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Analysis of Local Government  
Revenue and Expenditure:  
The Case of Free State Municipalities

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## Table of Contents

List of Figures .....	iii
List of Tables .....	iii
List of Acronyms .....	iv
1. Introduction.....	1
2. Overview of Municipal Revenue Trends in Free State Municipalities.....	1
2.1. <i>Municipal Operating Revenue</i> .....	3
2.2. <i>Municipal Capital Revenue</i> .....	4
2.3. <i>Performance of Revenue Collection and the Challenge of Municipal Consumer Debt</i> .....	4
3. Overview of Municipal Expenditure and Outcomes in Free State Municipalities.....	8
3.1. <i>Municipal Operating Expenditure</i> .....	9
3.2. <i>Municipal Capital Expenditure</i> .....	10
4. Concluding Remarks.....	12
List of References .....	14
Appendix A. Real Municipal Consumer Debt Per Free State Municipality, 2003/04-2009/10.....	15
Appendix B. Municipal Consumer Debt as a Proportion of Total Operating Revenue Per Free State Municipality, 2004/05-2009/10 .....	16
Appendix C. Real Debt Older Than 90 Days.....	17
Appendix D. Real Water Non-Payment Per Municipality, 2004/05-2009/10 .....	18
Appendix E. Real “Other” Non-Payment Per Municipality, 2004/05-2009/10.....	19
Appendix F. Real Electricity Non-Payment Per Municipality, 2004/05-2009/10 .....	20
Appendix G. Budgeted Versus Actual Capital Per Free State Municipality, 2003/04-2008/09 .....	21

## **List of Figures**

Figure 1. Contribution of main revenue sources to total municipal operating revenue over the period 2003/04-2009/10

Figure 2. Contribution of main revenue sources to total municipal capital revenue over the period 2003/04-2009/10

Figure 3. Municipal consumer debt relative to total municipal operating revenue, 2004/05-2009/10

Figure 4. Time period for which debt is outstanding for, 2004/05-2009/10

Figure 5. Composition of municipal operating expenditure for all Free State municipalities, 2008/09

Figure 6. Composition of municipal capital expenditure for all Free State municipalities, 2003/04-2008/09

Figure 7. Budgeted versus actual capital expenditure for total Free State municipalities, 2003/04-2008/09

## **List of Tables**

Table 1. Categorisation of municipalities used in analysis

Table 2. Components of total municipal revenue for the Free State, 2003/04-2008/09

Table 3. Overview of operating and capital revenue for Free State municipalities, 2003/04-2008/09

Table 4. Overview of total municipal consumer debt across Free State municipalities, 2004/05-2009/10 (R'000)

Table 5. Non-payment in Free State municipalities disaggregated by sector, 2004/05-2009/10

Table 6. Total municipal expenditure for Free State municipalities, 2003/04-2008/09

Table 7. Performance of repairs and maintenance expenditure, 2003/04-2008/09

## List of Acronyms

FFC	Financial and Fiscal Commission
RSC	Regional Service Council

## 1. Introduction

As part of its Submission on the Division of Revenue 2012/13, the Financial and Fiscal Commission (FFC) carried out a general assessment of the trends and performance of local government revenue and expenditure in South Africa (FFC, 2011). At the request of the Free State Legislature, this general analysis has been disaggregated to focus specifically on Free State municipalities. The overarching aim of the paper is to highlight changes in the behaviour of revenues and expenditures and point out some specific issues that should be monitored more closely in some municipalities. In the main, the paper paints a picture of broad changes in revenues and expenditures in the Free State, while the appendices contain information on individual municipalities on specific issues of interest such as municipal consumer debt, repairs and maintenance and capital spending.

The data underpinning this analysis is based on a variety of sources – in particular National Treasury’s Local Government Database for 2009/10. It should be noted that the Free State analysis is based on the pre-2011 configuration of municipalities<sup>1</sup> as summarised in Table 1.

**Table 1. Categorisation of Free State municipalities used in analysis**

Category	Description	Number
Secondary Cities	Local municipalities with the highest operating budgets and a large urban spatial pattern	2
Large Towns	Local municipalities that consist of a large town	3
Medium to Smaller Towns	Local municipalities that consist of several smaller, urban settlements	15
Districts Without Major Powers and Functions	Category C municipalities without the water and sanitation service powers and functions	5
Total		25

## 2. Overview of Municipal Revenue Trends in Free State Municipalities

Municipalities rely on two main sources of revenue: own revenue and intergovernmental fiscal transfers. Own revenue sources include property rates, user charges for municipal services (such as water and sanitation, electricity, refuse removal) and other local taxes.<sup>2</sup> Intergovernmental transfers are aimed at supplementing own revenue sources so as to enable municipalities to deliver on their constitutional mandates. Table 2 presents these two revenue sources for the period 2003/04 up until 2008/09. In terms of real<sup>3</sup> annual average growth,

<sup>1</sup> This approach was adopted as a result of financial and other data not being updated at the time of writing.

<sup>2</sup> Municipalities are also accorded borrowing powers as per Section 230 of the Constitution.

<sup>3</sup> The following deflators were used to convert from nominal to real figures: 2003/04= 90.54153773, 2004/05= 95.83820351, 2005/06= 101.4712935, 2006/07= 108.769009, 2008/09= 117.76841, 2009/10= 128.1898686.

total municipal revenue in the Free State has been driven by strong growth in intergovernmental transfers. This is identical to trends for the local government sphere as a whole, where strong growth in these transfers were driven mainly by national government priorities aimed at enabling greater access to basic services, the replacement of the RSC levy and preparations for the 2010 FIFA World Cup.<sup>4</sup>

An assessment of the real year on year growth of the own revenue component, suggests the poor state of this item. As explained in Section 3.3 below, non-payment for municipal services, particularly water, may be one cause for slower growth in own revenue. In addition, the decline in own revenue generation can also be partially explained by the financial crisis of 2008. Free State municipalities need to ensure that own revenue sources are optimally explored so as to prevent grant dependency and protect municipalities against the effects of declines in government transfers – whereas the overall trend shows strong annual average growth in government transfers, the decline in this component between 2007/08 and 2008/09 would definitely have had a negative impact on municipalities. Strengthening own revenue can assist in protecting municipalities from these kinds of effects<sup>5</sup>.

**Table 2. Components of total municipal revenue for the Free State, 2003/04- 2008/09**

	OUTCOME(R000)						Real Annual
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average Growth 2003/04-2008/09
Total Own Revenue	3,753,108	3,701,163	4,348,280	3,879,497	3,764,845	3,797,841	0.2%
Total Government Transfers	1,405,094	1,625,711	1,538,505	2,094,365	3,098,655	2,908,233	15.7%
<b>Total Municipal Revenue</b>	<b>5,158,203</b>	<b>5,326,874</b>	<b>5,886,785</b>	<b>5,973,863</b>	<b>6,863,500</b>	<b>6,706,074</b>	<b>5.4%</b>
<i>Real year on year growth</i>							
Total Own Revenue		-1.4%	17.5%	-10.8%	-3.0%	0.9%	
Total Government Transfers		15.7%	-5.4%	36.1%	48.0%	-6.1%	
<b>Total Municipal Revenue</b>		<b>3.3%</b>	<b>10.5%</b>	<b>1.5%</b>	<b>14.9%</b>	<b>-2.3%</b>	

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

Total municipal revenue can be categorised into two broad types, namely operating and capital revenue. The broad trends for these two categories are illustrated in Table 3. In real terms, annual average growth in capital revenue has been more pronounced. However it appears that when total municipal revenue recently came under pressure (i.e. declining by 2.3% in 2008/09), capital revenue was compromised and declined significantly by 18.3%.

<sup>4</sup>See page 43 of the FFC's Submission on the Division of Revenue 2012/13.

