



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

The state of local government finances and financial management as at 30 June 2011

Fourth Quarter of the 2010/11 financial year

Analysis Document

November 2011

Produced by:

Chief Directorate: Local Government Budget Analysis

CONTACT PERSON:

Jan Hattingh
Chief Director: Local Government Budget Analysis
Intergovernmental Relations
Tel.: (012) 315-5009, Fax: (012) 395 6553
E-mail: jan.hattingh@treasury.gov.za

1 Introduction

1. This is the third year that National Treasury is producing the report on “The state of local government finances and financial management” (SoLGF). When the SoLGF was first produced in 2009 it highlighted the fact that a large number of municipalities’ finances are at risk. It also highlighted the fact that very often the deployment of support to municipalities by national and provincial departments and interventions in terms of section 139 of the Constitution were not aligned to where the need was the greatest.
2. The purpose of this report is to provide a regular overview of the state of municipal finances that can be used:
 - i. to identify areas of risk in local government finances so that appropriate system-wide responses can be investigated and developed; and
 - ii. to identify those municipalities who are in financial distress¹ so that processes can be initiated to determine the full extent of their financial problems with a view to determining:
 - whether a municipality requires support and what support should be provided, or
 - whether an intervention is required in a municipality due to a crisis in its finances (as provided for in section 139 of the Constitution).
3. Previous versions of this report have been presented to the TCF, the Budget Forum and the Budget Council, and have also been circulated to the Presidency, the Department of Cooperative Governance (DCoG) and the provincial treasuries.
4. The aim is to use the actual information from the annual financial statements, the current MTREF, and the latest information from the municipal in-year monitoring system (i.e. the section 71 reports) to facilitate better targeting of national and provincial government support to municipalities. In this regard, Annexure A provides a list of municipalities that this analysis indicates are in financial distress.
5. It is important to note that the main sources of data were taken from the audited financial statements of the municipalities and where available, the previous years’ restated numbers from the annual financial statements were used to take into account the adjustments required by the Office of the Auditor General. The primary source of data for in-year performance is the monthly S71 reports submitted to the National Treasury Local Government Database by municipalities. These reports are required to be verified and signed off by the Accounting Officer of the municipality. Every effort has been made to compile a reliable set of numbers, but National Treasury acknowledges that there may still be some shortcomings in the dataset.
6. There is no single measure that can be used to assess the financial health of a municipality. This report evaluates the state of municipal finances using the following seven measures (using the latest available information).

¹ The term ‘financial distress’ is used very deliberately instead of the words ‘financial crisis’ (which appear in section 139 of the Constitution and section 139 of the MFMA) because this report is only intended to provide an initial indication of which municipalities may be in ‘financial crisis’.

- i. Cash as a percentage of operating expenditure
 - ii. Persistence of negative cash balances
 - iii. Over spending of original operating budgets
 - iv. Underspensing of original capital budgets
 - v. Debtors as a percentage of own revenue
 - vi. Year-on-year growth in debtors
 - vii. Creditors as a percentage of cash and investments
7. These criteria are drawn from the methodology described in MFMA Circular 42 'Funding a municipal budget'.
 8. To place this analysis of municipalities' financial health in context the report also presents information on the latest available local government audit outcomes (2009/10 financial year) and information on municipal manager and CFO vacancies. Previous reports have also provided overviews of the 2011/12 budget benchmark assessments of the 17 non-delegated municipalities. However, results of the 2011/12 budget benchmark assessments are contained in a separate report, and so are not summarised here.
 9. Ideally, when decisions are being made on what support to provide to municipalities or whether it is necessary to intervene, the full range of available information on the governance, finances and performance of municipalities should be considered. This would include looking at questionnaire based information such as the 30 MFMA Indicators and the Financial Management Capability Maturity Model, as well as other sources such as the Blue Drop and Green Drop Reports from the Department of Water Affairs.
 10. As from 1 April 2011 the financial management component of the Siyenza Manje programme was transferred to the Municipal Finance Improvement Programme – Technical Assistance within the National Treasury. There are enormous expectations that the restructured programme will be far more effective in providing meaningful, transformative support to municipalities. In order to achieve this, it is now even more important that the deployment of the MFIP-TAs be informed by proper analysis of which municipalities are in real financial difficulties and which are at risk.
 11. It is envisaged that the regular updates of this report will become a key input into the *Municipal Finances Monitoring Committee* – once it is established. It is envisaged that this committee will be tasked with co-ordinating financial management support and interventions to municipalities.

2 Audit outcomes – 2009/10 financial year

12. When the Auditor-General audits the annual financial statements of a municipality one of the objectives is to establish whether the financial management processes and systems of the municipality are reliable and robust, and provide a sound basis for the preparation of the municipality's annual financial statements.
13. The following table presents a summary of audit opinions for all municipalities between 2006/07 and 2009/10.

Table 1: Summary of audit opinions for all municipalities, 2006/07 - 2009/10 (30 June 2010)

Audit Opinion	2006/7		2007/8		2008/9		2009/10	
	No.	%	No.	%	No.	%	No.	%
Adverse	19	7%	11	4%	10	4%	7	2%
Disclaimer	104	37%	110	39%	103	36%	53	19%
Qualified	73	26%	63	22%	50	18%	50	18%
Unqualified - with findings	54	19%	91	32%	113	40%	120	42%
Unqualified - no findings	1	0%	4	1%	4	1%	7	2%
Audits Outstanding	32	11%	4	1%	3	1%	46	16%
Total	283	100%	283	100%	283	100%	283	100%

Source: National Treasury Local Government Database and Auditor-General Consolidated Report 2009/10

14. The above table indicates an improvement in audit outcomes between 2006/07 and 2009/10, particularly in the number of municipalities that received 'Unqualified with findings'. Overall, the number of municipalities that received 'unqualified' audit opinions has increased from 117 or 41 per cent in 2008/09 to 127 or 44 per cent in 2009/10.
15. The number of municipalities that received a 'clean audit' (i.e. 'Unqualified – with no findings') has increased from 4 in 2008/09 to 7 in 2009/10.
16. 60 municipalities have received either an 'Adverse' opinion or 'Disclaimer' opinion in 2009/10. This is substantially fewer than in previous years. However, one can expect that this number is likely to increase as there are still 16 per cent of audits outstanding. And the fact that the audits are still outstanding eight months after they were supposed to be completed invariably indicates that there are problems.
17. It should be noted that even an unqualified audit report is NOT an indicator of the absence of financial problems in a municipality because the audit report does not assess:
 - i. The adequacy of the municipality's cash reserves;
 - ii. The credibility of the funding of the municipal budget;
 - iii. The allocative efficiency of the municipality's spending priorities;
 - iv. The quality of the municipality's revenue management capabilities;
 - v. The effectiveness of municipal spending; and
 - vi. The sustainability of the municipality's capital budget and debt burden; and
 - vii. The nature and extent of unauthorized, irregular, fruitless and wasteful expenditure.
18. Nevertheless, there is a very high correlation between municipalities that received either an 'adverse opinion' or 'disclaimer of opinion' on their financial statements and those identified by National Treasury as being in a state of financial distress. This is highlighted in Annexure A.

