

## **ITEM XXXX**

### **PRELIMINARY FINANCIAL REPORT AS AT 30 June 2026**

#### **1. Purpose**

The purpose of this report is to provide a summary of the financial performance of Lephalale Local Municipality for the period ending 30 June 2026.

#### **2. Background**

In terms of Section 52(d) of the Local Government: Municipal Finance Management Act (Act 56 of 2003), the Mayor of a municipality must, within 30 days of the end of each quarter, submit a report to the Council on the implementation of the budget and the financial state of affairs of the municipality. This legislative requirement serves as a vital oversight mechanism, ensuring transparency, accountability, and regular performance tracking by providing Council with a comprehensive overview of financial health, service delivery targets, and budget variances.

The Legislative Framework for this report is anchored in Section 71 of the Local Government: Municipal Finance Management Act (MFMA) No. 56 of 2003. The Act compels the Accounting Officer to submit a monthly statement of the municipality's budget performance to the Mayor and the Provincial Treasury within ten working days of the month-end.

In terms of Section 66 of the Municipal Finance Management Act 56 of 2003 (MFMA), "The Accounting Officer of a municipality must, in a format and for periods as may be prescribed, report to the Council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits and in a manner that discloses such expenditure per type of expenditure.

This reporting process is further governed by the Municipal Budget and Reporting Regulations (MBRR), specifically Government Gazette No. 32141 of 2009 which prescribes the standardized "C-Schedule" formats to ensure uniformity and transparency across all municipalities.

#### **3. Mayor's Report**

The mayor will present her report separately in the next council meeting as per the council calendar and the report will form part of the annexures thereafter.

#### **4. Resolutions**

- i. THAT: Council note the monthly budget statement and the supporting documentation in terms of Section 71 of the MFMA.

- ii. THAT: Council note the quarterly budget statement and the supporting documentation in terms of Section 52(d) of the MFMA.

## 5. Executive Summary

This summary provides a strategic overview of the year-to-date actual results compared to the approved Budget and the approved Service Delivery and Budget Implementation Plan (SDBIP). Specifically focusing on revenue collection efficiency, operational spending patterns, and the progress of capital infrastructure projects. By identifying material variances and evaluating the municipality's liquidity and cash-flow position, this report serves as a vital management tool to ensure fiscal discipline and long-term financial sustainability. It equips the Mayor and the Budget and Treasury Office with the necessary insights to monitor departmental performance and implement proactive corrective measures where necessary to remain aligned with the municipal mandate of Lephalale Local Municipality.

### 5.1. Financial Overview – Overall Financial Performance

The Year-to-Date (YTD) Budget Statement summary presented below is prepared in alignment with the prescribed National Treasury reporting formats. This summary provides a comparative analysis of the municipality's financial performance outlining Operating Revenue, Operating Expenditure and Capital Expenditure against the approved budget.

- Total operating revenue (Billed service charges, operating grants and other revenue) recognised by the municipality as of 30 June 2026 is less than the year-to-date budget by 6% and is at 94% YE.
- Total operating expenditure is recognised at 3% less than the anticipated year-to-date budget and is at 97% of the YE budget.

### Key Financial drivers

#### Highlights

- Capex Spending of 90% on conditional grants and 83% in overall including Rollovers.
- The Municipality is currently accelerating the process to get all consumers to register for prepaid, and as of 30 June 2026 there were 5 908 (83% of 7 141) consumers on prepaid electricity with an amount of **R 108 952 494** having been collected on prepaid sales during the billing period: 1 July 2025 to 30 June 2026. Conversion to smart Electricity metering system is at 99.2%
- The Municipality has on 10 April 2025, implemented percentage blocking on electricity prepaid customers where 30% of the electricity purchases is withheld to pay the debt over 30 days. The amount collected during the period 1 July 2025 to 30 June 2026 amounted to **R 21 997 599.55**.

- The amount of **R 37 469 461.46** has been collected through the debt collector on 30 June 2026.
- Payment incentive is granted to all customers that pay their monthly bills in full by the due date. The amount of **R3 863 452 .47** has been allowed as an incentive.
- The interest amount of **R2 314 135 .56** has been written off on accounts of customers that came forth to make payment arrangements.
- 98% of historical UIFW has been processed by council and has been forwarded to Financial Misconduct board for consequence management.
- The letter of demand has been issued to municipal employees and whose account are over 90 days for deduction on their monthly salaries.
- Demand letter has been forwarded to Government Department to request payment for service.
- All Exxaro residential accounts have been moved from tenants to Exxaro Main Account to ensure receipts of Monthly payments.
- Eskom is gradually moving new tenants to Main account.

### **Low Lights**

- Collection rate has improved to 86% but still below the target of 95 %.
- Hike in electricity charges has resulted in Consumers switching over to other sources of energy which includes solar and Gas. This will require downward budget adjustment
- The impact Economic hardship has resulted in increased unemployment, lack of consumer affordability, high debt book and low collection of revenue.
- Increasing operational expenditure i.e. overtime, operational expenditure and Eskom.

### **Strategies to improve Financial Viability**

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- Meter reading schedule has been developed. The water meter reader service provider, Ole Power System has an app where pictures of the meters can be viewed for verification of the meter readings provided to reduce estimated billing on the water.
- Municipality has appointed a service provide the amount of R500 000 has been allocated to start with the installation of smart water meters
- The Revenue Enhancement and Debt Collection steering Committee has been implemented to monitor acceleration Revenue Collection and increase of the Revenue Base
- Council has approved an item for the reduction on NMD (Nominal minimum Deman for Electricity). This will reduce the bulk electricity purchase expenditure.
- Implementation of the Investment package is underway to increase the Revenue base and ignite the Economy of Lephalale. The following projects are at various procurement stages in line with section 33 of MFMA.
  - Leasing of Land Rooigoud farm for the construction of solar plant
  - Leasing of Land for construction of Mall at Marapong.
  - RFP for appointment of Power Purchase agreement for the solar plant in Town.
  - Leasing of Pockets of land at industrial Area extension 50.

### 5.1.1. Operating Revenue

As of 30 June 2026, total recognized revenue was less than the Year-to-Date budget by 6%. An amount of R838.3 million was recognized against a year-to-date budget of R888.3 million.

The figure below depicts the revenue recognized in its categories:

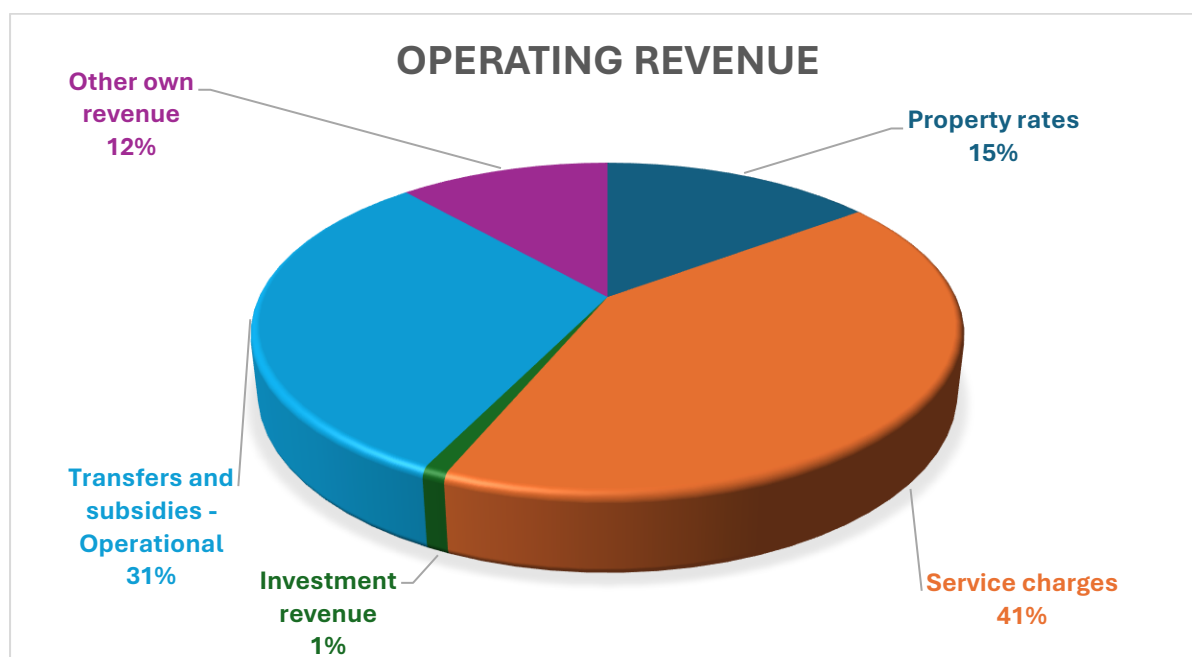


Figure 1: Percentage of Operating Revenue Per Category

The above chart illustrates the distribution of revenue across categories.