<sup>5</sup> The Commission's Submission for the Division of Revenue 2011/12 and the accompanying technical report, contains insight into how municipalities can maximise the benefits of revenue enhancement strategies and strengthen own revenue.

**Table 3. Overview of operating and capital revenue for Free State municipalities, 2003/04-2008/09**

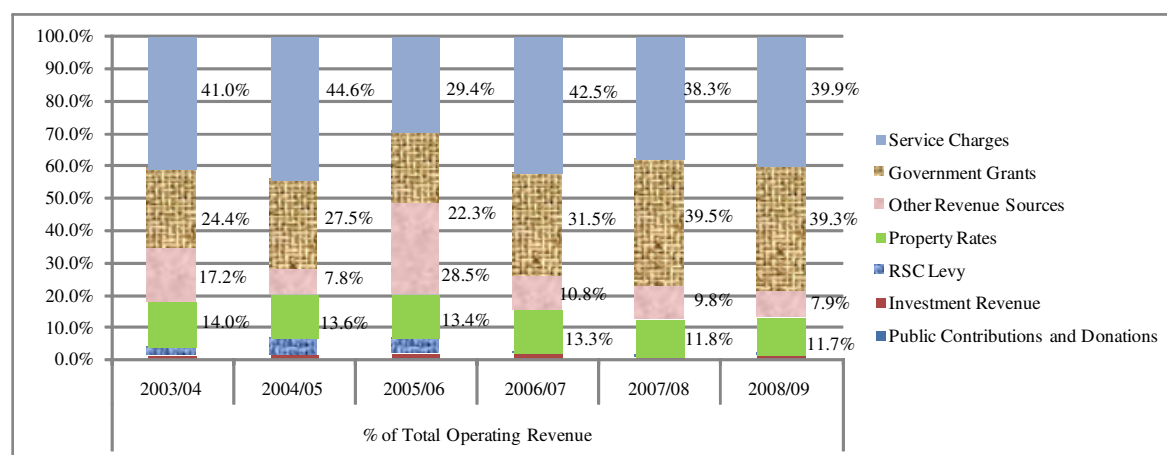
	OUTCOME(R000)						Real Annual
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average Growth
Municipal Operating Revenue	4,487,517	4,700,139	5,071,785	5,094,887	5,537,066	5,622,535	4.6%
Municipal Capital Revenue	670,686	626,734	815,000	878,976	1,326,434	1,083,539	10.1%
<b>Total Municipal Revenue</b>	<b>5,158,203</b>	<b>5,326,874</b>	<b>5,886,785</b>	<b>5,973,863</b>	<b>6,863,500</b>	<b>6,706,074</b>	5.4%
<i>Real year on year growth</i>							
Municipal Operating Revenue		4.7%	7.9%	0.5%	8.7%	1.5%	
Municipal Capital Revenue		-6.6%	30.0%	7.8%	50.9%	-18.3%	
<b>Total Municipal Revenue</b>		<b>3.3%</b>	<b>10.5%</b>	<b>1.5%</b>	<b>14.9%</b>	<b>-2.3%</b>	

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

### 1.1. Municipal Operating Revenue

Operating revenue is comprised of seven key components: service charges, government grants and subsidies, property rates, other revenue sources, investment revenue, public contributions and donations and regional service council (RSC) levies<sup>6</sup>. Generally, service charges are the dominant source of operating revenue for municipalities. Figure 1 illustrates the proportional decline in service charges and other own revenue sources to total operating revenue – this alongside significant increases in the contribution of government grants over the period. It is also noted that property rates declined from 14.0% to just under 12% over the period reviewed.

**Figure 1. Contribution of main revenue sources to total municipal operating revenue over the period 2003/04-2009/10**



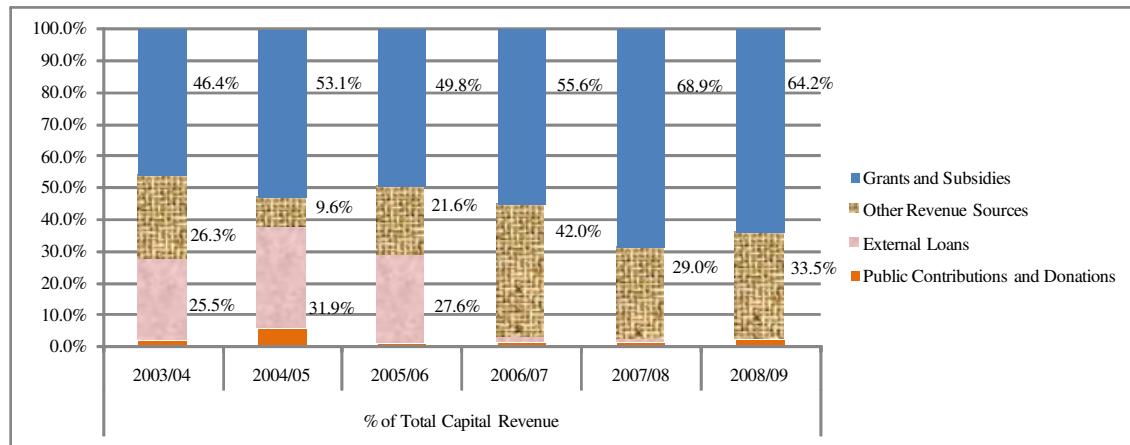
<sup>6</sup> The RSC Levy was a local government tax afforded to category A and C municipalities and was abolished as of the 2006/07 financial year. It was replaced by an interim grant up until 2009/10; whereupon Category A municipalities were given a share of the general fuel levy (also supplemented by the VAT zero-rating of municipal property rates) and the grant continues for Category C municipalities.

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

### 1.2. *Municipal Capital Revenue*

In aggregate terms, funding for capital across the Free State municipalities increased by an annual average of 10% between 2003/04 and 2008/09; larger than the 4.6% annual average growth for operating revenue. Capital revenues are derived from four main sources: government grants and subsidies, other own revenues, external loans and public contributions and donations. Figure 2 illustrates the contribution of these various sources to aggregate capital revenue. Government grants fund the majority of capital projects in Free State municipalities – as at 2008/09, this source contributed 64% of total capital funding. Other revenue sources (which constitutes own income of municipalities) are also a significant source of capital funding. The contribution of this source has been erratic, particularly since 2006/07. As noted in the FFC’s Submission for the Division of Revenue, 2012/13, municipalities need to be explicit about what the term ‘other’ entails (FFC, 2011:45). It also appears that the use of external loans which seemed to be on the rise between 2003/04 and 2005/06 has declined significantly. Whether this is the result of the poor state of municipal own revenue, is an aspect that requires more interrogation.

**Figure 2. Contribution of main revenue sources to total municipal capital revenue over the period 2003/04-2009/10**



Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

### 1.3. *Performance of Revenue Collection and the Challenge of Municipal Consumer Debt*

Municipal consumer debt refers to non-payment of property rates, fees for municipal services (for example, water and sanitation, electricity, refuse removal<sup>7</sup>) and various other financial obligations to municipalities (this includes, for example, traffic fines or rental housing payments). The type of non-payment described above emanates from households, businesses,

<sup>7</sup> These are key sources of own revenue.



government and the category termed 'other' (the specific components of this category vary from municipality to municipality). One example of what might be listed under this category is debt from insolvent estates.

The analysis of consumer debt that follows, is based on a slightly different six year review period (2004/05 to 2009/10). For each of the years under review the composition of municipalities differs, but the number that has been reporting has consistently increased. In 2004 for example, only one municipality, Mangaung, is listed as providing data on consumer debt. This increased to 19 municipalities in 2005/06. Since 2006/07, 22 municipalities have more or less consistently reported figures on consumer debt. There are two municipalities that have shown persistent challenges with reporting, namely Thabo Mofutsanyana and Fezile Dabi. Based on the database, these two municipalities have not reported in the six years under review. Whilst it should be noted that both municipalities do not have the water and sanitation functions, they should still be reporting on non-payment for other municipal services.