3 Governance: acting municipal managers and CFOs

19. The municipal manager is the accounting officer for a municipality, and the CFO is directly responsible to the municipal manager for the management of the municipality's Budget and Treasury Office. Vacancies or instability in these positions can pose a serious risk to the financial management of a municipality.
20. The following table shows the number of acting municipal managers and CFOs as at 10 October 2011. It also shows that in a significant number of municipalities both the municipal manager and CFO are acting.

Table 2: Municipalities with acting municipal managers and CFOs at 10 October 2011

	No. of Municipalities	Acting MM		Acting CFO		Both Acting	
		No.	%	No.	%	No.	%
Eastern Cape	45	8	17.8%	5	11.1%	3	6.7%
Free State	24	5	20.8%	8	33.3%	2	8.3%
Gauteng	12	2	16.7%	1	8.3%	-	-
KwaZulu-Natal	61	17	27.9%	12	19.7%	3	4.9%
Limpopo	30	9	30.0%	11	36.7%	5	16.7%
Mpumalanga	21	10	47.6%	14	66.7%	8	38.1%
Northern Cape	32	8	25.0%	7	21.9%	4	12.5%
Norther West	23	13	56.5%	11	47.8%	8	34.8%
Western Cape	30	11	36.7%	6	20.0%	4	13.3%
All municipalities	278	83	29.9%	75	27.0%	37	13.3%

21. The above table shows that 83 municipalities currently have acting municipal managers and 75 have acting CFOs, while in 37 municipalities both these key positions are filled by acting officials. The phenomenon is most prevalent in Mpumalanga, North West and Limpopo.
22. This picture reflects a similar pattern observed after the 2006 local government elections: namely that vacancies in both these positions spiked immediately after elections. This may have two explanations:
- i. The five-year contracts of these officials are aligned to the electoral cycle, or
 - ii. The incoming councils and Mayors are pushing the incumbents in these positions out.
23. Information gathered since the elections indicates that the latter is probably the most likely explanation, especially in those provinces where the instances of acting officials is highest.
24. In certain instances the fact that the incoming councils and Mayors are seeking to replace the senior officials within municipalities may not be a bad thing, if those officials have proven themselves to be incompetent or corrupt. It is however concerning if competent officials are being pushed out so that the council and Mayor can deploy candidates for patronage or political reasons; as this defeats the aims of the Municipal System Amendment Act to depoliticise, professionalise and stabilise the administrations of municipalities.
25. In addition, the financial cost of having officials on suspension or paying out 'golden handshakes' is substantial.

4 Current funding compliance assessment information

26. The audit outcomes serve as an indicator of the state of municipal financial management rather than the state of municipal finances. Consequently, National Treasury has developed a multi-faceted procedure to assess the 'Funding Compliance' of municipal budgets. This procedure focuses on a number of key financial management objectives, namely:
- i. Short term viability and consideration of the whether the community is 'paying its way' relative to economic benefits received;
 - ii. Medium and long term sustainability; ensuring that the broader community maintains control over outcomes within appropriate levels of affordability (which is likely to be different for each municipality);
 - iii. Achievement of community aspirations and service delivery goals;
 - iv. Maintenance of a good credit rating and minimising financing costs; and
 - v. Achieving and maintaining key prudential measurements; e.g. borrowing limits.
27. The Funding Compliance measures on Supporting Table SA10 in Schedule A1 completes automatically – provided the rest of the information is entered correctly in all other parts of the budget formats. Using this information, National Treasury's assessment of the 17 non-delegated municipalities indicates that 12 of these municipalities' tabled 2011/12 MTREF budgets are not adequately funded. This is compared to 9 the previous year.
28. At this stage National Treasury has not been able to assess the Funding Compliance of the remaining municipalities' approved 2011/12 MTREF budgets. However, our assessment of the compliance of their tabled budgets indicates that while there have been improvements in completing Schedule A1 by municipalities, the shortcomings are still substantial which means the figures in Supporting Table SA10 cannot be relied upon to give an accurate picture of the sustainability of the municipalities' budget – this remains an on-going challenge.
29. The following tables provide counts of the number of municipalities whose finances are within the defined categories of particular measures of financial health.

4.1 Vulnerable cash position of municipalities

30. At a very minimum a municipality should maintain a positive cash position. Annexure B1 lists the municipalities that reported negative closing bank balances at the end of the 2010/11 financial year (i.e. their cash position as at 30 June 2011). It also shows their cash balance divided by one twelfth of the municipality's operating expenditure. This indicates the size of the municipality's cash deficit in terms of the number of months operating expenditure the municipality *does not have funds to pay*².
31. 49 municipalities reported negative closing cash positions at the end of the 2010/11 financial year (i.e. their cash position as at 30 June 2011). This is an improvement on the 63 municipalities that reported negative closing cash positions at the end of the 2009/10 financial year. It is encouraging that all the metros and the secondary cities have reported

² Note this analysis needs to be refined by removing the non-cash items in operating expenditure. Generally these items represent about 10 per cent of expenditure, so their impact on the current analysis is relatively small.

positive closing cash positions. At the end of 2009/10 there were 8 secondary cities that reported negative closing cash positions.

32. Note that in terms of section 45 of the MFMA municipalities are not allowed to close the financial year with any short-term borrowing or overdraft – so the fact that these municipalities were not able to close the financial year with positive cash positions is a very strong indicator that these municipalities were in financial distress at that date.
33. Annexure B1 shows that of the 49 municipalities with negative closing cash balances at 30 June 2011, 19 have closing cash positions below one month's operating expenditure requirements. This suggests that these municipalities' negative cash positions are probably not critical. However, this information needs to be considered in relation to information on these municipalities' outstanding creditors and the other variables identified below to get a fuller picture.
34. 20 municipalities recorded closing cash positions that exceed one month's operating expenditure requirements. These municipalities in all probability have severe cash flow problems. For instance O.R Tambo District has reported an overdraft that exceeds 5 month's worth of operating expenditure. The relevant provincial treasuries need to investigate their finances immediately with a view to establishing the nature and extent of their financial problems, what technical support can be provided and whether intervention in terms of section 139(4) of the Constitution is required.
35. Annexure B2 provides the names of the 50 municipalities that failed to report closing cash positions for the end of the 2010/11 financial year in their fourth quarter section 71 reports or reported information that was obviously wrong. The failure to provide this critical information should be regarded in a very serious light. Consideration should be given to charging the responsible accounting officers with financial misconduct in terms of section 171(1)(d) of the MFMA for withholding or being negligent in reporting this critical information.
36. Many municipalities may experience temporary cash-flow problems. However, where cash-flow problems persist over a number of months it is a strong indicator that there are severe underlying financial problems. The following table shows at the end of each quarter for how many months in the previous six months a municipality has reported negative end of month cash balances or failed to report credible cash information. The aim is to identify those municipalities that are persistently in a vulnerable cash-flow position or about whom we have no credible information.