- Service charges: Is the largest contributor during the month under review at 41%.
- Transfers and subsidies - Operational: This is the second largest contributor, making up 31% of the total operating revenue.
- Property rates: This category represents a significant contribution at 15%.
- Other own revenue: Other revenue sources such as interest from receivables, interest from current and non-current assets, agency services and operational revenue contribute 12%.
- Investment revenue: The smallest portion of the chart is investment revenue, which is only 1%.

Table 1: Table C4 Monthly Budget Statement – Financial Performance (revenue)

| Description                                                          | 2022/23         | Budget Year 2023/24 |                |                 |                |            |
|----------------------------------------------------------------------|-----------------|---------------------|----------------|-----------------|----------------|------------|
|                                                                      | Audited Outcome | Adjusted Budget     | YearTD actual  | YTD variance    | YTD variance % | YE %       |
| <b>R thousands</b>                                                   |                 |                     |                |                 | %              | %          |
| <b>Revenue</b>                                                       |                 |                     |                |                 |                |            |
| <b>Exchange Revenue</b>                                              |                 |                     |                |                 |                |            |
| Service charges - Electricity                                        | 222,191         | 252,939             | 219,753        | (33,186)        | -13%           | 87%        |
| Service charges - Water                                              | 63,168          | 73,956              | 68,230         | (5,726)         | -8%            | 92%        |
| Service charges - Waste Water Management                             | 29,897          | 33,974              | 33,266         | (708)           | -2%            | 98%        |
| Service charges - Waste management                                   | 25,072          | 26,500              | 26,321         | (179)           | -1%            | 99%        |
| Sale of Goods and Rendering of Services                              | 2,190           | 1,915               | 1,415          | (499)           | -26%           | 74%        |
| Agency services                                                      | 6,930           | 9,890               | 6,219          | (3,671)         | -37%           | 63%        |
| Interest earned from Receivables                                     | 59,636          | 56,227              | 57,439         | 1,212           | 2%             | 102%       |
| Interest from Current and Non Current Assets                         | 7,605           | 7,592               | 7,826          | 234             | 3%             | 103%       |
| Rental from Fixed Assets                                             | 312             | 639                 | 603            | (36)            | -6%            | 94%        |
| Licence and permits                                                  | –               | –                   | 690            | 690             | 0%             | 0%         |
| Operational Revenue                                                  | 20,474          | 2,776               | 4,914          | 2,138           | 77%            | 177%       |
| <b>Non-Exchange Revenue</b>                                          |                 |                     |                | –               |                |            |
| Property rates                                                       | 119,797         | 133,680             | 124,626        | (9,055)         | -7%            | 93%        |
| Fines, penalties and forfeits                                        | 4,018           | 5,158               | 1,907          | (3,251)         | -63%           | 37%        |
| Transfers and subsidies - Operational                                | 266,150         | 260,209             | 261,486        | 1,277           | 0%             | 100%       |
| Interest                                                             | 24,199          | 22,874              | 23,362         | 488             | 2%             | 102%       |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>851,640</b>  | <b>888,328</b>      | <b>838,056</b> | <b>(50,272)</b> | <b>-6%</b>     | <b>94%</b> |

Explanations of variances are as follows:

- Electricity - The municipality recorded an unfavorable Year-to-Date (YTD) budget variance of 13%, reaching 87% of the total annual budget as of 30 June 2026. The negative variance is primarily attributable to consumers opting for alternative sources due to electricity price hikes.
- Water - The municipality recorded a negative YTD variance of 8% in water sales, currently standing at 92% of the year-end budget. The negative variance is largely due to unforeseen water infrastructure maintenance resulting in interrupted water supply.
- Waste-water management - A negative YTD Actual vs Budget variance of 2% and 98% of the YE Budget.
- Waste Management - A negative YTD Actual vs Budget variance of 1% variance is recorded for the line item, reaching 99% of the YE Budget.
- Sale of goods and rendering of services – The municipality recorded a significant unfavorable YTD variance of 26%, with total amount for administrative fees and tender document sales standing at 74% of the annual budget.
- Agency Fees – Revenue performance for the Traffic Department stands at 63% of the year-end budget, reflecting a negative YTD variance of 37%. The primary drivers for this shortfall include key vacancies and temporary closure of Palala Offices.
- Interest earned from Receivables - A positive YTD variance of 2% and 102% of the YE Budget. Improvements in collections.

- Interest from current and non-current assets – the municipality has recorded a positive variance of 3% on interest and is currently sitting at 103% of the year-end budget. The performance is an indication that the municipality is surpassing its anticipated performance in relation to interest earned in short-term investments.
- Rental of Equipment and facilities – YTD Negative variance of -6% and 94% of the YE Budget. Less revenue was realized on the rental of Thusong Centre and Stadiums.
- Operational Revenue – The municipality recorded a favorable Year-to-Date (YTD) variance of 77% on sundry income, with actual amount reaching only 177% of the annual budget.
- Property rates: As of 30 June 2026, the billing of Property Rates reached 93% of the year-end budget, resulting in a negative YTD variance of 7%. The shortfall is attributed to increasing levels of consumer indebtedness and a resistance to payment by both residential and business sectors.
- Fines and Penalties - YTD negative budget variance 63% and 37% YE variance. Due to less fines being issued.
- Transfers and subsidies – The municipality recorded no variance on Transfers and Subsidies, successfully reaching 100% of the total annual budget as of 30 June 2026.
- Interest earned from non-Exchange - positive variance of 2% and reaching 102% due to high debt book.

### 5.1.2. Operating Expenditure

As of 30 June 2026, Lephalale Local Municipality incurred an amount of R855.3 million of operating expenditure. The expenditure reflected an unfavorable variance of 3% against the year-to-date budget of R886.7 million.

The figure below depicts operating expenditure per category.

