates that operating revenue budget (year to date) is R3.7 billion and revenue realised amounts to R3.1 billion. This is a negative variance (under collection) by R542 million (15 percent). It is projected that annual budgets will decline from R9 billion to R7 billion at year end with a decline in budgeted operating revenue by 24 per cent.

There has been under collection on all line items under operating revenue budget except for property rates, which achieve a positive variance of 13 percent. While property rates indicate over collection it needs to be noted that municipalities budgeted conservatively for this item because of previous challenges encountered with Traditional Authorities. It is projected that revenue from property rates will be adjusted upwards in the adjustment budget.

Budgeted operating expenditure for the first quarter is at R3.3 billion while actual expenditure amounts to R2.2 billion. Under spending on this category is at R1.1 billion (34 percent). The projected full year forecast on operating expenditure stands at R6.7 billion, a decline of R2.1 billion (24 percent) from the annual budget of R8.9 billion. All line items in the operating budget under performed. To date, there is no expenditure incurred on transfers and grant by municipalities.

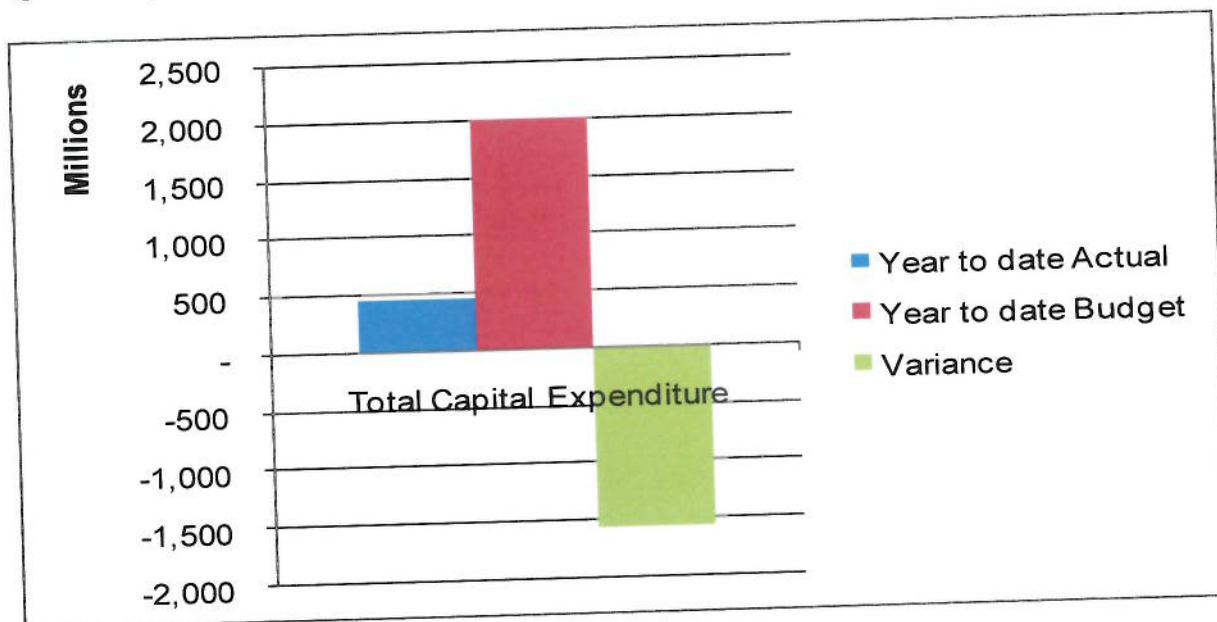
5.2 Capital Expenditure

Table 3: Capital Expenditure and Sources of funds

Description	Budget Year 2011/12						
	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	Full Year Forecast
R thousands							
Capital expenditure & funds sources							
Capital expenditure	-	-	-	-	-	-	-
Capital transfers recognised	2,508,987	83,041	381,774	764,067	(382,293)	-50%	1,453,913
Public contributions & donations	-	-	-	-	-	-	-
Borrowing	53,950	2,544	15,898	1,720	14,179	824%	53,950
Internally generated funds	609,037	28,791	80,499	183,776	(103,277)	-56%	528,029
Total sources of capital funds	3,171,974	114,375	478,171	949,563	(471,391)	-50%	2,035,892

Source: In-year-monitoring database

Figure 2: Capital Expenditure and Sources of funds



Source: In-year-monitoring database

Table 3 and figure 2 depict the extent to which municipalities earned capital revenue. The YTD budget was R949 million while YTD actual is R478 million; thus earning an unfavorable variance of R471 million (50 percent). This is an indication that for the first four months of the financial year, municipalities only spent half the projected capital budget. For municipalities in Limpopo, bulk of the capital budget is sourced from amongst others, the Municipal Infrastructure Grant (MIG). The discussions below will provide details on the MIG expenditure to date.