Table 3: Persistence of municipalities' negative or unknown end of month cash balances

	Section 71 Reports			
	30-Sep-10	31-Dec-10	31-Mar-11	30-Jun-11
Metropolitan Municipalities (6)				
No. of municipalities with negative or unknown cash balances over the last 6 months	1	0	0	0
No. of municipalities whose cash balance was negative or unknown over the last 6 months:				
less than 2 months of the previous 6 months	1	0	0	0
between 2 and 3 months of the previous 6 months	0	0	0	0
for more than 3 months of previous 6 months	0	0	0	0
Secondary Cities (21)				
No. of municipalities with negative or unknown cash balances over the last 6 months	9	5	6	7
No. of municipalities whose cash balance was negative or unknown over the last 6 months:				
less than 2 months of the previous 6 months	2	2	1	3
between 2 and 3 months of the previous 6 months	5	0	2	1
for more than 3 months of previous 6 months	2	3	3	3
Other Local Municipalities (210)				
No. of municipalities with negative or unknown cash balances over the last 6 months	122	96	97	104
No. of municipalities whose cash balance was negative or unknown over the last 6 months:				
less than 2 months of the previous 6 months	35	29	21	26
between 2 and 3 months of the previous 6 months	63	35	36	31
for more than 3 months of previous 6 months	24	32	40	47
District Municipalities (46)				
No. of municipalities with negative or unknown cash balances over the last 6 months	23	14	11	16
No. of municipalities whose cash balance was negative or unknown over the last 6 months:				
less than 2 months of the previous 6 months	12	7	4	7
between 2 and 3 months of the previous 6 months	8	4	3	4
for more than 3 months of previous 6 months	3	3	4	5
All Municipalities (283)				
No. of municipalities with negative or unknown cash balances over the last 6 months	155	115	114	127
No. of municipalities whose cash balance was negative or unknown over the last 6 months:				
less than 2 months of the previous 6 months	50	38	26	36
between 2 and 3 months of the previous 6 months	76	39	41	36
for more than 3 months of previous 6 months	29	38	47	55

37. The above table shows that at an overall level the number of municipalities with negative cash balances or failing to report over the last 6 months appears to have stabilised and indeed improved. The cash position of metros throughout the 2010/11 financial year was generally positive. At the end of June 2011, there were 3 secondary cities, 47 local municipalities and 5 districts that had negative cash balances or failed to report for 3 of the previous 6 months.

38. However, the number of local municipalities that had negative or unknown cash balances for 3 of the previous 6 months has increased from 24 in September 2010 to 47 in June 2011. This suggests a deterioration in the cash position of a growing number of local municipalities, and growing challenges in municipal cash-flow management.

39. A municipality with a positive cash position may still not have enough cash and investments on hand to fulfil its legal obligations to provide for the cash-backing of reserves and other working capital requirements. The new budget formats enable the

evaluation of this aspect, provided the municipality provides the correct information. Of the 17 non-delegated municipalities, whose 2011/12 MTREF tabled budgets were assessed in detail, only 5 have funded budgets going forward.

40. All the delegated municipalities' 2010/11 budgets should be evaluated by the provincial treasuries. In certain instances this is being done, but not in all instances. National Treasury is supporting provinces to develop their capacity in this regard, and also exploring processes to ensure the assessment results can be compiled on a comparable basis.

Table 4: Municipalities' cash coverage as at 30 June 2011

	Audited Outcome				YTD: 2010/11
	2006/07	2007/08	2008/09	2009/10	
Metropolitan Municipalities (6)					
No. of munics for which cash data is unavailable	0	1	1	0	0
No. whose cash coverage is					
more than 3 months of operational expenditure	2	1	1	0	0
between 1 and 3 months of operational expenditure	1	3	1	3	2
less than 1 month of operational expenditure	3	1	3	3	4
Secondary Cities (21)					
No. of munics for which cash data is unavailable	1	14	13	0	2
No. whose cash coverage is					
more than 3 months of operational expenditure	3	0	0	3	4
between 1 and 3 months of operational expenditure	7	2	3	6	5
less than 1 month of operational expenditure	10	5	5	12	10
Other Local Municipalities (210)					
No. of munics for which cash data is unavailable	181	154	154	4	28
No. whose cash coverage is					
more than 3 months of operational expenditure	3	10	6	50	30
between 1 and 3 months of operational expenditure	3	7	12	58	38
less than 1 month of operational expenditure	23	39	38	98	114
District Municipalities (46)					
No. of munics for which cash data is unavailable	29	28	28	0	4
No. whose cash coverage is					
more than 3 months of operational expenditure	6	6	3	15	9
between 1 and 3 months of operational expenditure	4	2	3	13	6
less than 1 month of operational expenditure	7	10	12	18	27
All Municipalities (283)					
No. of munics for which cash data is unavailable	211	197	196	4	34
No. whose cash coverage is					
more than 3 months of operational expenditure	14	17	10	68	43
between 1 and 3 months of operational expenditure	15	14	19	80	51
less than 1 month of operational expenditure	43	55	58	131	155

41. Further a municipality needs to have enough cash on hand to meet its monthly payments as and when they fall due. The level of cash coverage is especially important should the municipality be faced with circumstances that threaten revenue. It is generally accepted that a prudent level of cash coverage is three months of average operational expenditure. The above table shows the number of municipalities that had less than three months cash coverage as at 30 June each year.

42. Firstly, the table shows that reporting on cash information has improved significantly since 2006/07. The change in the figures across financial years creates the impression that the cash coverage of municipalities is deteriorating. But this may not be the case. Rather we are simply getting a more complete picture of municipalities' cash coverage - compared to the 211 municipalities who did not report this information at the end of 2006/07.
43. Fourth quarter results for 2010/11 indicate that 43 municipalities have reported having cash on hand in excess of three months of operational expenditure.
44. At 30 June 2010, 3 secondary cities had cash on hand in excess of three months. This has improved slightly to 4 as at 30 June 2011. 10 cities have reported cash coverage of less than one month compared to the 12 that reported this position at the end June 2010 – reflecting a measure of stability in the cash position of secondary cities.
45. The cash coverage for local and district municipalities is deteriorating. The number of municipalities reporting to have cash coverage in excess of three months has decreased from 65 municipalities at the end of June 2010 to 30 municipalities at the end of June 2011. Municipalities with cash coverage of less than one month of operating expenditure have increased from 98 at the end June 2010 to 114 at the end of June 2011.
46. The number of district municipalities that reported less than one month of cash on hand has increased from 18 in June 2010 to 27 in June 2011.
47. It is clear that very few municipalities are responding appropriately to the fact that their revenues are under pressure due to poor collections and the slow-down in the economy. For instance, generous bonuses and overtime payments are still the order of the day, as is spending on a range of non-priority items and programmes.
48. Any one of the following events could push the municipalities that already have very low cash coverage into a negative cash position:
 - i. A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs have on household budgets;
 - ii. The need to pay suppliers, especially contractors responsible for capital projects (whose billings are often lumpy and come at year-end);
 - iii. The need to finance the cash-flow difference between paying for the increased cost of bulk electricity/water and the collection of revenues from customers;
 - iv. Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue; or
 - v. A rate-payers/consumers boycott.
49. The previous report noted the disjuncture between the results reported by the metros at 31 March 2011 and the outcomes of the 2011/12 MTREF benchmark process. In the previous report it was noted that the cash coverage position for metros had improved from 1 metro having cash in excess of 3 months operating expenditure at the end of 2009/10 to 5 metros at 31 March 2011. At the end of June 2011, 4 metros reported cash coverage of less than one month's operating expenditure and none with cash coverage of more than 3 months of operational expenditure. These outcomes are more in line with the trends since 2006/07 and the outcomes of the 2011/12 budget benchmarking process.
50. The discrepancy between the March figures reported previously and the June figures shown above is most likely reflective of the varying cash position of metros during the