Table 4 provides an overview of total real municipal consumer debt within the Free State between 2004/05 and 2009/10. Up until 2007/08 consumer debt across the Free State municipalities shows a consistently slower year on year growth. In 2008/09, consumer debt recorded a sizable decline of 23%. Most of the debt is concentrated in Mangaung (24% of total debt), Matjhabeng (17% of total debt) and Maluti-a-Phofung (12 of the total). In all probability, the 2008 economic crisis and the subsequent impact on employment and poverty, negatively affected the ability of consumers to pay for municipal services, thus reversing the in-roads made against this challenge and resulting in the 39.5% growth in consumer debt between 2008/09 and 2009/10.

**Table 4. Overview of total municipal consumer debt across Free State municipalities, 2004/05-2009/10 (R'000)**

<b>Period Debt</b>	<b>Outstanding For</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
0-30 days		17,970	289,519	277,146	303,854	207,810	367,507
31-60 days		29,299	104,036	116,219	163,125	129,302	167,308
61-90 days		14,528	110,788	88,784	99,738	95,355	123,386
Over 90 days		383,862	1,784,892	2,294,054	2,718,985	2,097,239	2,870,609
<b>TOTAL</b>		<b>445,658</b>	<b>2,289,236</b>	<b>2,776,203</b>	<b>3,285,702</b>	<b>2,529,705</b>	<b>3,528,810</b>
<i>Real year on year growth</i>							
0-30 days			1511.1%	-4.3%	9.6%	-31.6%	76.8%
31-60 days			255.1%	11.7%	40.4%	-20.7%	29.4%
61-90 days			662.6%	-19.9%	12.3%	-4.4%	29.4%
Over 90 days			365.0%	28.5%	18.5%	-22.9%	36.9%
<b>Total Consumer Debt:Free State Municipalities</b>			<b>413.7%</b>	<b>21.3%</b>	<b>18.4%</b>	<b>-23.0%</b>	<b>39.5%</b>

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

Figure 3 below illustrates total municipal consumer debt for Free State municipalities relative to total operating revenue for the same set of municipalities. As at 2009/10 it is estimated that the proportion of consumer debt to operating revenue is 54.1%. This represents revenue that could be utilised to fund and/or enhance service delivery across Free State municipalities. Whereas a municipality such as Mangaung may have, in absolute terms, the largest amount of consumer debt, relative to the size of its operating revenue budget, the extent of non-payment may not be as severe as say the situation in Metsimaholo where the debt amount is smaller but relative is equal to just under 80% of the total operating budget of that municipality. For a more detailed analysis, Appendix A and B illustrate real debt per municipality and real debt as a percentage of total municipal operating revenue respectively.

**Figure 3. Municipal consumer debt relative to total municipal operating revenue, 2004/05-2009/10**

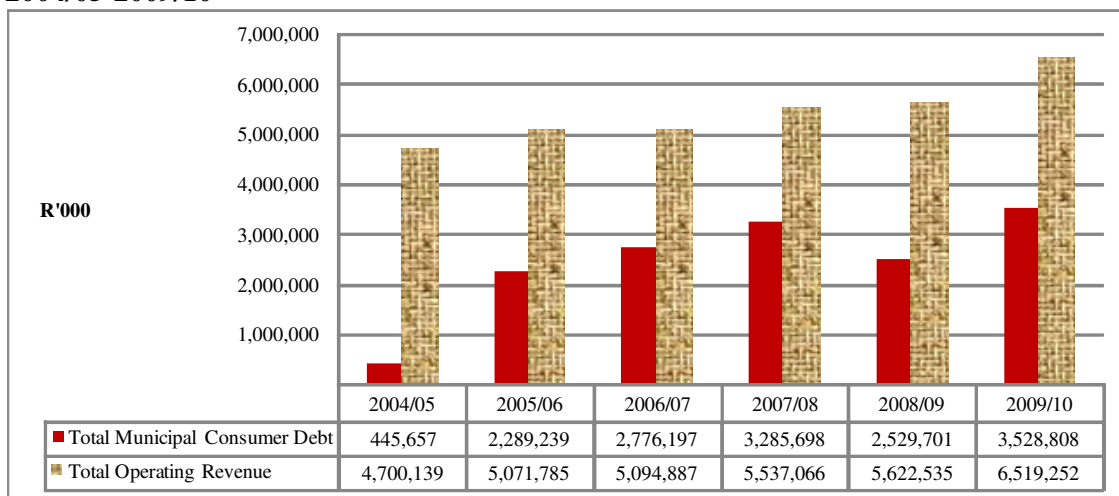
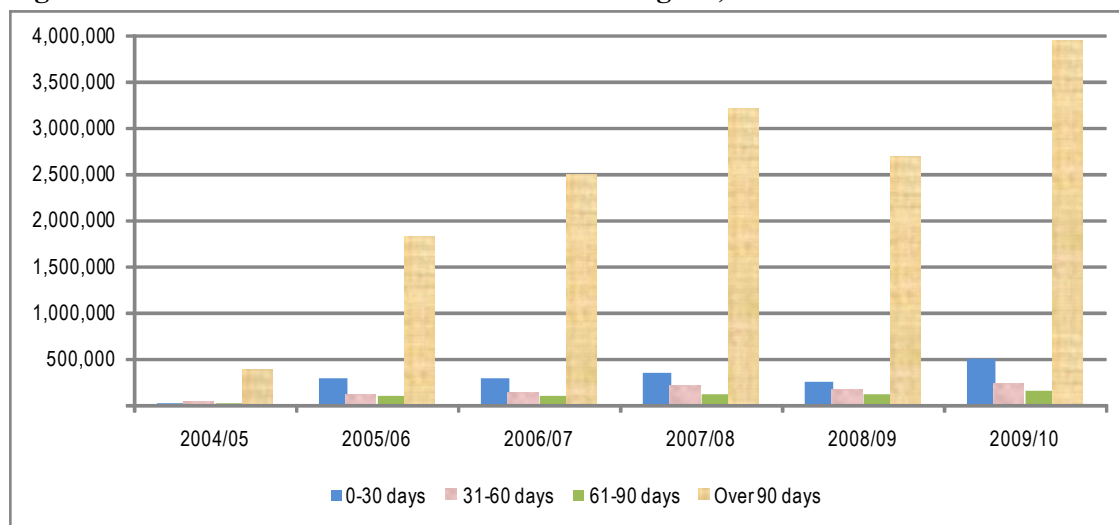


Figure 4 below graphically illustrates the period for which debt is outstanding in each of the six years. It should be noted that debt management is a key challenge experienced by most municipalities. As identified in the Commission’s 2012/13 Submission, the provision for bad debts, the writing off of irrecoverable debts and ultimately the recovery of outstanding amounts is weak across most categories of municipalities. To this end the FFC has recommended that basic norms and standards be devised to assist municipalities in better managing this challenge and importantly to bring about uniformity with respect to municipal practices.

In the case of Free State municipalities, the category of ‘debt outstanding for over 90 days’, dominates during the entire period. Whereas the real growth in debt is marginal, the fact that the largest portion of existing debt can be termed historical, indicates that municipalities are experiencing challenges with debt management. It could be the case that irrecoverable debts are not being adequately written off and thereby artificially inflating the extent of the debt in each of the years reviewed. Municipalities that should be closely monitored with respect to

this include Mangaung, Matjhabeng, Maluti-a-Phofung and Metsimaholo. Appendix C contains municipal specific information regarding real consumer debt outstanding for over 90 days.

