



LIMPOPO

PROVINCIAL GOVERNMENT
REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

Enq: Ntuli P S

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

Date: 29 March 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: JANUARY 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 31st January 2012.

Kind regards,

Monde Tom

18/4/2012

Administrator: Provincial Treasury,

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

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Date:



LIMPOPO PROVINCIAL TREASURY

Report on Consolidated MFMA S71 (Monthly Budget Statements)

As at 31st January 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 31st January 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 amounts reflected in statements are still compared to amounts as reflected in municipalities' original budgets since not all municipalities have tabled the adjustment budget in council. The deadline for tabling the adjustment budget in terms of the Municipal Budget & Reporting Regulations is the 28 of February 2012.

4. MFMA S71 Compliance Checklist

Table 1: MFMA S71 Compliance Checklist

Municipality	Nov-11	Dec-11	Jan-12
DC 35 - CAPRICON	14.12.2011	16.01.2012	14.02.2012
LIM 351 - BLOUBERG	15.12.2011	13.01.2012	14.02.2012
LIM 352 - AGANANG	13.12.2011	19.01.2012	14.02.2012
LIM 353 - MOLEMOLE	14.12.2011	13.01.2012	14.02.2012
LIM 354 - POLOKWANE	13.12.2011	13.01.2012	14.02.2012
LIM 355 - LEPELLE-NKUMPI	15.12.2011	09.01.2012	13.02.2012
DC - 47 - GREATER SEKHUKHUNE	12.12.2011	13.01.2012	14.02.2012
LIM 471 - EPHRAIM MOGALE	14.12.2011	16.01.2012	14.02.2012
LIM 472 - ELIAS MOTSOLEDI	13.12.2011	13.01.2012	13.02.2012
LIM 473 - MAKHUDUTHAMAGA	14.2.2011	16.01.2012	14.02.2012
LIM 474 - FETAKGOMO	14.12.2011	16.01.2012	14.02.2012
LIM 475 - GREATER TUBATSE	13.12.2011	11.01.2012	
DC 33 - MOPANI	14.12.2011	10.01.2012	14.02.2012
LIM 331 - GREATER GIYANI	14.12.2011	13.01.2012	14.02.2012
LIM 332 - GREATER LETABA	14.12.2011	13.01.2012	14.02.2012
LIM 333 - GREATER TZANEEN	15.12.2011	26.01.2012	14.02.2012
LIM 334 - BA- PHALABORWA	20.12.2011	18.01.2012	14.02.2012
LIM 335 - MARULENG	14.12.2011	16.01.2012	10.02.2011
DC 36 - WATERBERG	14.12.2011	16.01.2012	14.02.2012
LIM 361 - THABAZIMBI	15.12.2011	16.01.2012	14.02.2012
LIM 362 - LEPHALALE	14.12.2011	13.01.2012	14.02.2012
LIM 364 - MOOKGOPONG	13.12.2011	17.01.2012	14.02.2012
LIM 365 - MODIMOLLE	14.12.2011	16.01.2012	14.02.2012
LIM 366 - BELA-BELA	14.12.2011	16.01.2012	
LIM 367 - MOGALAKWENA	14.12.2011	16.01.2012	14.02.2012
DC 34 - VHEMBE	13.12.2011	17.01.2012	14.02.2012
LIM 341- MUSINA	14.12.2011	16.01.2012	14.02.2012
LIM 342 - MUTALE	10.01.2011	26.01.2012	14.02.2012
LIM 343 - THULAMELA	13.14.2011	16.01.2012	14.02.2012
LIM 344 - MAKHADO	14.12.2011	19.01.2012	14.02.2012

Source: In-year-monitoring database

Table 1 indicates that 28 municipalities submitted MFMA S71 Schedule C reports. This is an improvement considering that in December 2011, seven municipalities submitted reports after the due date prescribed by the MFMA. Although the level of compliance is improving, the quality of financial information in the reports requires significant improvements. This will continue to be one of the areas of focus in efforts by the treasury to assist and support municipalities.