financial year (the cash-flow cycle), which is strongly influenced by the timing of equitable share and other national transfer payments.

51. Broadly speaking, there is a disjuncture between the reporting of the quarterly cash information and annual end of year figures used to calculate this measure. The following are the probable causes for this misalignment:
- i. Municipalities do not, in general, conduct regular bank reconciliations throughout the year and defer this control measure to the end of the financial year. This means that quarterly reporting of the cash position remains critically flawed.
 - ii. The practice of closing-off periods – monthly or quarterly - is not institutionalised within the municipal environment. As a result, transactions continue to be processed for historical periods throughout the financial year, leading to constantly changing and incomplete actual information. Reporting stabilises with year-end closing off processes when journals are processed and figures are finalised for submission to the annual audit process.

4.2 Levels and growth in consumer debtors

52. Consumer debtors as a per cent of own revenue provides a useful, easily calculated indicator of the state of municipalities' debtor management capabilities. Municipalities whose debtors are greater than 30 per cent of own revenue are at serious financial risk, especially if there is an ongoing deteriorating trend.
53. However, when the quality of municipal reporting on this information improves the following refinements to this measure will be made:
- i. Consumer debtors will be reduced by the provision for debt impairment. This will align this amount with what municipalities are supposed to be reporting in their annual financial statements, and on Table A6 of the budget formats.
 - ii. Own revenue will be replaced by billable revenue so as to emphasise that consumer debtors arise due to the failure to collect this particular revenue.
 - iii. Debt impairment as a percentage of billable revenue will be added as a complementary measure so as to highlight the cost to the municipality of providing for the non-collection/writing off of billable revenue.
54. The following table shows that at 30 June 2011, there were at least 154 municipalities with debtor levels higher than 30 per cent of own revenue. This is down on the 174 reported at 30 June 2010. The apparent improvement in the trend is not credible given serious shortcomings with many municipalities' reported own revenues, particularly among the district and local municipalities (see the reported increases in total own revenue in these categories – which are completely unrealistic).
55. Among the 210 Category B municipalities there is a deteriorating trend between 2006/07 and 2009/10 and was standing at 62 per cent at the end of June 2010. While total debtors seems to have stabilised, the apparent improvement in debtors as a percentage of own revenues is not credible.

Table 5: Debtors as at 30 June as a percentage of own revenue

	Audited Outcome				S71
	2006/07	2007/08	2008/09	2009/10	YTD: 2010/11
Metropolitan Municipalities (6)					
Total Own Revenue	49 923	55 668	62 448	74 085	102 774
Total Debtors	27 326	26 654	29 433	30 592	36 615
Debtors as a % of total own revenue	55%	48%	47%	41%	36%
No. whose total debtors are					
less than 15% of their total own revenue	0	0	0	0	0
between 15 and 30% of their total own revenue	0	1	1	0	4
more than 30% of their total own revenue	6	5	5	6	2
Secondary Cities (21)					
Total Own Revenue	14 677	15 972	18 442	22 239	24 882
Total Debtors	5 487	6 525	8 582	11 659	13 510
Debtors as a % of total own revenue	37%	41%	47%	52%	54%
No. whose total debtors are					
less than 15% of their total own revenue	2	3	3	3	3
between 15 and 30% of their total own revenue	5	3	4	5	4
more than 30% of their total own revenue	11	12	12	13	14
Other Local Municipalities (210)					
Total Own Revenue	12 747	14 282	16 759	19 869	26 582
Total Debtors	1 899	3 308	7 707	12 285	12 504
Debtors as a % of total own revenue	15%	23%	46%	62%	47%
No. whose total debtors are					
less than 15% of their total own revenue	2	7	14	18	55
between 15 and 30% of their total own revenue	4	9	14	29	30
more than 30% of their total own revenue	13	38	78	145	124
District Municipalities (46)					
Total Own Revenue	2 463	2 264	2 312	2 675	6 418
Total Debtors	549	691	1 478	1 859	2 008
Debtors as a % of total own revenue	22%	31%	64%	70%	31%
No. whose total debtors are					
less than 15% of their total own revenue	3	10	17	18	26
between 15 and 30% of their total own revenue	3	5	3	6	6
more than 30% of their total own revenue	6	8	13	20	14

56. While debtor levels remain very high, a number of municipalities have reported in 2010/11 suggesting that the rate of the increase in debtors in some municipalities have declined. This is a positive trend.

57. It is important to note that the growth in the level of consumer debtors pre-dated the slow-down in the economy, and so the slow-down can only be a partial explanation. Far more relevant explanations include:

- i. A failure on the part of Mayors and municipal councils to provide political backing to revenue enhancement programmes (often councillors are in arrears with their own payments);
- ii. A failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function, thus compromising implementation of policies to enhance revenue;
- iii. Poorly designed revenue management, indigent and debtor policies;
- iv. Resistance among certain communities to paying for certain types of services (or to being billed in a particular way); and
- v. Rate-payer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.