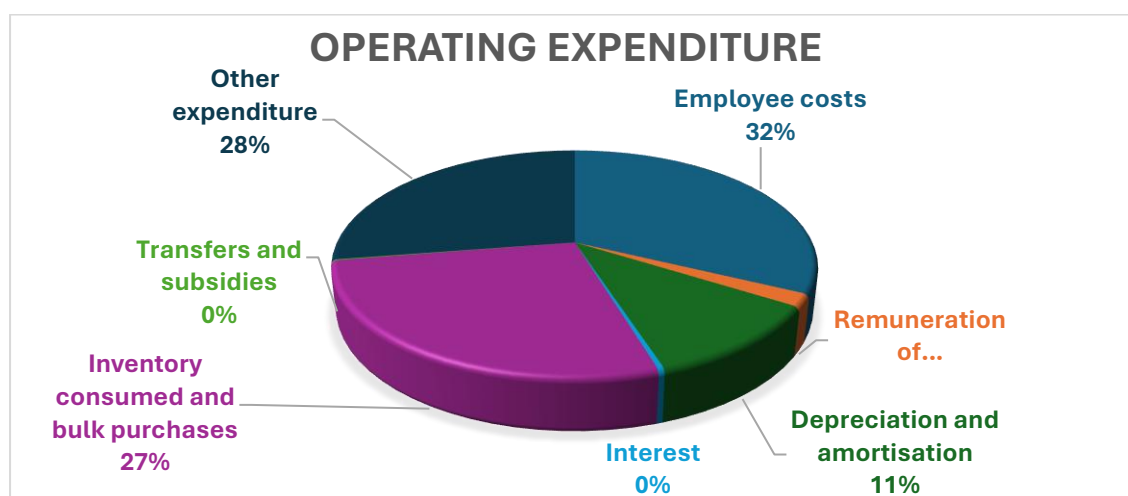


Figure 2: Operating Expenditure Per Category

The Municipality's operating expenditure profile for the period is characterized by three primary cost drivers. Employee-related costs account for 32% and Inventory consumed & bulk purchases are accounting for 27% of total spending. Combined with Other expenditure at 28%, these categories represent most of the operational budget. Notably, Depreciation and amortization contribute 11% to the total expenditure, which reflects the continuous accounting for municipal asset usage. The minimal allocation to Remuneration of Councilors at 2% and minor figures for Interest and Transfers at 0% indicate a concentrated spending pattern focused on core service delivery and administrative expenditure.

Table 2: Table C4 Monthly Budget Statement – Financial Performance (expenditure)

| Description                     | 2022/23         | Budget Year 2023/24 |                |                 |              |            |
|---------------------------------|-----------------|---------------------|----------------|-----------------|--------------|------------|
|                                 | Audited Outcome | Adjusted Budget     | YearTD actual  | YTD variance    | YTD variance | YE         |
| R thousands                     |                 |                     |                |                 | %            | %          |
| <b>Expenditure By Type</b>      |                 |                     |                |                 |              |            |
| Employee related costs          | 253,785         | 275,857             | 275,108        | (749)           | 0%           | 100%       |
| Remuneration of councillors     | 14,369          | 16,063              | 15,102         | (961)           | -6%          | 94%        |
| Bulk purchases - electricity    | 183,445         | 188,014             | 188,015        | 1               | 0%           | 100%       |
| Inventory consumed              | 56,088          | 46,351              | 44,227         | (2,131)         | -5%          | 95%        |
| Debt impairment                 | 56,095          | 46,323              | 46,183         | (140)           | 0%           | 100%       |
| Depreciation and amortisation   | 97,518          | 95,671              | 94,609         | (1,061)         | -1%          | 99%        |
| Interest                        | 18,580          | 19,490              | 3,011          | (16,479)        | -85%         | 15%        |
| Contracted services             | 73,580          | 79,610              | 70,622         | (8,988)         | -11%         | 89%        |
| Transfers and subsidies         | 2,999           | 2,142               | 1,033          | (1,110)         | -52%         | 48%        |
| Irrecoverable debts written off | 16,852          | 38,556              | 38,556         | 0               | 0%           | 100%       |
| Operational costs               | 79,962          | 78,055              | 79,367         | 712             | 1%           | 101%       |
| <b>Total Expenditure</b>        | <b>892,626</b>  | <b>886,132</b>      | <b>855,834</b> | <b>(30,905)</b> | <b>-3%</b>   | <b>97%</b> |

Explanations of variances are as follows:

- Employee-related costs - The YE actual variance is 0% lower compared to the YTD budget and is 100% of the YE Budget. Management has implemented strategy to filling critical vacancies.
- Remuneration of councilor's - As of the end of May, expenditure on Councilor Remuneration stands at 94% of the year-end budget, resulting in a negative YTD variance of 6%. This underspending is a direct result of the implementation of the revised Government Gazette on the Upper Limits of Salaries, Allowances, and Benefits. All the Exco members are full-time.
- Bulk purchases Electricity - The YTD variance is 0% of the YTD budget and 100% of the YE Budget. Municipality has applied for the Reduction of NMD to reduce cost of supply. The municipality is concluding on implementation of Electricity smart metering system. Lephalale Electricity system is STS compliant. The Budget has been adjusted accordingly.
- Inventory consumed - YTD actuals show a variance of 5% which is below the YTD budget and 95% of the YE budget. Inventory consumed has included the payment

for the abstraction of Raw Water from Mokolo Dam. The expenditure is mainly affected by the supply of free water to the villages.

- Debt impairment - YTD actual variance is 0% YTD Budget and 100% of YE Budget. A journal has been processed every month based on the budget. The debt impairment is calculated according to the credit control and debt collection policy. Municipality has high debt book because of uncollectible debts
- Depreciation and Amortization - YTD actual variance is 1% below the YTD Budget and 99% against the YE budget.  
Depreciation is based on straight-line method over the useful life of the assets. Infrastructure assets account for most of the amount. The assets include movable assets, i.e., office furniture, vehicles, equipment and Immovable assets include Community Assets, Smart meters etc.
- Interest Charges – the actual expenditure shows the variance of 85% against the YTD budget and 15% of the YE Budget. Actuals on finance charges arise from finance lease on Zeeland water treatment plant. Provision on land fill site and the provision for post-employment benefits assessed and will be processed at Year End. The performance is considered favorable as the municipality is implementing cost containment measures.
- Contracted Services - YTD actuals show the variance of a negative 11% and 89% of YE Budget. This performance is primarily attributed to a strategic shift toward in-house infrastructure maintenance. Below is the Table depicting above variance:

Table 3: Contracted Services 2025-26

| DESCRIPTION                                                | 2025-26           | 2025-26           | 2025-26           | 2024/25      |
|------------------------------------------------------------|-------------------|-------------------|-------------------|--------------|
| Consultants and Professional Services                      | Original Budget   | Adjustment Budget | YTD June          | YTD Variance |
| Accounting and auditing Services                           | 3 650 500         | 5 150 500         | 2 717 513         | 53%          |
| Business and Advisory & Forensic Investigation             | 7 276 673         | 5 485 819         | 3 646 767         | 66%          |
| Internal audit Outsourcing and audit Committee             | 1 255 744         | 1 851 879         | 265 671           | 14%          |
| Risk Management                                            | 529 395           | 529 395           | 29 680            | 6%           |
| Valuer                                                     | 3 129 000         | 3 479 000         | 2 751 024         | 79%          |
| Medical Services                                           | 314 518           | 250 000           | 166 866           | 67%          |
| Human Resources                                            | 35 114            | 20 000            | 4 850             | 24%          |
| Administrative and Support stuff- Credit Control           | 512 900           | 800 000           | 600 000           | 75%          |
| Quality Control - Indigents system                         | 312 900           | 600 000           | 476 610           | 79%          |
| Project Management(PMS)                                    | 1 065 916         | 1 065 916         | 700 380           | 66%          |
| Employee wellness                                          | 711 170           | 100 000           | 76 120            | 76%          |
| Legal Services                                             | 7 248 830         | 7 484 352         | 7 426 408         | 99%          |
| <b>Total Consultants and professional Services</b>         | <b>26 042 660</b> | <b>23 331 042</b> | <b>18 861 890</b> | <b>81%</b>   |
| Maintenance services -Sanitation                           | 5 950 715         | 4 950 715         | 5 215 421         | 105%         |
| Maintenance services -Water                                | 2 491 682         | 2 491 682         | 887 864           | 36%          |
| Maintenance services -Electricity                          | 2 441 194         | 2 441 194         | 1 798 998         | 74%          |
| Maintenance services -Waste                                | 2 293 248         | 1 793 248         | 1 334 948         | 74%          |
| Maintenance services -Roads Buildings & Storm water (0540) | 2 461 587         | 2 461 587         | 2 150 758         | 87%          |
| Maintenance services -Vehicles                             | 4 618 066         | 3 209 684         |                   | 0%           |
| <b>Total Repairs and maintenance</b>                       | <b>20 256 492</b> | <b>17 348 110</b> | <b>11 387 989</b> | <b>66%</b>   |
| Prepaid vendors                                            | 16 460 000        | 17 550 000        | 18 402 788        | 105%         |
| Security                                                   | 18 223 348        | 18 223 348        | 19 318 506        | 106%         |
| Collection Cost                                            | 2 607 500         | 2 607 500         | 2 639 882         | 101%         |
| <b>Total Outsourced Services</b>                           | <b>37 290 848</b> | <b>38 380 848</b> | <b>40 361 176</b> | <b>105%</b>  |
| <b>TOTAL</b>                                               | <b>83 590 000</b> | <b>79 060 000</b> | <b>70 611 055</b> | <b>89%</b>   |

- Irrecoverable debt written off –YTD actual variance is 0% and 100% against the YE budget. The amount of R38.5 Million has been written off as irrecoverable debt for indigents at Marapong.
- Operational Costs – a minor positive variance of 1% is recorded against year-to-date budget on operational costs. The municipality has spent in accordance to the planned anticipated budget.