**Figure 4. Time Period for which debt is outstanding for, 2004/05-2009/10**



Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

In terms of the sectors where consumer debt is most prevalent, non-payment for water dominates (See Table 5). This is not surprising given that water is viewed as an essential basic service and so cannot be totally disconnected/cut in response to non-payment. Again it is clear that non-payment across the majority of these sectors was declining in 2008/09 but rose sharply in 2009/10. It is pertinent for municipalities to be explicit as to what is contained under the term 'other' as it constitutes the second largest debt category. A similar challenge exists when viewing municipal consumer debt from the point of view of the sphere as a whole. Appendices D, E and F provide a more detailed municipal-specific analysis of non-payment for water, electricity and 'other'.

**Table 5. Non-payment in Free State municipalities disaggregated by sector, 2004/05-2009/10 (R'000)**

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Water	195,902	739,450	905,452	1,082,972	837,539	1,605,877
Electricity	42,089	169,936	248,959	235,753	241,799	380,279
Property Rates	163,098	504,116	531,126	753,429	663,831	686,827
RSC Levies		43,801	29,444	1,773	683	637
Other	44,569	831,936	1,061,215	1,211,771	785,852	855,191
<b>TOTAL</b>	<b>445,657</b>	<b>2,289,238</b>	<b>2,776,196</b>	<b>3,285,698</b>	<b>2,529,705</b>	<b>3,528,810</b>
<i>Real year on year growth</i>						
Water		277.5%	22.4%	19.6%	-22.7%	91.7%
Electricity		303.8%	46.5%	-5.3%	2.6%	57.3%
Property Rates		209.1%	5.4%	41.9%	-11.9%	3.5%
RSC Levies			-32.8%	-94.0%	-61.5%	-6.8%
Other		1766.6%	27.6%	14.2%	-35.1%	8.8%
<b>TOTAL</b>		<b>413.7%</b>	<b>21.3%</b>	<b>18.4%</b>	<b>-23.0%</b>	<b>39.5%</b>

Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

Unfortunately, the dataset used in this analysis, is not disaggregated to show where the municipal consumer debt across the Free State municipalities, emanates from. Generally however, households are responsible for the bulk of this type of debt. The most common reason to explain non-payment appears to be the inability to pay, due to poverty (Booyesen, 2001; Botes and Pelsler, 2001; Burger, 2001). The term ‘inability to pay’ indicates that there is an income level below which people are unable to pay for the delivery of services. This raises the central question of affordability. Milne (2004) suggests using core “affordability” indicators, which if properly monitored can warn policy-makers of early indications of changes in the affordability of services. A range of possible indicators are proposed: (Milne, 2004:5)

- Consumption-related indicators, such as percentage of total household expenditure devoted to a commodity or per capita consumption/expenditure on a commodity
- Price-related indicators, for example unit prices paid for a commodity
- Payment-related indicators, which would include the use of arrears statistics, alternative payment schemes and disconnections owing to debt.

However, monitoring trends in affordability indicators represents what can be termed an ex post approach. McPhail (1993) suggests incorporating assessments of affordability and willingness to pay at the planning stage of public goods such as water or electricity, especially if the intention is to recover costs. The information from an affordability assessment can provide insight into potential service usage patterns and, therefore, the tariff to be charged in order to maximise cost recovery.

### 3. Overview of Municipal Expenditure and Outcomes in Free State Municipalities

As with total municipal revenue, total municipal expenditure can also be divided into two categories: operating and capital expenditure (See Table 6).

**Table 6. Total municipal expenditure for Free State municipalities, 2003/04-2008/09**

	OUTCOME (R000)						Real Annual
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Average Growth 2003/04-2008/09
Municipal Operating Expenditure	4,177,005	4,691,966	4,045,368	4,796,544	5,434,006	5,207,467	4.5%
Municipal Capital Expenditure	670,686	626,733	815,000	877,982	1,326,434	1,083,539	10.1%
<b>Total Municipal Expenditure</b>	<b>4,847,691</b>	<b>5,318,699</b>	<b>4,860,368</b>	<b>5,674,526</b>	<b>6,760,439</b>	<b>6,291,006</b>	<b>5.4%</b>
<i>Real year on year growth</i>							
Municipal Operating Expenditure		12.3%	-13.8%	18.6%	13.3%	-4.2%	
Municipal Capital Expenditure		-6.6%	30.0%	7.7%	51.1%	-18.3%	
<b>Total Municipal Expenditure</b>		<b>9.7%</b>	<b>-8.6%</b>	<b>16.8%</b>	<b>19.1%</b>	<b>-6.9%</b>	

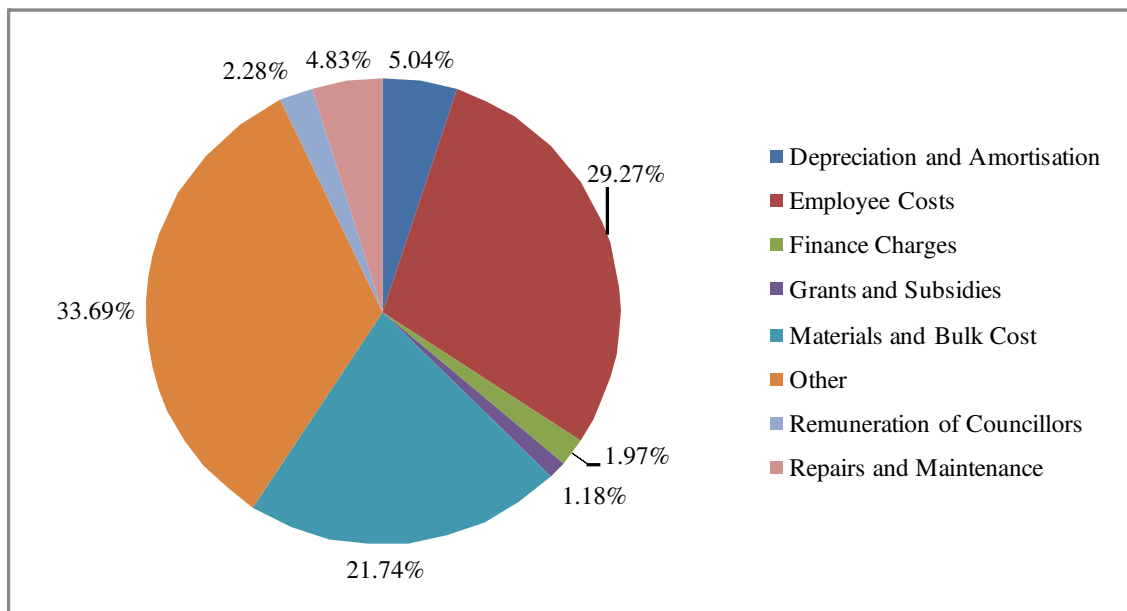
Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

### 3.1. Municipal Operating Expenditure

Municipal operating expenditure represents recurrent costs that a municipality incurs in providing constitutionally mandated basic services to its constituencies. Figure 4 below provides a picture of the composition of total municipal operating expenditure for all Free State municipalities for the 2008/09 financial year.

The bulk of municipal operating expenditure is driven by 'other' – in 2008/09, 33.69% of total operating expenditure was dedicated to this item. As required in terms of National Treasury's new economic reporting format which attempts to encourage greater transparency, clarity and accessibility into municipal reporting, municipalities should do away with ambiguous terminology such as 'other'. Whereas the municipality may be aware of what is contained under the term 'other', those responsible for oversight may not understand what the concept entails. The second largest operating expenditure component is employee costs (accounting for 29.27% of total operating expenditure in 2008/09).

**Figure 5. Composition of municipal operating expenditure for all Free State municipalities, 2008/09**



Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

One aspect of concern when it comes to municipal operating expenditure is the low expenditure on repairs and maintenance. In terms of National Treasury guidelines municipalities are advised to allocate between 8-10% of total operating budgets to this component. As is evident in Table 7, the proportion of total operating expenditure dedicated to repairs and maintenance within Free State municipalities has consistently been below 5%. This endangers the existing infrastructure base within municipalities as low spending on

repairs and maintenance can lead to decay/rapid depreciation assets. FFC analysis of this component for the local government sphere as a whole indicates a similar trend where all categories of municipalities have failed to spend adequately on repairs and maintenance<sup>8</sup>.