58. The following table shows growth in consumer debtors across financial years.

Table 6: Growth in consumer debtors as at 30 June each year

	Audited Outcome				YTD 2010/11
	2006/07	2007/08	2008/09	2009/10	
Metropolitan Municipalities (6)					
No. whose debtors grew	0	2	4	4	5
No. whose debtors increased by					
less than 10% over period show n	0	1	1	1	1
betw een 10% and 20% over period show n	0	1	0	2	3
more than 20% over period show n	0	0	3	1	1
Secondary Cities (21)					
No. whose debtors grew	0	16	14	18	17
No. whose debtors increased by					
less than 10% over period show n	0	4	2	3	0
betw een 10% and 20% over period show n	0	7	6	5	8
more than 20% over period show n	0	5	6	10	9
Other Local Municipalities (210)					
No. whose debtors grew	0	17	39	78	126
No. whose debtors increased by					
less than 10% over period show n	0	4	6	15	20
betw een 10% and 20% over period show n	0	4	9	14	31
more than 20% over period show n	0	9	24	49	75
District Municipalities (46)					
No. whose debtors grew	0	5	12	18	19
No. whose debtors increased by					
less than 10% over period show n	0	1	2	3	3
betw een 10% and 20% over period show n	0	1	2	1	2
more than 20% over period show n	0	3	8	14	14
All Municipalities (283)					
No. whose debtors grew	-	40	69	118	167
No. whose debtors increased by					
less than 10% over period show n	-	10	11	22	24
betw een 10% and 20% over period show n	-	13	17	22	44
more than 20% over period show n	-	17	41	74	99

59. Comparing the information at 30 June 2010 to that of 30 June 2011 indicates that municipalities in all four categories are still struggling to curb the growth in consumer debtors. 167 municipalities reported growth in debtors between June 2010 and June 2011, compared to 118 for the previous period. This increase may be partly related to more complete reporting, but more of it is attributable to actual growth in debtors.

60. Overall, 99 municipalities experienced growth in debtors in excess of 20 per cent between June 2010 and June 2011. This indicates either a failure to implement proper debtor management processes or a breakdown of existing processes. Particularly concerning is the ongoing rapid growth in debtors in secondary cities.

4.3 Levels of creditors

61. Section 65(2)(e) of the MFMA provides that the accounting officer of a municipality must take all reasonable steps to ensure “that all money owing by the municipality be paid

within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.” The quality of the information on the age of outstanding creditors has improved in recent months, but it still remains weak. This issue continues to receive attention.

62. In addition section 65(2)(h) provides that the accounting officer must take all reasonable steps to ensure “that the municipality’s available working capital is managed effectively and economically.” At very least this involves ensuring that the timing of the municipality’s expenditures are matched by its flow of income.
63. The following table shows creditors as a percentage of cash and investments. This indicates whether municipalities have the working capital to settle their outstanding creditors.

Table 7: Creditors as a percentage of Cash and Investments

	Outcome				Section 71			
	2006/07	2007/08	2008/09	2009/10	Q1: 30 Sep 10	Q2: 31 Dec 10	Q3: 31 Mar 11	Q4: 30 Jun 11
Metropolitan Municipalities (6)								
Total Cash and Investments	9,873	9,618	5,238	9,745	7,872	10,755	14,996	11,396
Total Creditors	4,657	6,949	8,413	7,620	5,759	5,788	5,187	10,890
Creditors as a % of Total Cash and Investments	47%	72%	161%	78%	73%	54%	35%	96%
No. whose Total Creditors are								
less than 25% of their Cash and Investments	1	1	2	2	1	1	2	0
between 25 and 50% of their Cash and Investments	2	3	1	0	1	1	2	2
more than 50% of their Cash and Investments	3	2	3	4	4	4	2	4
Secondary Cities (21)								
Total Cash and Investments	1,653	488	617	327	2,409	2,864	3,826	3,134
Total Creditors	1,115	1,053	1,238	1,899	2,212	1,678	1,857	2,591
Creditors as a % of Total Cash and Investments	67%	216%	201%	580%	92%	59%	49%	83%
No. whose Total Creditors are								
less than 25% of their Cash and Investments	8	17	16	12	6	10	8	9
between 25 and 50% of their Cash and Investments	4	0	1	1	3	2	3	1
more than 50% of their Cash and Investments	9	4	4	8	12	9	10	11
Other Local Municipalities (210)								
Total Cash and Investments	716	432	438	2,008	2,519	3,475	4,525	2,260
Total Creditors	224	284	807	1,438	2,056	2,556	2,076	1,934
Creditors as a % of Total Cash and Investments	31%	66%	184%	72%	82%	74%	46%	86%
No. whose Total Creditors are								
less than 25% of their Cash and Investments	203	197	189	153	139	141	146	134
between 25 and 50% of their Cash and Investments	2	3	6	9	16	16	20	17
more than 50% of their Cash and Investments	5	10	15	48	55	53	44	59
District Municipalities (46)								
Total Cash and Investments	2,217	365	569	2,495	2,530	2,923	3,971	1,854
Total Creditors	44	134	422	721	550	695	778	843
Creditors as a % of Total Cash and Investments	2%	37%	74%	29%	22%	24%	20%	45%
No. whose Total Creditors are								
less than 25% of their Cash and Investments	44	42	41	29	31	29	37	28
between 25 and 50% of their Cash and Investments	1	3	0	4	3	10	3	5
more than 50% of their Cash and Investments	1	1	5	13	12	7	6	13

64. The above table suggests that the situation with regards to outstanding creditors is highly variable – most likely linked to whether municipalities have settled their bulk electricity and water bills at the time of reporting or when the last equitable share payment was. Nevertheless, there are some very concerning indications that many municipalities are delaying the payment of creditors because of a lack of cash.

65. Of particular concern is the fact that 4 metros and 11 secondary cities reported creditors at more than 50 per cent of total cash and investments as at 30 June 2011. Indeed these numbers indicate that the improving cash position of both metros and secondary cities can be directly attributed to the non-payment of creditors. This is particularly true for the metros.
66. Among the local municipalities, 59 had creditors of more than 50 per cent of their cash and investments at the end of June 2011. This is an increase compared to June 2010, and is a further indication of the deteriorating cash position among local municipalities due to them running down their cash and reserves to fund extensive and overly ambitious capital programmes.
67. Overall the figures suggest that municipalities are delaying paying creditors at the end of the financial year so as to end the year in a 'positive cash position'.

4.4 Overspending of operational budgets

68. Municipalities that have difficulty compiling credible operational budgets or that are unable to manage their operational expenditures according to their budgets are at financial risk. Where either of these failures occur within the context of limited cash resources, and poor revenue collection rates the financial risk is greatly magnified.
69. In the past municipalities were in the habit of passing last minute 'adjustments budgets' just prior to submitting their annual financial statements to the Auditor-General which aligned their budgets to actual spending. This manipulative practice enables municipalities to hide both over and underspending relative to their original budgets. This bad practice has been addressed by the Municipal Budget and Reporting Regulations which prescribes the timing and number of adjustments budgets municipalities are allowed to pass.