### 5.1.3. Capital Expenditure

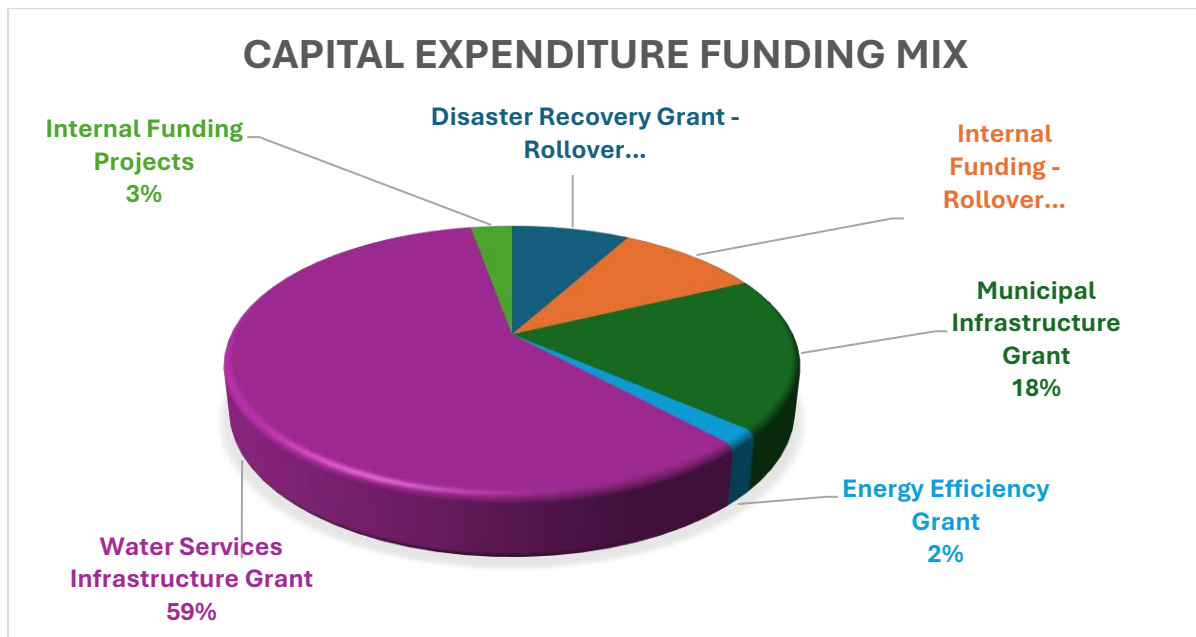


Figure 3: Capital Expenditure - Funding Mix

The municipality's capital budget for the period under review is funded through a multi-source financing mix comprising national conditional grants and internally generated funds. As illustrated in the funding mix profile, infrastructure development remains heavily reliant on national fiscal allocations, with WSIG constituting the primary funding at 59%, followed by the MIG at 18%, and the Energy Efficiency and Demand Side Management Grant at 2%. Capital projects funded by internal reserves account for 3% of the total mix, supplemented by approved rollovers consisting of the Disaster Recovery Grant 8% and internal funding of 10%. While this diversified funding framework reduces direct pressure on the municipality's operating cash flows, the high concentration of grant-funded expenditure underscores the critical importance of strict compliance with Division of Revenue Act (DoRA) frameworks to optimize conditional grant performance.

Table 4: Summary of Capital Expenditure Per Grant

| SUMMARY CAPEX                               |                    |                           |                    |                  |
|---------------------------------------------|--------------------|---------------------------|--------------------|------------------|
|                                             | 2025-26            | Adjustment<br>Budget 2026 | Actuals YTD        | YTD<br>Variance% |
| <b>TOTAL CAPEX</b>                          |                    |                           |                    |                  |
| MIG                                         | 50 007 437         | 50 007 437                | 42 140 363         | 84%              |
| ENERGY EFFICIENCY                           | 4 000 000          | 4 000 000                 | 3 999 800          | 100%             |
| WSIG                                        | 63 300 000         | 133 881 106               | 133 881 106        | 100%             |
| OWN FUNDING                                 | 40 606 610         | 36 089 725                | 22 395 984         | 62%              |
| <b>TOTAL CAPITAL GRANTS</b>                 | <b>157 914 047</b> | <b>223 978 269</b>        | <b>202 417 253</b> | <b>90%</b>       |
|                                             |                    |                           |                    |                  |
| ROLL OVER PROJECTS                          | 2025-26            | Adjustment<br>Budget 2026 | Actuals YTD        | YTD<br>Variance% |
| DISASTER RECOVERY GRANT                     | 19 475 000         | 18 264 354                | 18 227 924         | 100%             |
| OWN FUNDING                                 | 11 975 176         | 14 240 176                | 6 377 779          | 45%              |
| <b>TOTAL CAPEX</b>                          | <b>31 450 176</b>  | <b>49 690 826</b>         | <b>24 605 703</b>  | <b>50%</b>       |
|                                             |                    |                           |                    |                  |
| <b>TOTAL CAPEX &amp; ROLL OVER PROJECTS</b> | <b>189 364 223</b> | <b>273 669 095</b>        | <b>227 022 956</b> | <b>83%</b>       |

## MUNICIPAL INFRASTRUCTURE GRANT (MIG)

Total Year-to-Date (YTD) actual spending stands at R42,140,393 against an overall budget of R50,007,437, representing a 84% aggregate expenditure rate. Progress is heavily driven by road infrastructure, with the Upgrading Letlora access road and Upgrading Sefithlogo Access Road showing strong momentum at 113% (R18.8. million spent) and 80% (R13.2 million spent). Electrification also shows steady movement with the 27 High-mast installation project which is at 47% expenditure. However, significant underspending and stagnation are evident across several critical service delivery areas, with zero YTD actuals recorded for the Augmentation of Water supply and 16 High-mast lights. Reuben Mogashoa stadium refurbishment is at 9%. The refurbishment of sanitation components is at a spending of 103%.

## WATER SERVICES INFRASTRUCTURE GRANT (WSIG)

The municipality's portfolio of bulk water and sanitation infrastructure projects reflects an aggregate Year-to-Date (YTD) expenditure of R133,881,106 against a total Adjusted Budget of R133,881,106 representing 100%.

### Energy Efficiency

The contractor has replaced and retrofitted high mast lights with LED globes around Lephalale town and Villages. Overall Progress: 100%.

### Own Funding Projects

And will apply for rollover on own funding project which are pending delivery.

## ROLLOVER PROJECTS

The Municipality has achieved 100 on disaster Projects.

### 5.1.4. Cash Flow

Table C7 reflects the municipality's ability to convert billed revenue into tangible cash, which is essential for meeting immediate obligations such as payroll, supplier payments, and debt servicing. The municipality has a positive balance of R70 692 545 which indicates that the municipality has sufficient funds to support its daily operations.