In terms of real growth in spending, performance has been very unstable ranging from a real decline of 20.95% in 2005/06 to an increase of 20.28% in 2008/09. Given that the maintenance of new/existing infrastructure is critical to ensuring sustainable delivery of quality services, municipalities are encouraged to rethink their approach to planning for and spending on repairs and maintenance.

**Table 7. Performance of repairs and maintenance expenditure, 2003/04-2008/09**

	OUTCOME (R'000)					
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Real Spending on Repairs and Maintenance	197,115	232,558	183,836	192,181	209,062	251,459
Real Growth in Spending		18.0%	-21.0%	4.5%	8.8%	20.3%
Spending on Repairs and Maintenance as % of Total Operating Expenditure	4.7%	5.0%	4.5%	4.0%	3.8%	4.8%

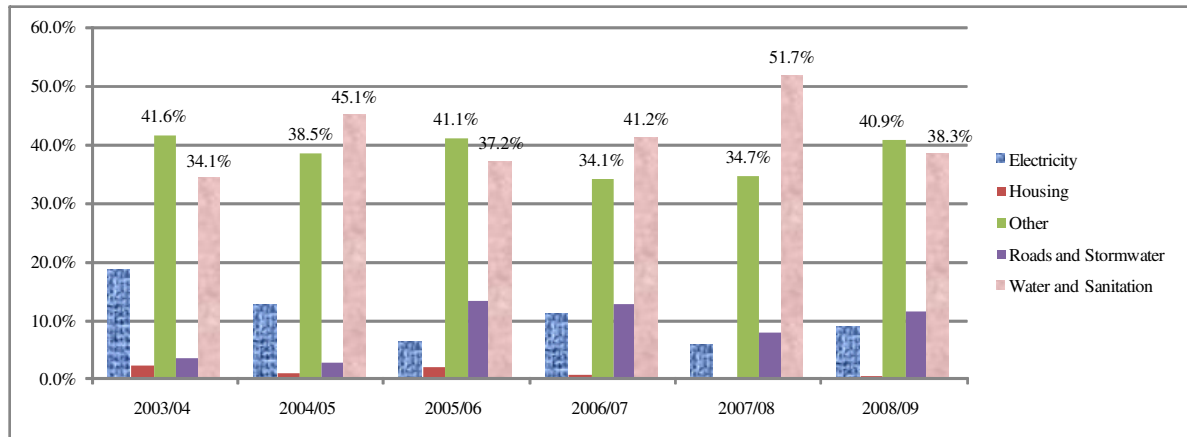
Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

### 3.2. *Municipal Capital Expenditure*

Municipal capital expenditure constitutes a municipality's investment in social and economic infrastructure projects. Based on aggregate local government trends, this type of expenditure is generally dominated by three items, namely water and sanitation, roads and storm water and other (this category refers to expenditure on land, buildings vehicle fleets). Figure 6 illustrates the proportion of expenditure allocated to each of various items that compose total municipal capital expenditure. Expenditure by Free State municipalities is dominated by allocations in respect of water and sanitation and other expenditure.

<sup>8</sup> See page 50 of the FFC Submission for the Division of Revenue 2012/13

**Figure 6. Composition of municipal capital expenditure for all Free State municipalities, 2003/04-2008/09**

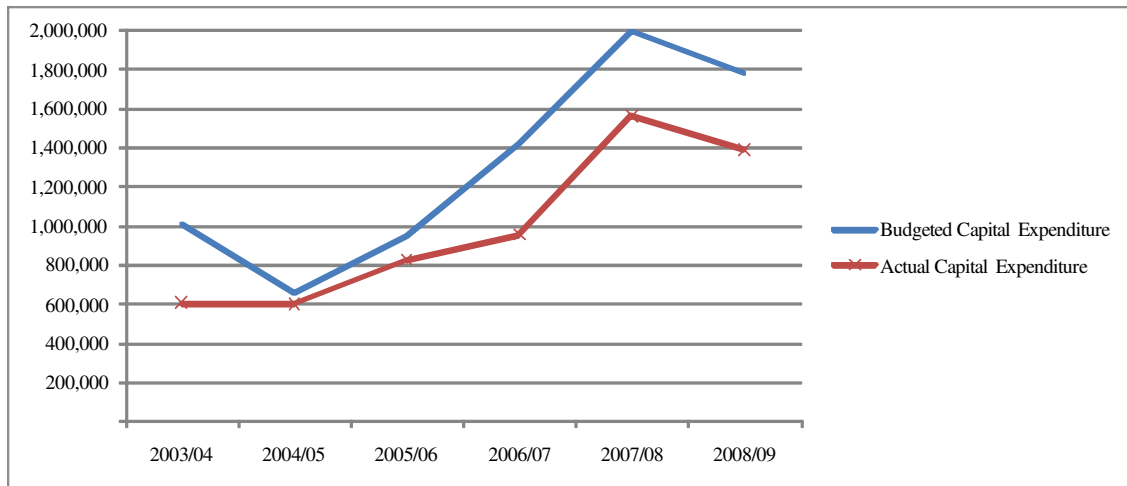


Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

Based on poor municipal capital performance identified in the FFC’s Submission for the Division of Revenue for 2012/13 (FFC, 2011), Figure 6 below illustrates performance of planned versus actual, capital expenditure over the period 2003/04 to 2008/09. If a score is less than 100%, the actual amount (or outcome) is smaller than the budgeted amount, meaning that there was under spending. The reverse is also true: if the measurement is greater than 100%, it means the budget was exceeded. Ideally, the deviation between budgeted and actual amounts should be minimal or zero, which is rarely the case. The Department of Co-operative Governance and Traditional Affairs (DCoGTA) has defined a credible budget as “one with a variance of less than 20 per cent” (DCoGTA, 2009:62).

It is evident that over the entire period reviewed, actual capital expenditure falls short of planned capital expenditure, with the gap between the two widening over the six year period. As at 2008/09, actual capital expenditure amounted to 78% of what had been planned for in that particular financial year. According to FFC analysis of average performance of budgeted versus actual capital expenditure for the local sphere, Free State municipalities are below the national average of 87% (this is at 2008/09). Individual municipalities that have performed consistently well in this aspect include Mangaung, Ngwathe and Matjhabeng. On the other hand, Thabo Mofutsanyana, Naledi and Metsimaholo seem to be facing real challenges with respect to capital spending. Appendix G shows the performance of budgeted versus actual capital expenditure for each of the Free State municipalities.

**Figure 7. Budgeted versus actual capital expenditure for total Free State municipalities, 2003/04-2008/09**



Source: FFC calculations based on National Treasury data, 2009 and 2010/11.

#### 4. Concluding Remarks

Based on the above analysis, the following points are emphasised:

With respect to municipal revenue and expenditure

- In terms of revenue, intergovernmental transfers dominated over the period under review. Municipalities need to ensure that own revenue sources are optimally exploited so as to ensure that when public resources come under pressure, they are not hard hit by declines in equitable share or conditional grant transfers.
- In accordance with slower growth in revenue, aggregate municipal spending in the Free State recorded a real decline of 6.94% in 2008/09. Capital expenditure in particular, was hard hit, as it declined by 18.31% in real terms in 2008/09, confirming that when budgets are under pressure, capital spending is one of the first items to be sacrificed. Of concern is the lack of synergy between planned/budgeted and actual capital spending. This could be explained by poor planning or inaccurate costing of resources and services.
- On aggregate municipal spending on repairs and maintenance has been consistently below 5% over the period reviewed – this is not aligned to National Treasury guidelines around health spending on repairs and maintenance. Given the importance of maintaining new and existing infrastructure in ensuring sustainable service delivery, this is an area that requires attention.