Table 8: Overspending of original operational budgets

	Audited Outcome				s.71
	2006/07	2007/08	2008/09	2009/10	YTD: 2010/11
Metropolitan Municipalities (6)					
Total Operating Budgets	60 303	71 189	77 114	87 356	115 303
Total Overspending of Original Operating Budgets	2 168	839	2 393	4 190	178
Overspending as % of original operating budgets	4%	1%	3%	5%	0%
Number of municipalities who overspent by					
less than 10% of their operational budget	4	6	6	5	6
between 10% and 25% of their operational budget	2	0	0	1	0
more than 25% of their operational budget	0	0	0	0	0
Secondary Cities (21)					
Total Operating Budgets	16 346	19 207	21 455	26 293	31 862
Total Overspending of Original Operating Budgets	1 731	988	3 275	3 396	388
Overspending as % of original operating budgets	11%	5%	15%	13%	1%
Number of municipalities who overspent by					
less than 10% of their operational budget	11	15	6	12	20
between 10% and 25% of their operational budget	7	5	13	5	1
more than 25% of their operational budget	3	1	2	4	0
Other Local Municipalities (210)					
Total Operating Budgets	17 287	19 996	23 796	29 926	35 790
Total Overspending of Original Operating Budgets	2 258	3 061	3 678	3 030	2 982
Overspending as % of original operating budgets	13%	15%	15%	10%	8%
Number of municipalities who overspent by					
less than 10% of their operational budget	128	119	103	127	175
between 10% and 25% of their operational budget	38	36	41	38	11
more than 25% of their operational budget	44	55	66	45	24
District Municipalities (46)					
Total Operating Budgets	5 083	7 166	7 758	9 437	12 782
Total Overspending of Original Operating Budgets	2 460	2 555	3 511	3 366	1 019
Overspending as % of original operating budgets	48%	36%	45%	36%	8%
Number of municipalities who overspent by					
less than 10% of their operational budget	16	18	13	13	39
between 10% and 25% of their operational budget	5	6	7	8	3
more than 25% of their operational budget	25	22	26	25	4

70. The above table indicates that at an aggregate level overspending of operational budgets does not appear to be a major concern. Nevertheless the fact that there were 24 local municipalities and 4 district municipalities that overspent their operational budgets remains a concern, particularly as in most instances these same municipalities are experiencing cashflow pressures.

4.5 Underspending of capital budgets

71. Municipalities' capital budgets increased very rapidly between 2004/05 and 2008/09, largely due to the rapid growth in MIG, and the FIFA 2010 World Cup Grants to municipalities. Since then capital budgets have stabilised, and in many instances decreased – mainly due to a decline in municipalities' contributions from internally generated funds.

72. The main concern is that municipalities continue to experience difficulties with planning and executing capital spending. Total under-spending of the 2010/11 capital budget was R12.4 billion or 29.3 per cent.

Table 9: Under-spending of original capital budgets

	Audited Outcome				S71
	2006/07	2007/08	2008/09	2009/10	YTD: 2010/11
Metropolitan Municipalities (6)					
Total Original Capital Budget	13 241	17 559	22 471	23 444	19 215
Total Underspending of Original Capital Budget	2 215	2 439	49	3 363	2 848
Underspending as % of Original Capital Budget	17%	14%	0%	14%	15%
Number of municipalities w ho underspent by					
less than 10% of their capital budget	0	0	1	1	2
betw een 10 and 30% of their capital budget	4	4	0	2	3
more than 30% of their capital budget	1	0	0	1	1
Secondary Cities (21)					
Total Original Capital Budget	4 853	6 117	7 630	8 635	6 685
Total Underspending of Original Capital Budget	1 778	1 927	1 743	2 757	2 968
Underspending as % of Original Capital Budget	37%	31%	23%	32%	44%
Number of municipalities w ho underspent by					
less than 10% of their capital budget	1	5	1	2	2
betw een 10 and 30% of their capital budget	7	3	4	5	5
more than 30% of their capital budget	9	10	8	11	14
Other Local Municipalities (210)					
Total Original Capital Budget	7 508	9 213	9 428	10 925	10 729
Total Underspending of Original Capital Budget	3 362	4 172	3 882	4 553	3 965
Underspending as % of Original Capital Budget	45%	45%	41%	42%	37%
Number of municipalities w ho underspent by					
less than 10% of their capital budget	12	15	16	12	15
betw een 10 and 30% of their capital budget	24	32	30	38	43
more than 30% of their capital budget	119	105	110	99	111
District Municipalities (46)					
Total Original Capital Budget	3 485	5 077	6 565	6 942	5 617
Total Underspending of Original Capital Budget	2 085	2 851	3 183	3 101	2 581
Underspending as % of Original Capital Budget	60%	56%	48%	45%	46%
Number of municipalities w ho underspent by					
less than 10% of their capital budget	1	0	4	4	5
betw een 10 and 30% of their capital budget	4	7	9	7	8
more than 30% of their capital budget	29	27	24	24	26

73. Among the 21 secondary cities aggregate underspending of the capital budget has remained high across the period under review. Underspending as at the end of 30 June 2011 was approximately R2.9 billion or 44 per cent of the total capital budget.
74. Underspending has also been consistently high amongst the other local municipalities with 111 of them underspending their 2010/11 original capital budgets by more than 30 per cent. This impacts directly on the rollout of services.

75. District municipalities are the worst performers when it comes to capital spending, with more than half of them consistently underspending their capital budgets by more than 30 per cent.
76. The factors that contribute to the under-spending of capital budgets include:
- i. Poor capital budgeting – the capital budgets are very often over ambitious and not adequately funded (i.e. the funding sources are not realistic or credible);
 - ii. Shortage of planners and engineers that can draft appropriate specifications and prepare tenders of sufficient quality to attract bids for projects;
 - iii. Poor capital expenditure planning – the tendency to start planning the implementation of the capital budget at the beginning of the financial year which leads to a slow start to spending;
 - iv. Badly managed procurement processes – the widespread mismanagement of these processes mean further delays to spending;
 - v. Political interference in procurement processes; and
 - vi. Uncertainty created during the LG elections, officials appear to have been reluctant to take spending decisions due to political considerations.
77. A separate report on the *Over- and underspending of municipalities as at 30 June 2011* has been prepared and is available.

4.6 Under-spending of conditional grants

78. At the end of 2009, National Treasury conducted an exercise to account for the spending of all conditional grants and to ensure that municipalities complied with the annual Division of Revenue Act by returning unspent conditional grant funding to the National Revenue Fund. Where municipalities failed to do so, the National Treasury offset the debt they owed the National Revenue Fund against their November 2009 equitable share transfer. National Treasury subsequently met with the majority of municipalities affected, and where the municipalities undertook to spend the funds in accordance with the grant conditions by 30 June 2010 the funds were returned to the municipalities. This initial process of clearing historical underspending of conditional grant funds is now largely complete.
79. Now there is an institutionalised process of managing the roll-over of unspent conditional grant funds at the end of each financial year, and ensuring that unspent grants get returned to the National Revenue Fund. The initial process and the institutionalisation of processes to manage conditional grants is aimed at changing municipalities' attitudes to the way they manage their conditional grants.
80. However, information on the spending outcomes for 2010/11 financial year indicates that underspending of conditional grants remains a problem. Total underspending on conditional grants transferred to municipalities for 2010/11 amounts to 28.2 per cent or R5.1 billion.