Bela-Bela Municipality complied with S74 (2) of the MFMA by sending a letter to notify the Provincial Treasury of its inability to comply with MFMA S71 (1). In terms of this letter the municipality advised that the conversion from Sebata to Munsoft financial systems presented challenges which negatively impacted S71 reporting.

5. Municipal Budget Implementation

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

5.1 Financial Performance

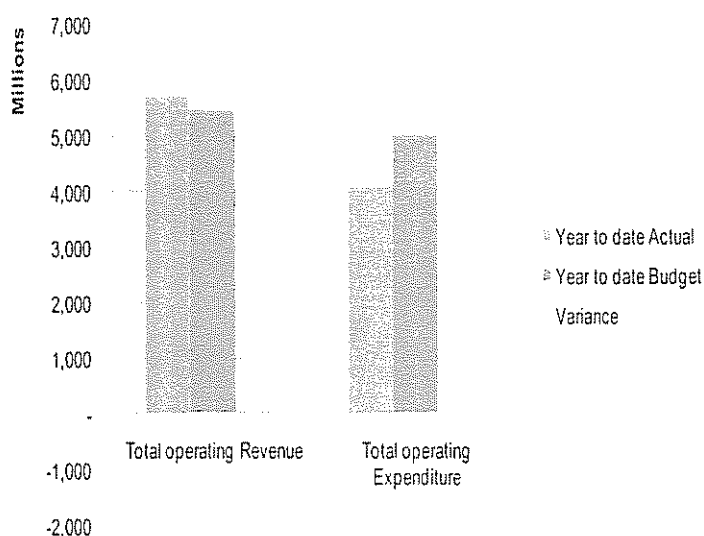
Financial performance statements show operating revenue and expenditure for the year to date. The variances between the budget and actual expenditure is reflected in these statements.

Table 2: Financial performance

	2010/11	Budget Year 2011/12						Full Year Forecast
	Audited Outcome	Original Budget	Monthly actual	YearTD actual	YearTD budget	YTD variance	YTD variance %	
R thousands								
Financial Performance								
Property rates	664,341	709,778	49,246	439,229	406,138	33,092	8%	613,821
Service charges	2,144,794	2,530,521	204,750	1,475,610	1,417,876	57,734	4%	2,211,447
Investment revenue	184,282	246,820	26,742	156,735	135,781	20,954	15%	203,527
Transfers recognised - operational	3,604,417	4,585,725	248,166	3,293,855	2,954,839	339,016	11%	3,556,737
Other own revenue	542,513	988,143	49,922	356,002	581,136	(225,134)	-39%	785,314
Total Revenue (excluding capital transfers and contributions)	7,140,346	9,060,987	578,827	5,721,431	5,495,770	225,661	4%	7,370,848
Employee costs	2,188,281	2,829,159	240,993	1,498,048	1,698,064	(200,016)	-12%	2,258,443
Remuneration of Councillors	221,055	306,793	27,724	164,436	164,232	205	0%	235,882
Depreciation & asset impairment	753,597	564,347	15,431	103,476	296,345	(192,869)	-65%	475,994
Finance charges	50,267	71,854	622	24,552	41,658	(17,106)	-41%	57,278
Materials and bulk purchases	1,419,020	1,777,382	154,294	960,758	985,607	(24,850)	-3%	1,668,516
Transfers and grants	118,623	142,126	1,206	34,032	77,957	(43,925)	-56%	121,260
Other expenditure	2,294,876	3,114,117	160,203	1,313,507	1,771,477	(457,970)	-26%	2,130,647
Total Expenditure	7,045,719	8,805,778	600,473	4,098,810	5,035,340	(936,530)	-19%	6,948,020
Surplus/(Deficit)	94,627	255,209	(21,646)	1,622,621	460,429	1,162,192	252%	422,828

Source: In-year-monitoring database

Figure 1: Financial Performance



Source: In-year-monitoring database

As depicted in table 2 and figure 1 above, the average performance for municipalities reflect a positive variance of 4 percent on operating revenue. The revenue item property rates achieved a positive variance of 8 percent. This is a reflection that municipalities achieved billing above the target in terms of the original budget. This positive variance is due to the following factors:

- Engagements at national level have provided more clarity on the ownership of and responsibilities for properties of national and provincial governments. This resulted in municipalities billing correctly for these properties; and
- Most municipalities are improving in terms of compiling and updating their valuation and supplementary valuation rolls, with the resultant improvements in property rates billings;

Billing in respect of service charges also exceeded the budget by 4 percent.