### Financial Performance Analysis - Ratios

| Performance Indicator                    | 204/25 Audited Outcome | Jun-26      |
|------------------------------------------|------------------------|-------------|
| Operating Revenue incl Capital transfers | 95%                    | 94%         |
| Operating expenditures                   | 95%                    | 97%         |
| Operating surplus/Deficit                | 96 233 076             | 186 981 234 |
| Percentage of capita expenditure         | 79%                    | 97%         |
| % Conditional grants performance         | 92%                    | 98%         |
| Cash/cost coverage                       | 1.00                   | 2.11        |
| Debt to revenue ratio                    | 6.60                   | 4.55        |
| Current ratio                            | 2.01                   | 2.65        |
| Collection rate                          | 88%                    | 86%         |
| Cash/Cash equivalent                     | 23 727 777             | 70 692 545  |
| Net outstanding debtors                  | 359 808 682            | 252 783 786 |
| Outstanding creditors                    | 229 408 920            | 163 977 522 |

### Current Ratio – 2.65: 1

The current ratio is within the norm which means the municipality is capable to cover short-term liabilities more 2.65 times with its current assets. Due to irrecoverable debt written off.

### Cash/Cost Coverage ratio 2.11: 3

The ratio indicates the municipality's inability to meet its monthly fixed operating commitments from cash and short-term investments for 3 Months, i.e. for how many months cash is available to cover the fixed monthly commitments. Percentage Cost coverage (R-value all cash at a particular time plus R-value investments, divided by R-value monthly fixed operating expenditure) YTD. The challenge remains the extension of services to rural areas which increases fixed cost. Cost containment strategies to be implemented.

## Employee related Costs as a percentage of Total operating Expenditure

Employee related cost is sitting at 34% which is within the norm of 25 – 40%. Overtime constitutes 8% of the salary bill. The Municipality must implement strategies to reduce overtime and explore the shift system and appoint only critical positions.

## Actual Borrowings

The total outstanding borrowings as of June 2026 is R64 million which includes Outstanding Financial lease for Zeeland R13m million and DWS long term debt R 51 million. DBSA loan has been paid up. The loan repayment for Zeeland is paid monthly and the interest on the loan 14 % per annum based on the weighted average capital of EXXARO.

## Cost Containment

All Directorates have committed to adhere to cost containment as outlined in Circular 82 issued by National Treasury

| DESCRIPTION   | ADJ BUDGET        | YTD BUDGET        | YTD EXPENDITURE   | YT %       | YE %       |
|---------------|-------------------|-------------------|-------------------|------------|------------|
| Overtime      | 18 192 296        | 18 192 296        | 19 130 892        | 105%       | 105%       |
| Consultants   | 27 984 346        | 27 984 346        | 20 060 725        | 72%        | 72%        |
| Travelling    | 2 527 970         | 2 527 970         | 1 887 681         | 75%        | 75%        |
| Accommodation | 2 277 985         | 2 277 985         | 1 821 954         | 80%        | 80%        |
| <b>Total</b>  | <b>50 982 597</b> | <b>50 982 597</b> | <b>42 901 253</b> | <b>84%</b> | <b>84%</b> |

The municipality has implemented the cost containment strategies.

Municipality has spent 84% at YE. Management to committed to implement cost containment strategies to reduce the operational cost to avoid over expenditure at YE.

Municipality to cut on traveling and accommodation, consultant and overtime cost for the next quarter only legislative meetings to be attended.

## STRATEGIES FOR COST CONTAINMENT

- Reduce travelling and accommodation
- Municipality stopped providing staff with tea and coffee.
- Stringent reduction of overtime to 50%
- Booking for accommodation 3 Star.
- Telephone reduced to R200 per employee where applicable.
- Pool cars to be used by official without car allowance.
- Where possible Team and Zoom Meetings are encouraged
- Online and onsite training where possible.
- Paperless for council /EXCO /MPAC Items Agenda save on printing and overtime and transport costs.
- Rapid response to queries, overtime only allocated for emergencies threatening life and health.

- Filling for some vacant position delayed and staggered to save employee related costs and align to treasury regulations.
- Parking of municipal fleet after working hours.
- Full Implementation of time and attendance.
- Attach attendance register for offsite meetings and training.
- Pre- authorisation of trips outside town.

## **DWS DEBTS / INTERGOVERNMENTAL RELATIONS**

| Department OF Water and Sanitation Payment Plan |                    |                    |                   |                   |                   |              |
|-------------------------------------------------|--------------------|--------------------|-------------------|-------------------|-------------------|--------------|
|                                                 | 2022/23            | 2023/24            | 2024/25           | 2025/26           | 2026/27           | 2027/28      |
| Capital                                         | 114 024 297        | 130 138 957        | 109 614 583       | 89 090 210        | 68 565 836        | 48 041 463   |
| Interest                                        | 27 517 089         |                    | -                 | -                 | -                 | -            |
| Deposit Paid                                    | (11 402 430)       |                    | -                 | -                 | -                 | -            |
| Payments                                        | -                  | (20 524 373)       | (20 524 373)      | (20 524 373)      | (20 524 373)      | (20 524 373) |
| Interest writte off                             | -                  |                    |                   |                   |                   | (27 517 089) |
| <b>Total</b>                                    | <b>130 138 957</b> | <b>109 614 583</b> | <b>89 090 210</b> | <b>68 565 836</b> | <b>48 041 463</b> | <b>0</b>     |

The municipality is a water service authority and have signed an agreement in 2015 to supply raw water in line with the Water service act and the licence issued to the Municipality.

DWS has been supplying raw water to the municipality from 2015 after completion of MCWAP 1 project. The amount of R141million was outstanding as 31 December 2022.The long-term settlement agreement was signed for the settlement of raw water liability with the Department in February 2023.

### **Interest**

Interest was charged on overdue accounts since 2017 till September 2022.The balance of interest owed will be written off upon full settlement of capital amount and future interest were frozen.

### **Deposit amount**

Municipality was requested to pay 10% of the capital amount as part of the settlement agreement. The amount was paid on R11 Million 28 February 2023

### **Repayment Schedule.**

Three equal instalments of R6 841 458 are made annually. These payments are made within 5 days after the receipt of equitable share trench by the Municipality. The amount of R20 482 089.06 was paid by 31 December 2024 in line with the debt arrangement. The outstanding debts is R52 Million.

## DWS debt Relief Programme

The municipality has entered debt relief programme which supersedes the previous arrangement where the Municipality will score a debt write off on 3re on the outstanding balance of R52 Million should they achieve 100% compliance to the requirements. Currently the municipality is at 94%

| Department OF Water and Sanitation Payment Schedule |                       |
|-----------------------------------------------------|-----------------------|
|                                                     | Amount                |
| Capital                                             | 114,024,297.03        |
| Interest                                            |                       |
| Deposit Paid                                        | (11,402,429.70)       |
| <b>Outstanding balance at inception</b>             | <b>102,621,867.33</b> |
| <b>Payments :</b>                                   |                       |
| 12/9/2023                                           | (6,934,304.35)        |
| 22/02/2024                                          | (6,849,857.29)        |
| 21-06-2024                                          | (6,697,917.42)        |
| 16/10/2024                                          | (7,301,487.46)        |
| 28/12/2024                                          | (7,133,663.62)        |
| 18/06/2025                                          | (4,958,521.92)        |
| 9/9/2025                                            | (10,114,166.71)       |
| <b>Total Outstanding as per debt arrangement</b>    | <b>52,631,948.56</b>  |
| Debt relief                                         | (17,543,982.85)       |
| <b>Total Outstanding Debt</b>                       | <b>35,087,965.71</b>  |

## 6. In-Year Budget Statement Tables

The financial results for January are included in the report an attachment, consisting of the following C-schedule tables.

Table C1: Summary

Table C2: Financial Performance (Functional Classification)

Table C3: Financial Performance (Revenue and Expenditure by Municipal vote)

Table C4: Financial Performance (Revenue and Expenditure)

Table C5: Capital Expenditure by vote, functional classification and funding

Table C6: Statement of Financial Position

Table C7: Cash Flow

## 7. Debtors' Analysis

The current debtors' balance is R 906.8 million. The amount of R 803.5 million is for accounts that are older than 90 days and has been handed to the debt collectors.