4.7 Inadequate budgets for repairs and maintenance

81. In the past, reporting on repairs and maintenance has been problematic and unreliable. National Treasury is currently putting in place processes to ensure better quality budgeting

and reporting on repairs and maintenance through the budget formats. This will be reflected in municipalities' approved budgets, as well as the section 71 reports for 2011/12.

82. As soon as a municipality experiences any kind of financial stress, invariably the first category of expenditure to be cut is repairs and maintenance. This is because the impact of not spending on this item is not visible and not obvious in the short term. It is also less politically sensitive than say cutting the capital expenditure programme, or reducing the entertainment budget. However, the medium to long term consequences of underspending on repairs and maintenance include:
- a. Deteriorating reliability and quality of services;
 - b. Move to more expensive crisis maintenance, rather than planned maintenance;
 - c. Increasing the future cost of maintenance and refurbishment;
 - d. Shortening the useful lifespan of assets, necessitating earlier replacement; and
 - e. Reduced revenues due to the failure to sell water and electricity, and other services.

5 Municipalities in financial distress: Annexure A

83. Annexure A lists the names of the 66 municipalities that this analysis identifies as being in *financial distress*. This is almost the same number of municipalities that were identified in the 2009 Report as being in financial distress.
84. This report identifies Ekurhuleni as the only metro in financial distress. There are six secondary cities: Mangaung, Mogale City, Msunduzi, Polokwane, eMalahleni and Madibeng. In all instances these findings are confirmed by the 2011/12 budget benchmark exercise conducted in May 2011.
85. The financial distress evaluation is based on the following variables:
- i. Cash as a percentage of operating expenditure
 - ii. Persistence of negative cash balances
 - iii. Over spending of original operating budgets
 - iv. Underspending of original capital budgets
 - v. Debtors as a percentage of own revenue
 - vi. Year-on-year growth in debtors
 - vii. Creditors as a percentage of cash and investments
86. Annexure A presents the financial distress information alongside other information related to the financial and management status of municipalities, including the outcome of the previous financial distress evaluation, and where support is being provided to municipalities by national and provincial governments.
87. Analysis of the information in Annexure A indicates the following:
- i. 33 (or 50 per cent) of the municipalities in financial distress also have unfavourable audit findings;

- ii. 24 municipalities have been identified as being in financial distress both in 2009 and the current report. Of these, 12 have not received any support from the Siyenzi Manje or MFIP programmes, and have not been subject to interventions;
 - iii. 18 municipalities not identified as being in financial distress are currently receiving MFIP support. This is 30 per cent of municipalities currently receiving MFIP support; and
 - iv. 12 municipalities not in financial distress have received Siyenza Manje support. This is 35 per cent of municipalities being supported by Siyenza Manje.
88. Not shown in Annexure A is that a further 37 municipalities are on the borderline to being identified as being in financial distress.
89. The above suggests that there is scope to improve the targeting of support to those municipalities identified as being in financial distress.

6 Risks posed by the current state of municipal finances

90. The risks associated with the current state of municipal finances fall into the following categories:
- a. *Service delivery risks*
 - i. Staff do not get paid – and so refuse to work
 - ii. Bulk services do not get paid for – so services could be cut
 - iii. Contractors and suppliers do not get paid
 - iv. Repairs and maintenance is invariably among the first expenditures cut placing service delivery at risk, as well as future revenues
 - b. *Fiscal risks*
 - v. Poor financial management processes and systems exposes the municipality to corruption
 - vi. The municipalities are failing to properly utilise the resources available to them by failing to collect available revenues
 - vii. Poor financial management increases the cost of borrowing to municipalities

7 Key challenges

91. As noted last year there is growing public awareness of the financial problems in municipalities. This is partly as a result of greater media coverage, and partly due to the fact that the financial situation of many municipalities has deteriorated significantly over the last four years – and the failures are becoming increasingly visible – impacting directly on service delivery. This was clearly demonstrated in the run-up to the local government elections.
92. The updated information presented in this report indicates that the downward trend in the state of municipal finances seems to have tempered, and in some limited areas there may even be a limited improvement. Nevertheless the current state of municipal finances is

not good and requires national and provincial government to adopt a far more proactive approach to assisting and intervening in municipalities.

93. The following areas continue to require attention:
- (a) Poor financial management capacity in the Budget and Treasury Offices of municipalities, and key municipal service delivery departments;
 - (b) Mayors and municipal councils taking decisions and acting in ways that:
 - i. Are inconsistent with the principles of good governance; and
 - ii. Compromise the sustainability of their municipalities' finances.
94. These two factors are closely linked. Political interference in the financial management and procurement operations of a municipality invariably undermine the capacity of the Budget and Treasury Offices. Proper procedures are undermined. The result is that the management of municipal finances deteriorates.
95. While it was hoped that the local government elections will usher in some changes in this regard, the signs are not encouraging. It is apparent from newspaper reports that certain of the new mayors are more concerned about the 'official vehicle' they drive, their accommodation and perks than serving their communities.
96. Before the local government elections concerns were expressed about mayors and councils pushing for increased spending on 'quick-win, visible, capital projects'. It was noted that many municipalities were seeking to finance these projects through drawing down on their reserves and increased borrowing – thus placing the sustainability of municipal finances at risk. Somewhat perversely, it would seem that as the elections approached, the managements of municipalities became more and more reluctant to approve any large spending projects. This has contributed to the very low spending of the 2010/11 capital budgets.

Annexure A: Municipalities in financial distress – 30 June 2011 (the highlighted lines indicate the municipalities identified as being in financial distress)

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
A	Nelson Mandela Bay	NMA	-	-	-		Acting		-	
A	Ekurhuleni Metro	EKU	-	YES	-				-	
A	City Of Johannesburg	JHB	-	-	-	Acting			-	
A	City Of Tshwane	TSH	-	-	-				-	
A	eThekweni	ETH	-	-	-				-	
A	Cape Town	CPT	-	-	-				YES	
B1	Buffalo City	EC125	-	-	Disclaimer	Acting	Acting		-	
B1	Mangaung	FS172	-	YES	Disclaimer				-	
B1	Matjhabeng	FS184	YES	-	Disclaimer	Acting			-	
B1	Emfuleni	GT421	-	-	Qualified				-	
B1	Mogale City	GT481	-	YES	Qualified				-	
B1	Msunduzi	KZN225	-	YES	Qualified	Acting	Acting	Sec. 139(1)(b)	-	YES
B1	Newcastle	KZN252	YES	-	Qualified				-	
B1	uMhlathuze	KZN282	-	-	-		Acting		-	
B1	Polokwane	LIM354	-	YES	-				-	
B1	Govan Mbeki	MP307	-	-	-				-	
B1	Emalahleni (Mp)	MP312	YES	YES	Qualified	Acting	Acting		-	
B1	Steve Tshwete	MP313	-	-	-				-	
B1	Mbombela	MP322	-	-	-	Acting	Acting		-	
B1	Madibeng	NW372	YES	YES	-	Acting	Acting	Sec. 139(1)(b)	-	YES
B1	Rustenburg	NW373	-	-	Qualified	Acting	Acting		-	
B1	Tlokwe	NW402	-	-	Qualified				-	
B1	City Of Matlosana	NW403	-	-	Disclaimer	Acting	Acting		-	
B1	Sol Plaatjie	NC091	-	-	Disclaimer				YES	
B1	Drakenstein	WC023	-	-	-		Acting		-	
B1	Stellenbosch	WC024	-	-	-		Acting		-	
B1	George	WC044	-	-	Adverse	Acting	Acting		-	YES
B	Camdeboo	EC101	-	-	-				-	
B	Blue Crane Route	EC102	YES	-	Qualified				-	
B	Ikwezi	EC103	YES	-	-				-	YES
B	Makana	EC104	YES	YES	Disclaimer	Acting			-	YES
B	Ndlambe	EC105	-	-	Qualified				-	
B	Sundays River Valley	EC106	YES	-	Disclaimer		Acting	Sec. 139(1)(b)	-	YES
B	Baviaans	EC107	YES	-	-				-	
B	Kouga	EC108	-	-	-	Acting	Acting		-	
B	Kou-Kamma	EC109	YES	-	Disclaimer			Sec. 139(1)(b)	-	YES
B	Mbhashe	EC121	-	-	Disclaimer	Acting	Acting		YES	