Revenue earned on investments and operating grants reflect an over performance of 15 and 11 percent respectively; while the line item other revenue achieved a negative variance of 39 percent. This item includes sub items like revenue for rental of buildings and sale of tender bulletins.

The operating expenditure budget revealed under performance of 19 percent throughout the first seven months of the financial year. The average variance to date is negative 19 percent. Line items which are major contributors to the 19 percent under spending are depreciation and asset impairment, transfer and grants and other expenditure. The major cause of the 65 percent under spending in depreciation is the non allocation of expenditure for this non cash item by municipalities during the financial year, the transfers and grant expenditure item also under spent by a huge margin.

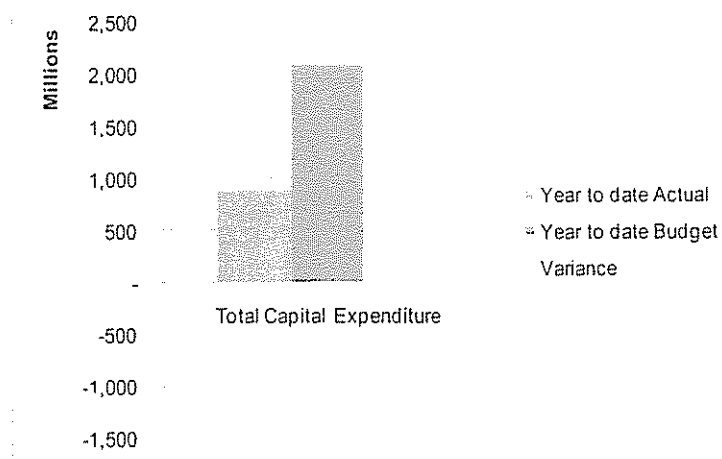
5.2 Capital Expenditure

Table 3: Capital Expenditure and Sources of funds

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	2,436,320	3,767,788	112,697	884,968	2,094,548	(1,209,580)	-58%	2,468,238
Capital transfers recognised	1,083,481	3,411,080	59,429	835,807	1,788,484	(952,677)	-53%	2,092,534
Public contributions & donations	3,528	-	-	-	-	-	-	-
Borrowing	33,674	53,950	2,125	28,195	42,217	(14,022)	-33%	53,950
Internally generated funds	534,208	686,717	14,871	169,928	305,526	(135,598)	-44%	617,580
Total sources of capital funds	1,654,892	4,133,747	76,425	1,033,930	2,136,226	(1,102,296)	-52%	2,764,064

Source: In-year-monitoring database

Figure 2: Capital Expenditure



Source: In-year-monitoring database

Table 3 and figure 2 indicate the extent to which municipalities earned capital revenue. Actual spending on the budgeted capital expenditure is behind plan by 52 percent. Only R884 million of the R2.0 billion has been spent for the year-to-date. It is unlikely that the municipalities will spend allocated conditional grants within the current financial year should this weak expenditure trend continue.

During the mid-year budget and performance assessment sessions held in February 2012, municipalities acknowledged the slow pace in implementing capital projects and stated that it is anticipated that the 2011/12 capital funds will be rolled over to the 2012/13 financial year. This is a reflection of poor planning which will result in poor spending. Municipalities were however cautioned that though NT allows municipalities to request for roll-over of unspent funds, proof that funds are already committed is required, and that approval/disapproval is also dependent on other matters relating to MFMA compliance, e.g. submission of AFS, verification of MFMA S71 reports, etc.