5.2.1 Municipal Infrastructure Grant

Table 4: Municipal Infrastructure Grant

Name of municipality	Allocations for the year ending 30/06/2012	Expenditure for the month - October 2011	Expenditure to date	Unspent grant to date - June 2012	% of spending to date on Allocation
R Thousands					
Makhuduthamaga	34,159	–	304	33,855	1%
Fetakgomo	15,407	–	54	15,353	0%
Ephraim Mogale	17,871	930	2,348	15,523	13%
Elias Motsoaledi	29,037	22	740	28,297	3%
Greater Tubatse	36,311	–	–	36,311	0%
Sekhukhune District	344,208	4,329	17,345	326,863	5%
Greater Giyani	29,950	1,174	1,793	28,157	6%
Greater Letaba	32,997	3,682	18,111	14,886	55%
Greater Tzaneen	46,712	1,224	5,084	41,628	11%
Ba-phalaborwa	17,129	1,762	4,738	12,391	28%
Maruleng	24,874	1,413	7,288	17,586	29%
Mopani District	263,219	4,396	16,467	246,752	6%
Musina	12,039	1,941	6,388	5,651	53%
Mutale	13,995	1,780	3,610	10,385	26%
Thulamela	61,295	7,154	32,377	28,918	53%
Makhado	55,562	5,754	10,041	45,521	18%
Vhembe District	296,276	19,575	58,719	237,557	20%
Blouberg	25,477	–	6,352	19,125	25%
Aganang	21,739	–	–	21,739	0%
Molemole	19,716	1,236	1,832	17,884	9%
Polokwane	182,607	8,125	25,742	156,865	14%
Lepelle-Nkumpi	28,718	–	3,383	25,335	12%
Capricorn District	173,914	–	224	173,690	0%
Thabazimbi	34,750	116	116	34,634	0%
Lephalale	35,907	4,741	8,663	27,244	24%
Mookgophong	13,536	–	–	13,536	0%
Modimolle	34,157	235	6,569	27,588	19%
Bela-Bela	15,518	132	132	15,386	1%
Mogalakwena	113,222	3,373	14,226	98,996	13%
Waterberg District	–	–	–	–	0%
Total	2,030,302	73,094	252,645	1,777,657	12%

Source: In-year-monitoring database

Overall average expenditure on the Municipal Infrastructure Grant is at 12 percent. Due to the poor performance on this grant (less than 60 percent spent on funds transferred) the Department of Cooperative Governance issued a notice of its intentions to withhold the MIG transfer due to municipalities in November 2011. Municipalities were requested to provide reasons for not spending these funds with motivations of how the funds will be spent within the financial year. These submissions will be assessed before funds are transferred in December 2011.