With respect to municipal consumer debt:



- The number of municipalities reporting on consumer debt has shown strong improvement since 2004/05 when data for only one municipality was recorded. To support sound decision-making, municipal reporting on consumer debt should be further monitored, particularly those that according to the database used in this analysis, recorded no data over the period of assessment.
- In aggregate terms, municipal consumer debt across Free State municipalities showed significant real growth of 39.5% in 2009/10. It is probable that the effects of the economic crisis played a role in increased non-payment.
- The proportion of consumer debt to operating revenue is abnormally high. Based on the analysis this is an issue that requires attention as the majority of municipalities in the Free State face a situation where consumer debt in some municipalities is over 50% of their operating budgets.
- An assessment of the period for which debt was outstanding for indicates that the bulk of non-payment is over 90 days old. This indicates that municipalities may not be actively and adequately writing off irrecoverable amounts, thereby artificially inflating the severity of the consumer debt challenge. As a result better debt management should be prioritised.
- In terms of the sector where the bulk of non-payment is located, similarly to the national situation, non-payment for water dominates in the Free State
- Non-payment listed under the category 'other' is significant. Municipalities should be encouraged to be more explicit in their reporting practices so as to ensure that clarity and accessibility of budget/spending information.

With respect to general issues:

- Comprehensive monitoring of the accuracy of financial and performance-related data and reporting is critical to ensuring a sound foundation for planning and policy-making purposes and should be prioritised by municipalities.
- Performance with respect to debt management, capital or repairs and maintenance spending is not uniform across Free State municipalities – this provides an opportunity to explore peer learning and support programmes for poorly performing municipalities by leveraging the experience of well-performing municipalities.

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**Appendix A. Real Municipal Consumer Debt Per Free State Municipality, 2003/04-2009/10**

PDG Category	Municipality	R'000						Municipal Debt as % of 2009/10 Total
		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
B1	Mangaung	445,657	457,087	617,330	613,293	716,766	841,383	24%
B1	Matjhabeng	N/A	897,067	829,787	991,509	N/A	590,840	17%
B2	Dihlabeng	N/A	152,619	154,075	185,897	119,147	145,969	4%
B2	Moqhaka	N/A	N/A	145,831	143,925	156,746	151,534	4%
B2	Metsimaholo	N/A	168,961	187,539	242,775	249,719	292,862	8%
B3	Letsemeng	N/A	12,676	8,700	8,651	10,959	10,369	0.3%
B3	Kopanong	N/A	46,626	51,289	34,774	N/A	41,332	1%
B3	Mohokare	N/A	38,125	34,787	35,980	38,345	42,382	1%
B3	Naledi (Fs)	N/A	28,780	23,968	31,417	46,081	45,248	1%
B3	Mantsopa	N/A	42,642	49,870	59,575	69,924	77,207	2%
B3	Masilonyana	N/A	105,927	118,568	129,112	97,257	103,618	3%
B3	Tokologo	N/A	21,533	23,740	N/A	20,539	46,968	1%
B3	Tswelopele	N/A	20,549	24,889	26,508	28,935	24,980	1%
B3	Nala	N/A	60,566	71,478	74,701	124,562	153,983	4%
B3	Setsoto	N/A	93,691	101,135	120,471	159,105	164,954	5%
B3	Nketoana	N/A	68,276	69,725	84,692	95,689	110,563	3%
B3	Maluti-a-Phofung	N/A	N/A	N/A	322,199	370,279	424,332	12%
B3	Phumelela	N/A	N/A	80,236	44,057	40,970	29,663	1%
B3	Ngwathe	N/A	N/A	119,643	80,989	122,537	154,491	4%
B3	Mafube	N/A	61,166	55,133	45,718	54,463	68,137	2%
C1	Xhariep	N/A	124	102	102	98	N/A	N/A
C1	Motheo	N/A	5,048	31	1,545	691	1,035	N/A
C1	Lejweleputswa	N/A	7,778	8,342	7,809	6,887	6,959	N/A
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>445,657</b>	<b>2,289,239</b>	<b>2,776,197</b>	<b>3,285,698</b>	<b>2,529,701</b>	<b>3,528,808</b>	<b>100%</b>

**Appendix B. Municipal Consumer Debt as a Proportion of Total Operating Revenue Per Free State Municipality, 2004/05-2009/10**

PDG		2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Category	Municipality						
B1	Mangaung	31.20%	25.79%	38.03%	38.12%	39.90%	35.36%
B1	Matjhabeng	N/A	117.78%	93.37%	108.47%	N/A	66.35%
B2	Dihlabeng	N/A	46.97%	66.69%	76.24%	47.26%	55.89%
B2	Metsimaholo	N/A	68.02%	67.08%	70.82%	83.90%	79.33%
B2	Moqhaka	N/A	N/A	74.91%	63.45%	70.26%	46.78%
B3	Kopanong	N/A	69.67%	64.61%	31.36%	N/A	43.50%
B3	Letsemeng	N/A	27.71%	16.23%	18.01%	20.17%	22.08%
B3	Mafube	N/A	105.66%	82.77%	77.90%	81.42%	66.52%
B3	Maluti-a-Phofung	N/A	N/A	N/A	70.62%	73.98%	69.54%
B3	Mantsopa	N/A	44.41%	62.12%	78.56%	70.13%	86.16%
B3	Masilonyana	N/A	169.92%	178.98%	185.92%	109.85%	106.14%
B3	Mohokare	N/A	118.10%	105.68%	91.80%	114.78%	70.83%
B3	Nala	N/A	48.05%	48.37%	38.88%	89.81%	108.87%
B3	Naledi (Fs)	N/A	147.24%	102.84%	81.00%	93.74%	129.24%
B3	Ngwathe	N/A	0.00%	71.84%	41.90%	49.23%	65.30%
B3	Nketoana	N/A	108.98%	66.29%	54.03%	80.39%	132.32%
B3	Phumelela	N/A	0.00%	#DIV/0!	103.07%	76.28%	60.15%
B3	Setsoto	N/A	61.51%	53.74%	45.60%	82.06%	80.61%
B3	Tokologo	N/A	84.53%	55.14%	0.00%	64.03%	151.53%
B3	Tswelopele	N/A	54.08%	60.03%	24.67%	44.42%	48.61%
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A
C1	Lejweleputswa	N/A	12.79%	14.96%	12.53%	10.13%	10.43%
C1	Motheo	N/A	4.02%	0.03%	1.54%	0.65%	0.94%
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A
C1	Xhariep	N/A	0.60%	0.64%	0.81%	0.67%	N/A
	<b>TOTAL</b>	<b>9.48%</b>	<b>45.14%</b>	<b>54.49%</b>	<b>59.34%</b>	<b>44.99%</b>	<b>54.13%</b>