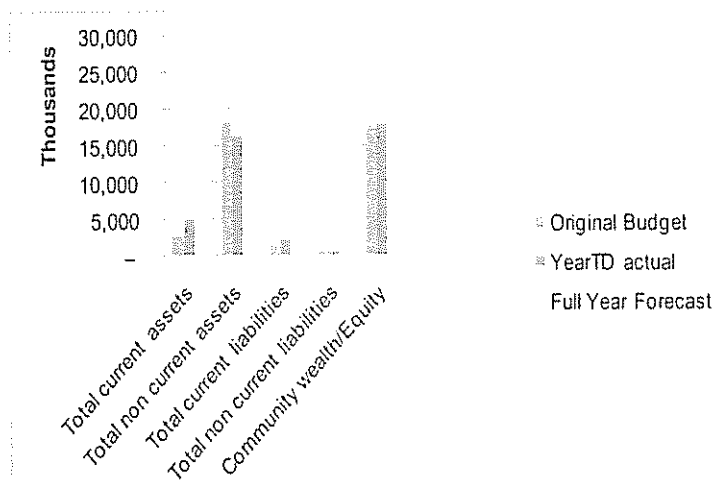
5.3 Financial Position

Table 4: Financial positions

R thousands	2010/11	Budget Year 2011/12		
	Audited Outcome	Original Budget	YearTD actual	Full Year Forecast
Financial position				
Total current assets	4,538,960	2,807,946	4,937,603	5,347,747
Total non current assets	22,786,538	18,331,502	16,374,014	27,563,873
Total current liabilities	2,982,774	1,562,138	2,317,084	4,506,875
Total non current liabilities	886,185	710,227	636,256	1,002,039
Community wealth/Equity	20,333,642	17,850,032	18,009,569	27,198,378

Source: In-year-monitoring database

Figure 3: Financial positions



Source: In-year-monitoring database

The table above provides the current financial position of municipalities. In terms of figure 3, total current assets of the municipality increased from the original budget of R2.8 billion to a year to date actual of R4.9 billion; while total noncurrent assets revealed a decrease from R18.3 billion to R16.3 billion. Total current liabilities increased from R1.5 billion to R2.3 billion, while the total noncurrent liabilities recorded a material decrease from R710 million to R636 million. Community wealth recorded an increase from R17.8 billion to R18 billion, with the full year forecast of R27 billion. The credibility of the financial position statement is doubtful as the it does not balance.

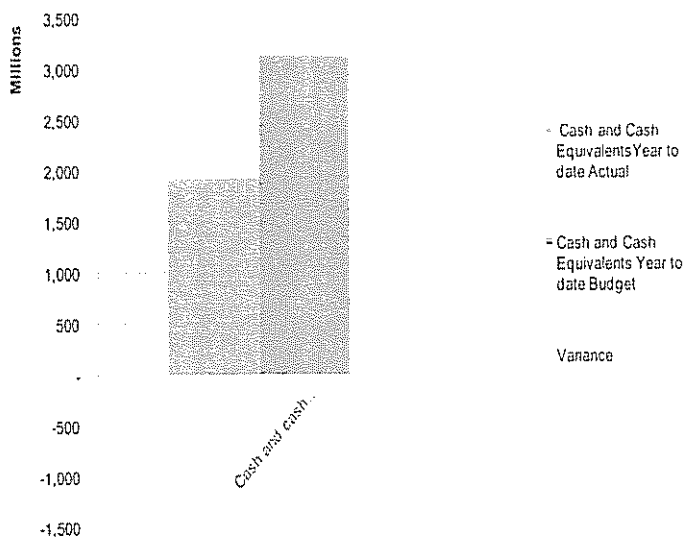
5.4 Cash Flow Statement

Table 5: Statement of Cash Flow

	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								
Cash flows								
Net cash from (used) operating	3,724,373	5,280,413	113,443	3,119,011	3,293,559	(174,548)	-5%	6,191,098
Net cash from (used) investing	(2,947,444)	(2,390,265)	(1,372,537)	(1,930,524)	(817,796)	(1,112,728)	136%	(1,247,834)
Net cash from (used) financing	344,935	(24,257)	51,527	4,174	(10,993)	15,168	-138%	37,361
Cash/cash equivalents at the month/year end	1,982,031	3,543,000	-	1,927,330	3,141,878	(1,214,549)	-39%	5,715,294

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 with R3.1 billion; while the actual closing balance amounts to R1.9 billion (positive balance). Though the cash at hand for municipalities declined from R4.8 billion in December to R1.9 billion in January, spending of funds allocated for capital projects is still very low. There is however no positive correlation between the increase in the total current assets in the statement of financial position and the cash and cash equivalents at month end in the cash flow statement.