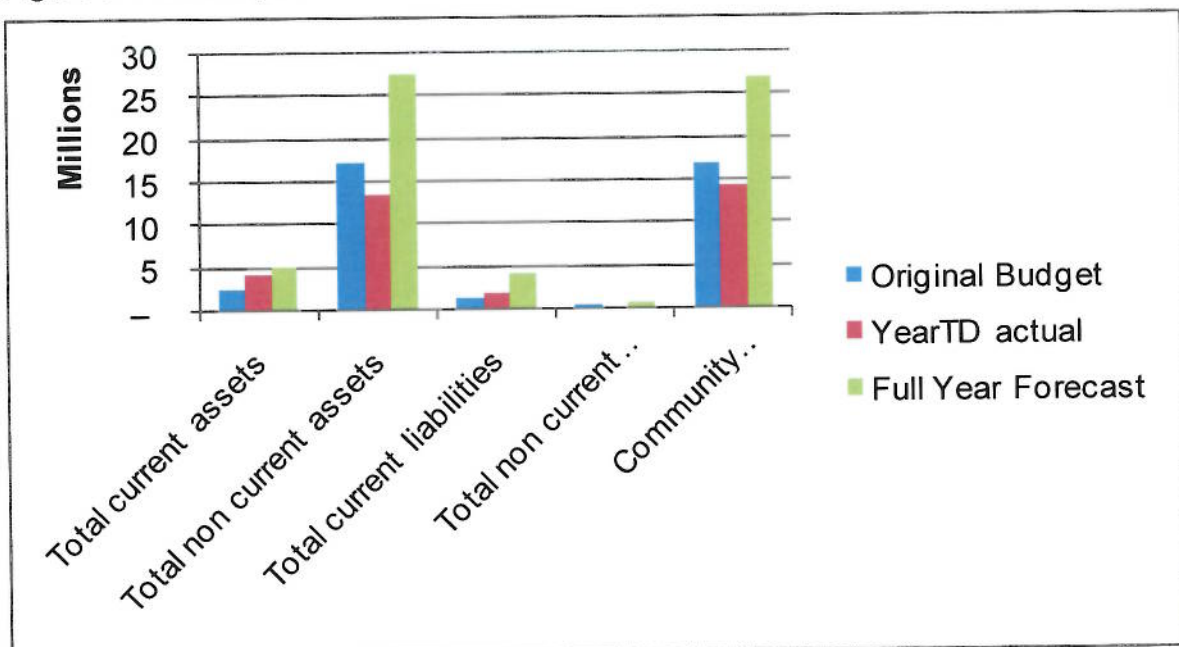
5.3 Financial Position

Table 5: Financial positions

Description	Budget Year 2011/12		
	Original Budget	YearTD actual	Full Year Forecast
R thousands			
Financial position			
Total current assets	2,596,525	4,170,087	5,145,982
Total non current assets	17,409,323	13,410,561	27,609,593
Total current liabilities	1,383,205	2,015,543	4,340,988
Total non current liabilities	710,227	170,308	1,003,869
Community wealth/Equity	16,935,165	14,357,863	27,141,298

Source: In-year-monitoring database

Figure 3: Financial positions



Source: In-year-monitoring database

The tables above provide the current financial position of municipalities. Figure 3 indicates that total current assets increased from the original budget of R2.5 billion to R4.1 billion (year to date actual). Total current assets declined from R17 billion to R13 billion and total current liabilities increase from R1.3 billion to R2 billion. In terms of individual S71 reports credibility of the financial position statement is doubtful because of the quality of information submitted (incomplete information, lack of capacity and poor understanding of what is required).