Internal credit control strategies are in place and cut offs are performed on monthly basis to ensure that all outstanding debts on accounts within 30 – 60 days are collected on time.

The data cleansing of the debt book is in progress to improve the debt collection ratio. The municipality is implementing a credit control system to fast-track the collection of debts below 90 days.

### Debtors by Income Source

Table 5: Debtors by Income Source

| TotalsPerServiceType | Total              | Current          | 30 days           | 60 days           | 90 days           | 120 days          | 150 days          | Over 180 days      |
|----------------------|--------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Advance Payment      | - 33 380 838       | - 33 768 655     | 1 398             | 1 554             | 5 005             | 1 131             | 62 853            | 315 877            |
| Electricity          | 157 386 785        | 12 758 491       | 6 225 077         | 3 387 693         | 2 818 960         | 3 101 718         | 2 608 097         | 126 486 750        |
| Sundry Debtors       | 9 879 935          | 19 048           | 65 754            | 61 048            | 60 019            | 56 834            | 58 464            | 9 558 769          |
| Property Rates       | 266 892 321        | 11 124 870       | 8 249 106         | 7 411 142         | 5 915 942         | 5 865 186         | 6 221 500         | 222 104 575        |
| Sanitation           | 119 270 907        | 3 779 705        | 3 204 334         | 2 613 439         | 2 446 363         | 2 377 943         | 2 257 692         | 102 591 432        |
| Traffic Fines        | 3 174 098          | 151 625          | 22 100            | 80 125            | 118 275           | 164 500           | 353 470           | 2 284 003          |
| Waste Disposal       | 129 658 441        | 2 947 089        | 2 729 462         | 2 210 334         | 2 129 706         | 2 079 859         | 2 023 556         | 115 538 435        |
| Water                | 220 101 859        | 7 226 426        | 5 995 328         | 4 901 030         | 4 516 730         | 4 732 786         | 4 653 851         | 188 075 707        |
|                      | <b>872 983 508</b> | <b>4 238 598</b> | <b>26 492 558</b> | <b>20 666 366</b> | <b>18 011 000</b> | <b>18 379 956</b> | <b>18 239 482</b> | <b>766 955 549</b> |

### Debtors by Customer Category

Table 6: Debtors by Customer Category

| ServiceDesc4            | Total              | Current          | 30 days           | 60 days           | 90 days           | 120 days          | 150 days          | Over 180 days      |
|-------------------------|--------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Agricultural Properties | 101 877 212        | 1 730 847        | 2 595 888         | 2 892 142         | 1 612 351         | 1 794 097         | 2 329 699         | 88 922 189         |
| Business Properties     | 34 311 171         | 699 608          | 2 055 176         | 1 050 380         | 987 635           | 937 972           | 1 180 435         | 27 399 966         |
| Government              | 38 005 610         | 768 187          | 1 280 375         | 1 121 806         | 934 100           | 861 380           | 893 279           | 32 146 483         |
| Residential Properties  | 698 789 515        | 1 039 956        | 20 561 119        | 15 602 039        | 14 476 914        | 14 786 507        | 13 836 069        | 618 486 911        |
| <b>TOTAL</b>            | <b>872 983 508</b> | <b>4 238 598</b> | <b>26 492 558</b> | <b>20 666 366</b> | <b>18 011 000</b> | <b>18 379 956</b> | <b>18 239 482</b> | <b>766 955 549</b> |

### Government Departments Debt

| Name of Department                      | Current Account  | 30 Days Arrears  | 60 Days Arrears  | 90 Days Arrears  | 120+- Days Arrears | Total Amount Due  |
|-----------------------------------------|------------------|------------------|------------------|------------------|--------------------|-------------------|
| Department of Agriculture               | 21 564           | 22 595           | 26 486           | 24 871           | 317 081            | 412 597           |
| Department of Education                 | 473 528          | 310 518          | 318 113          | 331 558          | 3 589 165          | 5 022 882         |
| Department of Health                    | 305 159          | 369 273          | 13 267           | 12 449           | 216 643            | 916 792           |
| Department of Rural development         | 173 580          | 244 165          | 234 607          | 232 889          | 7 748 140          | 8 633 382         |
| Department Social Development           | 4 667            | 4 268            | 169              | -                | -                  | 9 103             |
| Department of Economic Development      | 9 391            | 5 534            | 5 464            | 5 395            | 54 034             | 79 818            |
| Department of Public Works - National   | 718 996          | 639 288          | 765 235          | 423 026          | 7 106 037          | 9 652 582         |
| Department of Public Works - Provincial | 226 652          | 300 334          | 261 462          | 250 141          | 7 195 285          | 8 233 873         |
| Department of Forestry and Environment  | 25 152           | 53 161           | 41 576           | 41 199           | 1 417 358          | 1 578 446         |
| Department of Transport                 | 969              | 749              | 697              | 691              | 26 745             | 29 851            |
| House Agency                            | 240 564          | 266 812          | 247 037          | 241 291          | 2 440 580          | 3 436 284         |
| <b>Grand Total</b>                      | <b>2 200 224</b> | <b>2 216 695</b> | <b>1 914 115</b> | <b>1 563 511</b> | <b>30 111 067</b>  | <b>38 005 610</b> |

The current Government debt as of 30 June 2026 is sitting at R 2.2 million and the outstanding debts are followed up with government on monthly basis and at Government Forum convened by CoGHSTA. The overall Government debt is R38.0 million. The municipality is making strides to recover debt owed by Government departments to boost service delivery.

## Revenue Management

The Municipality generates its operating revenue from property rates and service charges and in return the consumers are expected to pay for the services rendered to them by the municipality. The revenue Enhancement strategy and Cost Containment Strategies have been developed and presented to improve the financial sustainability of the Municipality. Effective implementation of Credit Control and Debt collection form's integral part on the efficiency of the Process.

## Collection rate for June 2026

The total amount billed for the period July 2025 to June 2026 is R 611,020,229.34 vs the actual collected amount of R525,022,726.52 and the cumulative average collection to date is 86% against the National Treasury Target of 95%. The collection rate is gradually increasing monthly.

The table below depicts the total revenue billed and amount collected from July 2025 to June 2026:

*Table 7: Revenue Collection Rate*

| SERVICE TYPE        | AMOUNT BILLED      | AMOUNT COLLECTED   | COLLECTION RATE |
|---------------------|--------------------|--------------------|-----------------|
| Property Rates      | 144 717 183        | 128 632 120        | 89%             |
| Electricity         | 169 909 993        | 159 645 199        | 94%             |
| Prepaid Electricity | 108 952 494        | 108 952 494        | 100%            |
| Water               | 98 879 852         | 77 724 717         | 79%             |
| Sanitation          | 49 228 418         | 33 150 652         | 67%             |
| Refuse              | 38 545 075         | 16 648 706         | 43%             |
| Sundry Services     | 787 215            | 268 838            | 34%             |
| <b>Total</b>        | <b>611 020 229</b> | <b>525 022 727</b> | <b>86%</b>      |

Payments received are allocated according to the Municipality's Preferential Payment Policy. Incoming payments are applied to outstanding balances in the following order of precedence as per the policy: Rates, Sewerage, Refuse, Water and finally, Electricity.

The collection rates of other service types are comparatively low as they fall in the accounts of consumers who reside in farms, Marapong, Thabo Mbeki and vacant stands that do not pay their accounts regularly.

The variance in collection rates is primarily attributed to consumers in township areas such as Marapong, who receive prepaid electricity directly from Eskom. Because the Municipality does not provide the electricity service to these households, it lacks the

credit control leverage to enforce the payment of other service charges, such as water, refuse, and sanitation. Municipality intends to engage Eskom to enter a Memorandum of Understanding (MOU) for Eskom to suspend purchase of electricity for account holders who defaulted on rates and taxes payment of the municipality.