## Appendix C. Real Debt Older Than 90 Days

PDG		R'000					
Category	Municipality	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
B1	Mangaung	383,862	301,368	449,803	440,993	546,276	652,175
B1	Matjhabeng	N/A	721,307	708,583	870,117	N/A	486,583
B2	Dihlabeng	N/A	118,337	122,518	168,800	103,552	122,041
B2	Moqhaka	N/A	N/A	128,073	108,703	136,604	135,298
B2	Metsimaholo	N/A	134,030	132,263	131,601	209,052	219,034
B3	Letsemeng	N/A	10,159	6,422	6,532	8,253	5,646
B3	Kopanong	N/A	47,498	51,515	55,776	N/A	40,104
B3	Mohokare	N/A	27,206	32,983	34,277	36,504	39,894
B3	Naledi (Fs)	N/A	N/A	21,668	29,375	44,007	43,876
B3	Mantsopa	N/A	34,498	41,363	51,930	58,342	68,663
B3	Masilonyana	N/A	100,649	112,242	122,240	92,293	107,059
B3	Tokologo	N/A	19,524	21,727	N/A	18,304	45,657
B3	Tswelopele	N/A	18,062	21,927	23,731	25,770	22,487
B3	Nala	N/A	45,758	62,544	65,722	82,547	96,761
B3	Setsoto	N/A	82,864	86,783	99,852	136,610	141,366
B3	Nketoana	N/A	52,481	55,310	66,543	82,968	100,733
B3	Maluti-a-Phofung	N/A	N/A	N/A	283,902	329,333	324,373
B3	Phumelela	N/A	N/A	80,954	42,349	39,111	27,090
B3	Ngwathe	N/A	N/A	94,770	58,770	88,338	127,578
B3	Mafube	N/A	59,420	54,401	48,538	52,151	57,077
C1	Xhariep	N/A	115	102	102	98	N/A
C1	Motheo	N/A	N/A	31	1,436	240	154
C1	Lejweleputswa	N/A	N/A	8,074	7,695	6,887	6,959
C1	Thabo Mofutsanyana	N/A	N/A	N/A	N/A	N/A	N/A
C1	Fezile Dabi	N/A	N/A	N/A	N/A	N/A	N/A
	<b>TOTAL</b>	<b>383,862</b>	<b>1,773,276</b>	<b>2,294,054</b>	<b>2,718,985</b>	<b>2,097,239</b>	<b>2,870,609</b>

## Appendix D. Real Water Non-Payment Per Municipality, 2004/05-2009/10

HDG Category	Municipality	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10	
		Water Non-Payment		Water Non-Payment		Water Non-Payment		Water Non-Payment		Water Non-Payment		Water Non-Payment	
		Real Water as % of Nn- Payment	Total Cons.Debt	Real Water as % of Nn- Payment	Total Cons.Debt	Real Water as % of Nn- Payment	Total Cons.Debt	Real Water as % of Nn- Payment	Total Cons.Debt	Real Water as % of Nn- Payment	Total Cons.Debt	Real Water as % of Nn- Payment	Total Cons.Debt
Bl	Mngang	19592	440%	18202	80%	273916	99%	301963	92%	361557	143%	423469	120%
Bl	Mtjhlang	NA	NA	300183	131%	288391	104%	358032	109%	NA	NA	301900	86%
B2	Dikhang	NA	NA	34187	15%	31229	11%	44172	13%	22447	09%	45861	13%
B2	Mufika	NA	NA	NA	NA	27339	10%	28053	09%	31034	12%	58521	17%
B2	Mtsinhalo	NA	NA	46294	20%	67318	24%	86728	26%	126746	50%	186041	53%
BB	Latsenang	NA	NA	3976	02%	2349	01%	2265	01%	3450	01%	5265	01%
BB	Kqanong	NA	NA	4966	02%	560	02%	701	002%	NA	NA	9298	03%
BB	Mfhrkae	NA	NA	8303	04%	8426	03%	9473	03%	11038	04%	17868	05%
BB	Naledi (FS)	NA	NA	9101	04%	7439	03%	10662	03%	20038	08%	28675	08%
BB	Mitsopa	NA	NA	12256	05%	14576	05%	12306	04%	18210	07%	43230	12%
BB	Misloyana	NA	NA	79939	35%	89577	32%	92718	28%	70219	28%	78499	22%
BB	Tokologo	NA	NA	379	002%	457	002%	NA	NA	399	002%	10906	03%
BB	Tsvelopele	NA	NA	3614	02%	5235	02%	6139	02%	6664	03%	9666	03%
BB	Nala	NA	NA	5402	02%	7031	03%	9039	03%	21878	09%	60033	17%
BB	Sassto	NA	NA	14487	06%	15054	05%	18387	06%	31635	13%	44644	13%
BB	Netoma	NA	NA	17752	08%	24403	09%	29642	09%	14031	06%	46493	13%
BB	Militia-Pfufung	NA	NA	NA	NA	NA	NA	29192	09%	40179	16%	121369	34%
BB	Rhunde	NA	NA	NA	NA	1741	01%	10046	03%	8533	03%	14142	04%
BB	Nyathe	NA	NA	NA	NA	18813	07%	21203	06%	29273	12%	65896	19%
BB	Mifube	NA	NA	16519	07%	16528	06%	12201	04%	20158	08%	34042	10%
Cl	Xiniep	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cl	Mithao	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cl	Lejvelqutswa	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cl	ThaboMfutsanyana	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Cl	FezileDhl	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	<b>TOTAL</b>	<b>195912</b>	<b>440%</b>	<b>739450</b>	<b>323%</b>	<b>905452</b>	<b>326%</b>	<b>1082972</b>	<b>330%</b>	<b>837539</b>	<b>331%</b>	<b>1605877</b>	<b>455%</b>

## Appendix E. Real “Other” Non-Payment Per Municipality, 2004/05-2009/10

HDG	Category	Municipality	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10	
			Real Other Non-Payment	Other Non-Payment as % of Total Cons. Debt	Real Other Non-Payment	Other Non-Payment as % of Total Cons. Debt	Real Other Non-Payment	Other Non-Payment as % of Total Cons. Debt	Real Other Non-Payment	Other Non-Payment as % of Total Cons. Debt	Real Other Non-Payment	Other Non-Payment as % of Total Cons. Debt	Real Other Non-Payment	Other Non-Payment as % of Total Cons. Debt
Bl		Mngang	44,569	100%	36,875	16%	30,240	1.1%	29,353	0.9%	23,282	0.9%	28,779	0.8%
Bl		Mtjhlang	NA	NA	406,213	17.7%	378,312	13.6%	446,130	13.6%	NA	NA	104,461	3.0%
B2		Dhlabang	NA	NA	91,884	4.0%	95,404	3.4%	116,114	3.5%	70,597	2.8%	69,593	2.0%
B2		Mqutha	NA	NA	NA	NA	74,839	2.7%	90,832	2.8%	85,586	3.4%	58,111	1.6%
B2		Mtsinathi	NA	NA	28,869	1.3%	37,855	1.4%	47,012	1.4%	47,249	1.9%	38,065	1.1%
BB		Ilesang	NA	NA	6,425	0.3%	4,247	0.2%	4,426	0.1%	5,184	0.2%	2,680	0.1%
BB		Kqanong	NA	NA	37,799	1.7%	41,207	1.5%	39,286	1.2%	NA	NA	19,980	0.6%
BB		Mfichae	NA	NA	24,639	1.1%	23,081	0.8%	23,452	0.7%	24,211	1.0%	21,058	0.6%
BB		Naledi (Fs)	NA	NA	16,079	0.7%	13,994	0.5%	13,223	0.4%	17,156	0.7%	8,023	0.2%
BB		Mitsapa	NA	NA	19,234	0.8%	25,051	0.9%	34,116	1.0%	39,076	1.5%	20,117	0.6%
BB		Msikonyama	NA	NA	2,481	0.1%	2,301	0.1%	2,151	0.1%	566	0.02%	635	0.02%
BB		Tokologo	NA	NA	15,285	0.7%	16,992	0.6%	NA	NA	13,589	0.5%	19,581	0.6%
BB		Tswelopele	NA	NA	12,930	0.6%	14,832	0.5%	18,131	0.6%	20,324	0.8%	12,143	0.3%
BB		Nala	NA	NA	9,640	0.4%	52,971	1.9%	61,256	1.9%	77,775	3.1%	68,043	1.9%
BB		Sasoto	NA	NA	68,506	3.0%	74,160	2.7%	87,941	2.7%	108,307	4.3%	103,094	2.9%
BB		Netoma	NA	NA	18,435	0.8%	19,523	0.7%	29,642	0.9%	69,923	2.8%	51,355	1.5%
BB		Mkoti-a-Pfong	NA	NA	NA	NA	NA	NA	68,742	2.1%	76,860	3.0%	155,348	4.4%
BB		Phuzela	NA	NA	NA	NA	45,764	1.6%	26,257	0.8%	25,101	1.0%	9,196	0.3%
BB		Ngwathe	NA	NA	NA	NA	74,073	2.7%	40,785	1.2%	47,495	1.9%	39,798	1.1%
BB		Mfube	NA	NA	33,314	1.5%	30,862	1.1%	25,239	0.8%	26,576	1.1%	17,773	0.5%
CI		Xhup	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CI		Mtho	NA	NA	NA	NA	NA	NA	1,072	0.03%	691	0.03%	1,035	0.03%
CI		Lejweputswa	NA	NA	3,325	0.1%	5,507	0.2%	6,610	0.2%	6,302	0.2%	6,321	0.2%
CI		Thabo Mfutsanyana	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CI		Fezile Dhl	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
		<b>TOTAL</b>	<b>44,569</b>	<b>100%</b>	<b>831,936</b>	<b>36%</b>	<b>1,061,215</b>	<b>38%</b>	<b>1,211,771</b>	<b>36%</b>	<b>785,852</b>	<b>31%</b>	<b>855,191</b>	<b>24%</b>