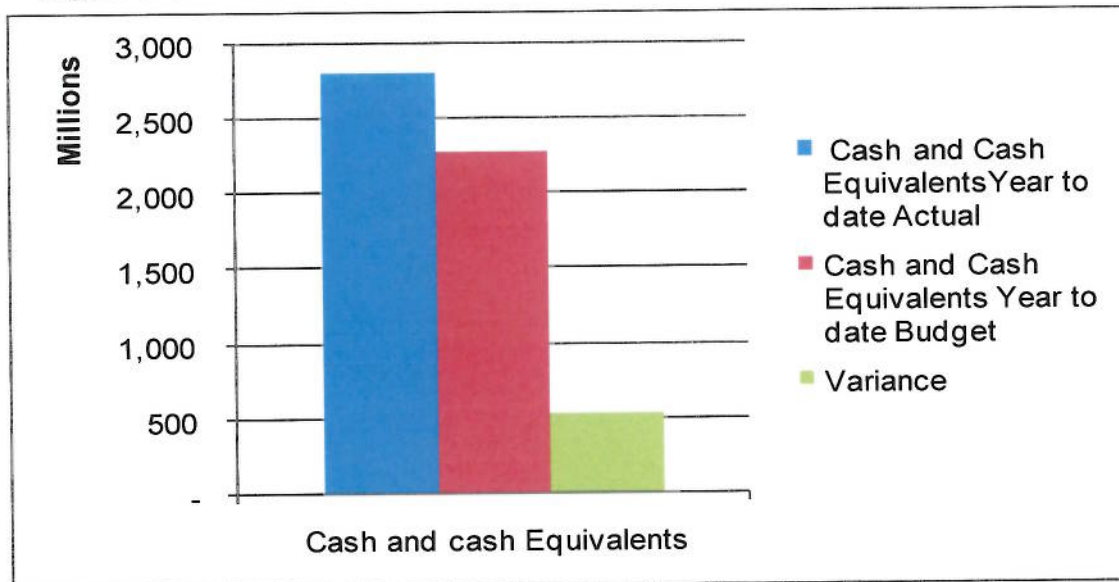
5.4 Cash Flow Statement

Table 6: Statement of Cash Flow

	Budget Year 2011/12					Full Year Forecast
	Original Budget	YearTD actual	YearTD budget	YTD variance	YTD variance	
Cash flows						
Net cash from (used) operating	6,910,310	2,619,467	2,227,220	392,246	18%	5,520,918
Net cash from (used) investing	(1,535,455)	(341,779)	(476,459)	134,681	-28%	(1,223,804)
Net cash from (used) financing	(24,233)	(25,705)	13,403	(39,108)	-292%	47,932
Cash/cash equivalents at the month/year end	5,871,587	2,809,649	2,274,302	535,347	24%	4,902,712

Source: In-year-monitoring database

Figure 4: Statement of Cash Flow



Source: In-year-monitoring database

The cash/cash equivalents at month end reflect that municipalities budgeted to close the quarter with R2.2 billion. The actual closing balance amounts to R2.8 billion (positive balance). The huge cash position of municipalities is as a result of unspent conditional grants including MIG funding that DCoG has transferred to municipalities. The motivations sent to DCoG by municipalities contained remedial actions which municipalities will put in place to ensure that the MIG funding is spent. Should municipalities fail to spend the conditional grants, the transferring national department may decide to withhold the funds in terms of S16 (1) of the Division of Revenue Act (DoRA) which could impact negatively on service delivery especially in regard to major backlogs in infrastructure development.

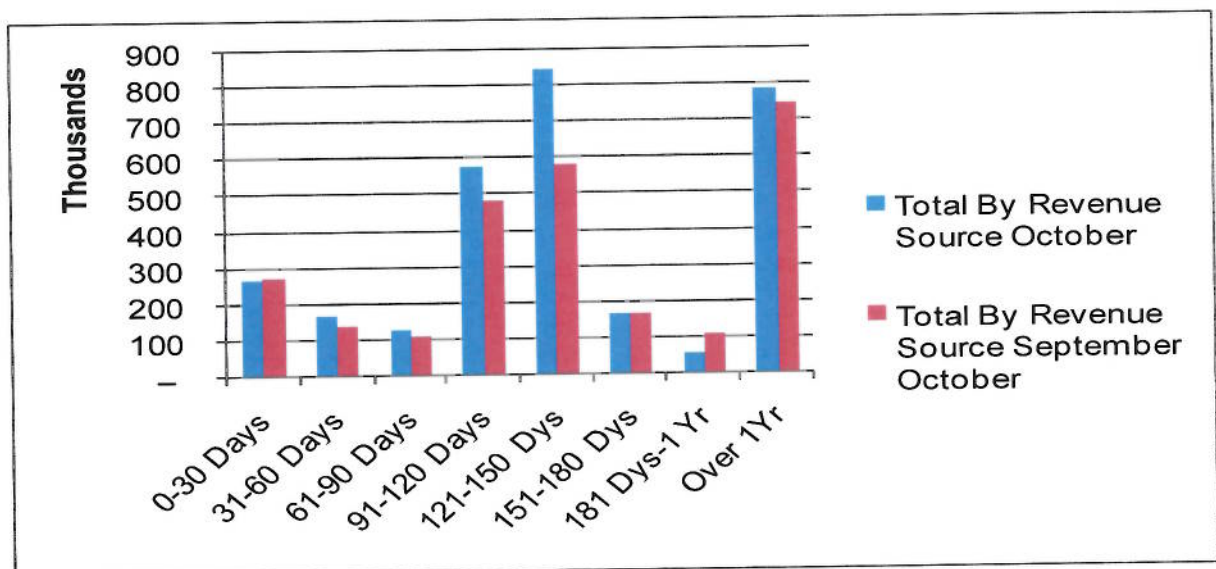
5.5 Debtors and Creditors Ageing

Table 7: Debtors and Creditors Ageing

	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 By Revenue Source October	267,526	161,789	126,434	575,420	846,509	165,686	51,472	790,636	2,985,025
Total By Revenue Source September	271,383	135,620	107,745	482,436	584,620	167,496	104,967	745,321	2,599,587
Total Creditors October	199,531	10,866	2,900	9,663	143,796	3,731	4,050	178,002	552,781
Total Creditors September	188,996	6,889	85,562	6,979	19,475	2,344	4,440	170,387	485,072