The Municipality is also providing refuse removal services to informal settlements and rural areas to comply with national legislation. The Municipality is, however, not billing these services. Consumer awareness campaign will be conducted at the Villages to encourage residents to pay for the services at a flat rate. This will enable the municipality to sustain services provided to the villages.

The municipality is in the process of replacing the malfunctioning meters which are resulting in water losses.

### **Meter Reading Cycle and Date of the Account**

The meter reading cycle runs from the 1st of the current month till the last day of the following month. With the new billing system, accounts are sent electronically on the day billing is completed. Invoices for Government Institution accounts are prepared and forwarded within 3 days after billing is done. Interest is charged on debts over 30 days and older. Upon the conclusion of the billing process, the Municipality initiates credit control measures. This includes the systematic disconnection of services for consumers whose accounts have fallen into arrears and failed to meet the specified payment deadlines. In accordance with the Credit Control and Debt Collection Policy, a 14-day formal notice is issued to all consumers with accounts outstanding for more than 30 days. This notice serves as a final warning prior to the implementation of service disconnections. Furthermore, all monthly statements explicitly state the due date to ensure customers are adequately reminded of their payment obligations.

To ensure regular compliance with the billing cycle, a structured process flow is now in place. As a secondary phase, Management is exploring system-based automation within the EMS to reduce manual intervention and improve the accuracy of credit control actions.

### **8. Withdrawal Report**

The total payment of creditors as of 30 June 2026 amounts to R971 Million. The creditors consist of suppliers which provide services within the municipal area.

Section 65 of MFMA requires the Municipality to pay suppliers within 30 days. BTO department is following up with end users on Monthly basis to adhere to month end deadlines and ensure that invoices due for payment are timeously forwarded to expenditure Department for Payment.

Table 8: Summary of Withdrawal Report (MFMA Sec65)

| DESCRIPTION             | 1st QUARTER | 2nd QUARTER | 3rd QUARTER | 4th QUARTER | TOTAL       |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| ESKOM(ELECTRICITY BULK) | 47 674 548  | 59 429 833  | 52 904 565  | 51 781 180  | 211 790 126 |
| EXXARO COAL(WATER BULK) | 25 237 572  | 17 143 931  | 14 598 877  | 15 183 945  | 72 164 325  |
| CAPITAL PROJECTS        | 36 818 994  | 37 747 761  | 42 554 019  | 65 124 380  | 182 245 154 |
| SALARIES                | 65 750 610  | 75 377 185  | 69 625 714  | 71 615 000  | 282 368 509 |
| CREDITORS               | 23 397 394  | 30 328 354  | 33 403 904  | 34 197 922  | 121 327 574 |
| CONTRACTS               | 29 899 250  | 26 636 999  | 20 612 009  | 23 595 316  | 100 743 573 |
| TOTAL                   | 228 778 369 | 246 664 063 | 233 699 087 | 261 497 743 | 970 639 262 |

## Top 20 Suppliers

Table 9: Top 20 Suppliers

| SUPPLIER NAME                            | AMOUNT PAID |
|------------------------------------------|-------------|
| Eskom Holdings SOC Ltd-Limpopo           | 16 170 570  |
| DEUNICE TRADING                          | 7 798 726   |
| MALERATE CONSTRUCTION                    | 6 353 721   |
| SIZAMANZI                                | 5 243 680   |
| ENABLE ARM RESPOND                       | 3 582 585   |
| MAWATLE BUSINESS SOLUTIONS               | 3 120 097   |
| BOTHLABATSATSI TRADING AND PROJECTS 73   | 3 110 493   |
| DIKGALE AND SEBEGO ENERGIES              | 3 046 955   |
| LPG: PMG ROAD & TRANSPORT                | 2 288 789   |
| ZENOBIA TRADING 242                      | 2 283 953   |
| BIT BASE SOLUTIONS                       | 1 900 557   |
| AMIBASE                                  | 1 626 585   |
| LIVEWIRE ENGINEERING AND CONSULTING      | 1 492 936   |
| EXXARO                                   | 2 687 953   |
| DEPARTMENT OF WATER AND SANITATION       | 1 471 360   |
| DINGA BUSINESS SOLUTIONS                 | 702 793     |
| SEBATA MUNICIPAL SOLUTIONS               | 1 189 795   |
| TSHASHU CONSULTING AND PROJECTS MANAGERS | 1 950 128   |
| MOHALE INCORPORATED                      | 611 335     |
| ALILALI GUEST HOUSE AND ACCOMODATION     | 488 750     |

## 9. Investment Portfolio Analysis

In line with the Municipality's Cash Management and Investment Policy, surplus funds including unspent grants have been placed in short-term investment instruments. This proactive liquidity management strategy has successfully generated additional investment revenue. This is enhancing the municipality's cash position while ensuring the preservation of capital and immediate availability of funds for service delivery mandates.



#### EXTERNAL INVESTMENTS REGISTER 2025-26 FY 30 JUNE 2026

| INVESTMENT DETAILS                         | INSTITUTION / BANK | ACCOUNT NO. | BALANCE AS AT 01 JULY 2025 | TOP-UP/ DEPOSIT    | WITHDRAWAL           | INTEREST ACCRUED / EARNED | COSING BALANCE AS AT 30 JUNE 2026 |
|--------------------------------------------|--------------------|-------------|----------------------------|--------------------|----------------------|---------------------------|-----------------------------------|
| ABSA Call Account                          | ABSA               | 2069158294  | 6 300 400                  | 0                  | (497 200)            | 497 200                   | 5 803 200                         |
| ABSA Call Account - Conditional Grants     | ABSA               | 4072894439  | 1 000                      | 141 000 000        | (141 929 757)        | 984 334                   | 55 577                            |
| ABSA Invest Tracker                        | ABSA               | 9380435067  | 0                          | 80 000 000         | (81 302 580)         | 1 358 357                 | 55 777                            |
| ABSA Fixed Deposit                         | ABSA               | 2082141028  | 0                          | 30 000 000         | (32 370 082)         |                           | (2 370 082)                       |
| ABSA Invest Tracker                        | ABSA               | 9399744651  | 0                          | 112 000 000        | (113 419 389)        | 1 526 120                 | 106 731                           |
| NEDBANK Fixed Deposit                      | Nedbank            | 37881072504 | 0                          | 30 000 000         | (30 535 068)         | 535 068                   | 0                                 |
| <b>TOTAL</b>                               |                    |             | <b>6 301 400</b>           | <b>393 000 000</b> | <b>(400 054 077)</b> | <b>4 901 080</b>          | <b>3 651 203</b>                  |
| Interest Not Capitalised (Fixed Deposits)  |                    |             |                            |                    |                      |                           | 497 200                           |
| <b>TOTAL VALUE OF INVESTMENTS</b>          |                    |             |                            |                    |                      |                           | <b>4 148 403</b>                  |
| <b>Cash Balance</b>                        |                    |             |                            |                    |                      |                           |                                   |
| Closing Balance as per Bank Statement      |                    |             |                            |                    |                      |                           | 66 455 486                        |
| Closing Balance as per Prepaid Account     |                    |             |                            |                    |                      |                           | 88 656                            |
| Closing Investments                        |                    |             |                            |                    |                      |                           | 4 148 403                         |
| <b>Total Cash at the end of the Period</b> |                    |             |                            |                    |                      |                           | <b>70 692 545</b>                 |

The Municipality had a total of R4,148,403 in short-term investments at the end of the period under review. Total Cash at the end of June 2026 amounted to R70,692,545 inclusive of the primary bank account balance.