## Appendix F. Real Electricity Non-Payment Per Municipality, 2004/05-2009/10

HDG Category	Municipality	2004/05		2005/06		2006/07		2007/08		2008/09		2009/10	
		Electricity Non-Payment		Electricity Non-Payment		Electricity Non-Payment		Electricity Non-Payment		Electricity Non-Payment		Electricity Non-Payment	
		Real Payment	Electricity as % of Total	Real Payment	Electricity as % of Total	Real Payment	Electricity as % of Total	Real Payment	Electricity as % of Total	Real Payment	Electricity as % of Total	Real Payment	Electricity as % of Total
		Payment	Gross Debt	Payment	Gross Debt	Payment	Gross Debt	Payment	Gross Debt	Payment	Gross Debt	Payment	Gross Debt
BI	Mangung	42,089	94%	59,849	26%	108,238	39%	89,504	27%	106,008	42%	155,484	44%
BI	Mtshatung		NA	39,926	1.7%	29,284	1.1%	32,729	1.0%	NA	NA	53,961	1.5%
B2	Dhlabang		NA	7,987	0.3%	7,665	0.3%	4,567	0.1%	6,385	0.3%	8,215	0.2%
B2	Mtshaka		NA	NA	NA	26,093	0.9%	9,458	0.3%	18,349	0.7%	18,409	0.5%
B2	Mtshatolo		NA	19,618	0.9%	19,277	0.7%	30,928	0.9%	39,404	1.6%	31,179	0.9%
BB	Latseng		NA	602	0.03%	685	0.0%	608	0.02%	767	0.0%	821	0.02%
BB	Kpanang		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
BB	Mthkare		NA	1,345	0.1%	309	0.01%	222	0.01%	186	0.01%	154	0.004%
BB	Nkedi (F)		NA	305	0.01%	255	0.01%	222	0.01%	183	0.0%	171	0.005%
BB	Mtshaka		NA	5,569	0.2%	5,525	0.2%	6,677	0.2%	4,658	0.2%	5,521	0.2%
BB	Mtsinyana		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
BB	Tokologo		NA	2,356	0.1%	2,454	0.1%	NA	NA	2,120	0.1%	5,497	0.2%
BB	Tswelopele		NA	1,272	0.1%	1,464	0.1%	1,333	0.04%	874	0.03%	982	0.03%
BB	Nia		NA	2,547	0.1%	2,699	0.1%	2,464	0.1%	5,447	0.2%	7,989	0.2%
BB	Sitsoto		NA	3,168	0.1%	3,087	0.1%	6,082	0.2%	4,270	0.2%	5,782	0.2%
BB	Netoma		NA	23,214	1.0%	18,825	0.7%	16,092	0.5%	2,742	0.1%	2,842	0.1%
BB	Mtshata-Phofung		NA	NA	NA	NA	NA	17,896	0.5%	26,187	1.0%	52,068	1.5%
BB	Phunela		NA	NA	NA	6,254	0.2%	1,579	0.05%	1,551	0.1%	1,648	0.05%
BB	Nyuthu		NA	NA	NA	15,225	0.5%	13,032	0.4%	20,555	0.8%	22,602	0.6%
BB	Mfuthu		NA	2,226	0.1%	1,671	0.1%	2,362	0.1%	2,119	0.1%	6,984	0.2%
CI	Xhariep		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CI	Mthatho		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CI	Lajweputsa		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CI	Thabo-Mfutsinyana		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
CI	Fezile Dabi		NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	<b>TOTAL</b>	<b>42,089</b>	<b>94%</b>	<b>169,986</b>	<b>7.4%</b>	<b>248,959</b>	<b>9.0%</b>	<b>235,753</b>	<b>7.2%</b>	<b>241,799</b>	<b>9.6%</b>	<b>381,279</b>	<b>10.8%</b>



**Appendix G. Budgeted Versus Actual Capital Per Free State Municipality, 2003/04-2008/09**

Category	Municipality	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
B1	Mangaung	110.29%	104.44%	81.1%	78.1%	82.3%	81.0%
B1	Matjhabeng	21.50%	56.74%	74.8%	52.5%	92.1%	103.1%
B2	Dihlabeng	122.37%	60.37%	381.5%	110.7%	86.7%	81.8%
B2	Metsimaholo	106.35%	76.60%	68.4%	50.5%	55.9%	21.7%
B2	Moqhaka	8.71%	121.82%	33.4%	0.0%	83.5%	38.8%
B3	Kopanong	60.66%	184.51%	81.1%	112.0%	146.5%	99.9%
B3	Letsemeng	103.46%	179.00%	87.9%	78.8%	3.8%	141.9%
B3	Mafula	49.38%	632.35%	66.5%	47.3%	0.0%	49.0%
B3	Maluti-a-Phofung	80.98%	101.03%	102.5%	68.5%	63.4%	48.0%
B3	Mantsoa	22.33%	38.48%	45.7%	70.9%	97.9%	68.0%
B3	Masilonyana	38.17%	52.26%	44.4%	56.0%	177.8%	68.3%
B3	Mohokare	29.48%	103.75%	38.9%	65.5%	102.4%	81.2%
B3	Nala	88.18%	47.31%	1.3%	1.7%	8.7%	28.3%
B3	Naledi (Fs)	2.13%	4.17%	2.6%	58.4%	111.4%	10.0%
B3	Ngwathe	26.28%	94.89%	117.7%	92.9%	95.1%	98.1%
B3	Nketoana	88.80%	239.75%	74.9%	164.8%	133.6%	99.5%
B3	Phumelela	305.89%	55.20%	0.5%	0.0%	38.8%	38.5%
B3	Setsoto	38.31%	607.72%	80.6%	100.8%	107.1%	203.1%
B3	Tokoloso	27.04%	67.39%	35.6%	94.6%	0.0%	121.6%
B3	Tswelopele	44.97%	146.81%	187.4%	115.0%	137.1%	290.7%
C1	Fezile Dabi	103.58%	24.54%	53.2%	56.9%	55.2%	78.2%
C1	Lejweleputswa	528.57%	124.26%	67.5%	21.2%	40.8%	273.5%
C1	Motheo	81.70%	0.00%	28.0%	111.9%	125.6%	
C1	Thabo Mofutsanyana	3.84%	2.83%	9.2%	0.0%	1.7%	6.2%
C1	Xhariep	99.30%			0.0%		
	<b>TOTAL</b>	<b>60.24%</b>	<b>91.10%</b>	<b>87.2%</b>	<b>67.5%</b>	<b>78.5%</b>	<b>78.2%</b>