Source: In-year-monitoring database

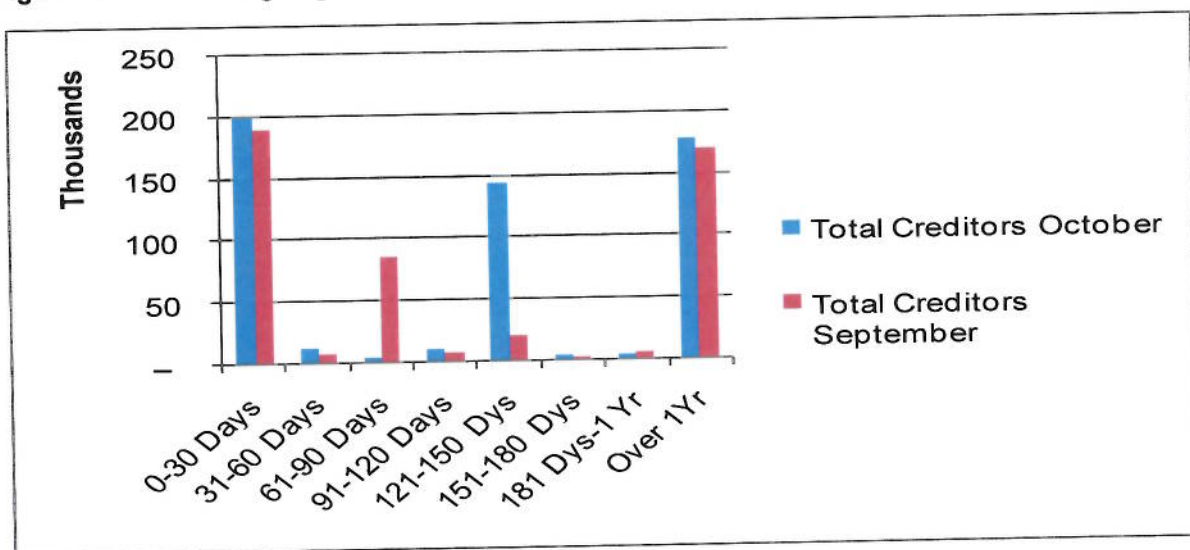
Figure 5: Debtors Ageing



Source: In-year-monitoring database

From the table and figure above, it is evident that the municipal debtors' book has increased from R2.5 billion to R2.9 billion. Debt categories 91 to 120 and 121 to 150 have increased by a huge margin between September and October 2011. This is indicative that municipalities were unable to collect revenue on outstanding debts within the 90 days period. Reasons cited for poor debt collection varies from lack of capacity, system challenges and unresolved issues with Traditional Leaders.

Figure 6: Creditors Ageing



Source: In-year-monitoring database

The creditors' book on the other hand continues to disclose serious non compliance with the MFMA S65 and MFMA Circular 49. Considering the declaration by the MEC for finance in the province regarding the payment of suppliers within 14 days, this is considered a deviation of this pronouncement. The creditors' book has increased from R485 million to R552 million in one month. In terms of this section, municipalities are required to pay all creditors within 30 (thirty) days. The inability to settle obligations within the 14 days does not only affect the sustainability of Small Micro & Medium Enterprises (SMME), it also leads to the payment of interest by municipalities which later results in fruitless & wasteful expenditure.

6. Conclusion

Municipalities continue to under spend and under collect in both the operating and capital budget. The material underperformance on the capital budget remains a concern as unspent conditional grant funds may be withheld or stopped. In addition to this municipalities are facing serious challenges regarding collection of outstanding debts. Although municipalities have positive cash balances trade creditors are not paid in time.

7. Recommendations

It is recommended that :

- the consolidated monthly financial statements for the 30 municipalities in Limpopo Province as at 31 October 2011 be noted;
- the following initiatives taken by Provincial Treasury be noted:
 - Closer monitoring of all conditional grants;
 - Support and capacity building to municipalities with the completion of MFMA S71 report.
 - Support and advice to municipalities on focus areas to be addressed during the adjustment budget.

Prepared by:

Ntuli PS

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