## 10. Allocations Grants Receipts and Expenditure

| DESCRIPTION                      | TOTAL              | GRANTS             | TOTAL              | % SPENT    | % SPENT     |
|----------------------------------|--------------------|--------------------|--------------------|------------|-------------|
|                                  | DORA ALL           | RECEIVED           | EXPENDITURE        | RECIVED    | DORA        |
| FMG (FINANCIAL MANAGEMENT GRANT) | 1,900,000          | 1,900,000          | 1,900,000          | 100%       | 100%        |
| DWA (WSIG)                       | 63,300,000         | 133,881,106        | 133,881,106        | 100%       | 212%        |
| MIG                              | 52,566,000         | 47,642,000         | 44,814,623         | 94%        | 85%         |
| EPWP                             | 1,478,000          | 1,478,000          | 1,478,000          | 100%       | 100%        |
| DISASTER GRANT                   | 18,264,354         | 18,264,354         | 18,222,779         | 100%       | 100%        |
| ENERGY EFFICIENCY                | 4,000,000          | 4,000,000          | 3,999,770          | 100%       | 100%        |
| <b>TOTAL</b>                     | <b>141,508,354</b> | <b>207,165,460</b> | <b>204,296,279</b> | <b>99%</b> | <b>144%</b> |

Municipality has achieved 99% based grant received and 85% of received amount.

All the grant contract has been awarded, and project are in progress. Project steering committee is monitoring the implementation of Projects grant related to schedule 6b where funds are transferred based on the work completed.

## 10. SUPPLY CHAIN MANAGEMENT REPORTS

The municipality utilising bid committee system in line with Supply Chain Management Policy to source good and services from suppliers Procurement department is centralised to ensure transparency and segregation of duties.

## 11.GOVERNANCE / PRIORITIES

### PROGRESS ON 2025/26 YE AUDITS

The municipality has achieved Unqualified Audit opinion in 2024/25 financial year. The Municipality implemented an audit action plan to monitor progress on the closing of the outstanding audit findings.

The municipality is preparing 6 and 9 Months interim AFS to improve the quality of the financial statement.

The municipality has compiled and implemented the AFS Process plan for the preparation of 2025/26 Annual Financial Statement. Progress is monitored by the audit Steering Committee.

## 12 UIFW'S REDUCTION STRATEGY

Summary of UIFW REPORT AS 30 June 2026.

| Expenditure            | Opening Balance as per 2025-2026 | Current YEAR Additions | Authorised | Amount recoveries in Q4 | Written Off | Closing Balance by the end of June 2025 | Narrations                                                                                                     |
|------------------------|----------------------------------|------------------------|------------|-------------------------|-------------|-----------------------------------------|----------------------------------------------------------------------------------------------------------------|
| Unauthorised           | 49,398,000                       | -                      | -          | -                       | -           | 49,398,000                              | This is due to additional expenditures incurred on non non cash items. Debt impairment and depreciation.       |
| Irregular              | 2,740,138                        | -                      | -          | -                       | -           | 2,740,138                               | Mainly due to historical UIFW still under investigation and transaction that was not on the deviation register |
| Fruitless and wasteful | 3,864,836                        | 246.26                 | -          | (246.26)                | -           | 3,864,836                               | Mainly due interest apaid to Eskom and Cashbook transactions that were not reconciled at YE.                   |
|                        | <b>56,002,974</b>                | <b>246.26</b>          | <b>-</b>   | <b>(246.26)</b>         | <b>-</b>    | <b>56,002,974</b>                       |                                                                                                                |

Council has appointed the Financial Misconduct Board and LPT has facilitated training to the financial misconduct board. The board is currently busy with the compilation of the terms of reference. Upon finalisation of TOR processing of the UIFW report will continue.

The opening balance for 2025 /26 is R56 million mainly due to the following:

R2,4 Million – Relates to historical irregular expenditure

The amount of R272k was relating the transaction for the drilling of boreholes at villages reported on the RFQ instead of the Deviation register.

R1,4 Million – Relates to the Marapong Cemetery due to exorbitant pricing by Service Provider .The municipality has withheld retention money in lieu of recovering the costs.

Amount of R2,4million relates the Cashbook transactions and indigents currently under investigation

The Municipality has incurred Unauthorized expenditure for 49 Million during 2024/25 Financial year. This is mainly due to non-cash items.

UIFW's has been presented to council and referred to MPAC for investigation. MPAC will present the report to Council in the July 2026 Council sitting and the AFS will be updated prior submission to AGSA.

- (a) The reasons for the UIFW related to the composition of the BAC which has since been rectified. The implications thereof were that all bids adjudicated during the period were regarded as irregular.
- (b) LLM has concluded 3-year agreements with various PSP. Any payment to the PSP for the duration of the contract is regarded as irregular and increases the value of the UIFW register and opening balances to the AFS.
- (c) The fruitless expenditure related to interest charged on outstanding Eskom account as the Municipality was in financial distress and could not pay Eskom on time. Most of the disclosed fruitless and wasteful expenditure was caused by interest on late payments.

A report was tabled before Council for processing. Council referred the reports to MPAC for further investigation. MPAC referred the report back to the AO for further investigation. Consequently, the UIFW were disclosed in the Annual Financial Statements for auditing by the AGSA.

The AGSA reviewed the AFS and raised findings on the process followed as this is contrary to National Treasury procedural guidelines. AGSA raised findings on this process and then concluded that no proper investigations were conducted during the year as the base to write off the unauthorised expenditure, fruitless and wasteful expenditure, and irregular expenditure by Council. Hence the prior year's errors were not corrected in the AFS.

The AGSA has since recommended that proper procedures prescribed by the NT be followed to clear the prior years' errors and reduce the amount of the UIFW figures registers as these affects the opening balances in the AFS and must be corrected.

National Treasury has since outlined procedural guidelines to clear the UIFW and this must be followed to the letter to reduce the value of the UIFW. In terms of section 32(2)(b), irregular expenditure may only be written off by Council if, after an investigation by a council committee, the irregular expenditure is certified as irrecoverable. The Council Committee responsible for investigating the UIFW referred to in 32(2) (b) is the MPAC and not the Internal Audit Unit.

National Treasury has directed Municipalities to develop a strategy to reduce the UIFW. Implementation of the strategy will be reported to Treasury on quarterly basis for monitoring. A panel of consultant has been appointed to Investigate the UIFW's. The investigation will be conducted in the 2nd quarter.

### **13. Challenges**

- Revenue collection rate is 86%, which is below the target of 95%
- Supply of free basic services to rural areas putting pressure on operating revenue.
- Increasing overtime.
- Increased cost on consultants / contracted services.

## **14. Way Forward**

- Implementation of Cost Containment Strategies.
- Implementation of Revenue Enhancement Strategy
- The implementation of UIFW and Consultant reduction Strategy.
- Centralise invoices to Expenditure Department to ensure suppliers are paid within 30 days.
- Application or takeover of Eskom licence at Marapong and new area or agreement with Eskom to implement % blocking.
- The Municipality must conduct skills audit to improve operational efficiency.
- Management to put stringent control on overtime, travelling and accommodation where possible do more with less.
- Only critical positions must be appointed.

## **15. Staff Implications**

None

## **16. Financial Implications**

- Municipality is fast tracking capital spending to avoid the withdrawal of funding by National Treasury.
- The Municipality will also continue to implement the revenue enhancement initiatives and cost containment strategies to remain financially viable.

## **17. Other Parties Consulted**

- Executive Management

## **18. Attachments**

M12 C Schedule



Lim362

CSchedule\_M12 2026

## **19. Conclusion**

The financial performance for the period ending 30 June 2026 indicates that while the municipality remains functional, there are emerging pressures on liquidity and cash-flow management.

Although operating revenue billing is largely in line with the SDBIP targets, the actual cash collection rate of 86% remains a concern, a more aggressive implementation of the Credit Control and Debt Collection Policy is required to protect the municipality's asset base and funding position.

In conclusion, the municipality's budget performance remains reasonable. Sustained fiscal discipline and a focus on revenue value-chain enhancements are required to ensure long-term financial sustainability.

## **Recommendation**

1. That the March 2026 Financial Report be noted as per Section 71, 52, and Section 66 of the MFMA.
2. That the report be forwarded to Limpopo and National Treasury for oversight and monitoring