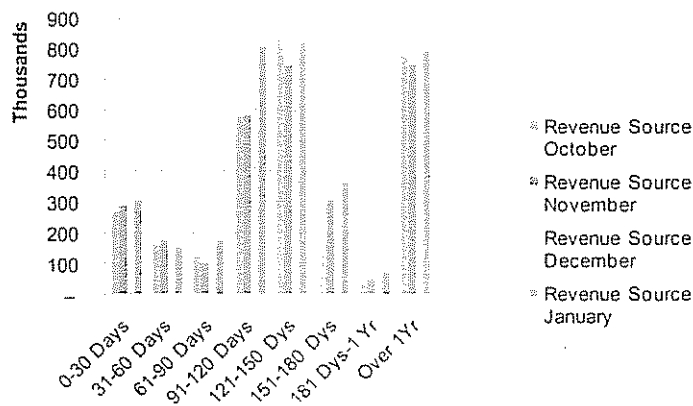
5.5 Debtors and Creditors Ageing

Table 6: Debtors and Creditors Ageing

Debtors & creditors analysis	0-30 Days	31-60 Days	91-120 Days	121-150 Dys	151-180 Dys	181 Dys-1 Yr	Over 1Yr	Total
Debtors Age Analysis								
Total By Revenue Source	307,099	153,312	813,394	832,384	363,404	80,068	802,901	3,529,983
Creditors Age Analysis								
Total Creditors	162,602	33,316	104,893	74,322	12,349	9,196	313,758	839,412

Source: In-year-monitoring database

Figure 5: Debtors Ageing

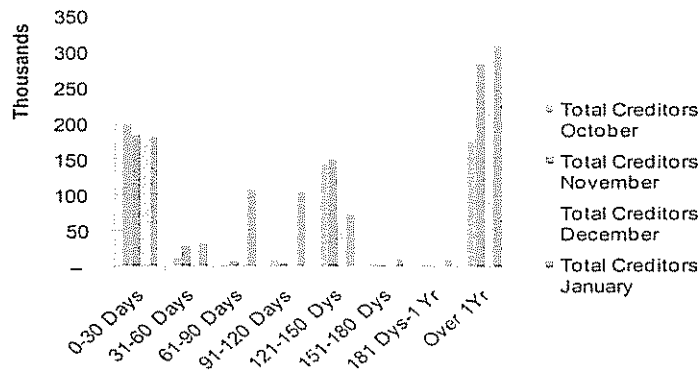


Source: In-year-monitoring database

The table above reflects the trend in the debtors' book total. The categories with the highest balances are 91 days, 121 days and over 1 year; these are the categories which the municipalities are unlikely to collect the outstanding revenue.

The total debtors' book increased from R2.9 billion to R3.5 billion between December 2011 and January 2012.

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. The creditors' book has increased from R752 million in December 2011 to R839 million in January 2012. Figure 6 indicates that the category over 1 year recorded a huge increase from R228 million to R313 million. This is an indication that all the unpaid creditors in the other categories are piled in this last category.

6. Conclusion

The MFMA S71 reports as at 31 January 2012 show evidence of over performance in operating revenue, particularly in respect of property rates. The operating expenditure and the capital budget continue to underperform by a huge margin. The low spending on the capital grant is evidenced by the huge positive balance in cash and cash equivalents. Though municipalities seem to have sufficient liquid funds; the trade creditors' balance continues to grow. Finally, the performance in terms of billing on operating revenue seems satisfactory; however, the challenge regarding under-collection of revenue is evidenced by the growing debtors' book.