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
B	Mnquma	EC122	YES	YES	Qualified				YES	
B	Great Kei	EC123	-	-	Disclaimer				-	
B	Amahlathi	EC124	-	-	-		Acting		-	
B	Ngqushwa	EC126	-	YES	Qualified		Acting		-	
B	Nkonkobe	EC127	-	-	Disclaimer				-	YES
B	Nxuba	EC128	-	-	-				-	
B	Inxuba Yethemba	EC131	-	-	Qualified				-	
B	Tsolwana	EC132	-	-	Qualified				-	
B	Inkwanca	EC133	YES	-	Adverse				-	
B	Lukhanji	EC134	-	-	Disclaimer				-	
B	Intsika Yethu	EC135	-	-	Disclaimer				-	
B	Emalahleni (Ec)	EC136	YES	YES	Disclaimer				YES	
B	Engcobo	EC137	-	YES	Disclaimer		Acting		-	
B	Sakhisizwe	EC138	YES	-	Adverse				-	
B	Elundini	EC141	YES	YES	Qualified				-	YES
B	Senqu	EC142	-	-	-				-	
B	Maletswai	EC143	-	YES	Disclaimer				-	YES
B	Gariep	EC144	-	-	Qualified				-	
B	Mbizana	EC151	-	-	Disclaimer				-	
B	Ntabankulu	EC152	-	YES	Adverse				-	
B	Ngquza Hills	EC153	-	-	Qualified				-	
B	Port St Johns	EC154	-	-	-				YES	
B	Nyandeni	EC155	-	-	-				-	
B	Mhlontlo	EC156	-	-	Disclaimer				-	
B	King Sabata Dalindyebo	EC157	-	YES	Disclaimer				-	YES
B	Matatiele	EC441	-	YES	-				-	
B	Umzimvubu	EC442	-	-	Qualified				-	
B	Letsemeng	FS161	-	-	Adverse				-	YES
B	Kopanong	FS162	YES	YES	Disclaimer				-	
B	Mohokare	FS163	YES	YES	Disclaimer	Acting	Acting		-	
B	Naledi (Fs)	FS171	YES	-	-	Acting	Acting	Sec. 139(1)(b)	-	
B	Mantsopa	FS173	-	-	Qualified		Acting		-	
B	Masilonyana	FS181	YES	-	-			Sec. 139(1)(b)	-	YES
B	Tokologo	FS182	YES	-	-				-	YES
B	Tswelopele	FS183	YES	YES	Qualified				-	
B	Nala	FS185	YES	-	-	Acting		Sec. 139(1)(b)	-	
B	Setsoto	FS191	-	-	Qualified	Acting			-	
B	Dihlabeng	FS192	-	-	Qualified				-	
B	Nketoana	FS193	-	-	Qualified				-	

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
B	Maluti-a-Phofung	FS194	YES	-	Disclaimer				-	
B	Phumelela	FS195	YES	YES	Disclaimer		Acting		-	
B	Moqhaka	FS201	-	-	-				-	
B	Ngwathe	FS203	YES	YES	Disclaimer		Acting		-	
B	Metsimaholo	FS204	-	YES	Disclaimer				-	
B	Mafube	FS205	-	-	Disclaimer	Acting			YES	
B	Midvaal	GT422	-	-	-				-	
B	Lesedi	GT423	-	YES	-		Acting		-	
B	Nokeng Tsa Taemane	GT461	-	-	-			Sec. 139(5)(a)	-	
B	Kungwini	GT462	-	-	Qualified				-	
B	Randfontein	GT482	-	-	-				-	
B	Westonaria	GT483	YES	-	-		Acting		-	
B	Merafong City	GT484	-	-	-				-	
B	Vulamehlo	KZN211	-	-	-				-	YES
B	Umdoni	KZN212	YES	-	-				-	
B	Umzumbe	KZN213	-	-	-		Acting		-	
B	uMuziwabantu	KZN214	-	YES	-				-	
B	Ezinqoleni	KZN215	-	-	-				-	
B	Hibiscus Coast	KZN216	-	-	-				-	
B	uMshwathi	KZN221	-	YES	-				-	
B	uMngeni	KZN222	-	YES	-		Acting		-	
B	Mpofana	KZN223	-	-	-				-	YES
B	Impendle	KZN224	-	-	-		Acting		-	YES
B	Mkhambathini	KZN226	-	-	-				-	YES
B	Richmond	KZN227	-	-	-				-	
B	Emnambithi/Ladysmith	KZN232	-	-	-				-	
B	Indaka	KZN233	-	YES	Adverse	Acting	Acting	Sec. 139(1)(b)	-	
B	Umtshezi	KZN234	-	-	-				-	
B	Okhahlamba	KZN235	-	-	Qualified		Acting	Sec. 139(1)(b)	-	YES
B	Imbabazane	KZN236	-	-	-	Acting			-	YES
B	Endumeni	KZN241	-	YES	-		Acting		-	
B	Nquthu	KZN242	-	-	Qualified				-	
B	Msinga	KZN244	-	-	-				-	
B	Umvoti	KZN245	-	-	-	Acting			-	
B	eMadlangeni	KZN253	-	-	-				YES	
B	Dannhauser	KZN254	-	-	-	Acting			-	
B	eDumbe	KZN261	YES	YES	Disclaimer		Acting		-	
B	uPhongolo	KZN262	-	YES	-	Acting			-	
B	Abaqulusi	KZN263	-	-	-	Acting			-	

The state of local government finances and financial management as at 30 June 2011

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
B	Nongoma	KZN265	-	YES	-				-	
B	Ulundi	KZN266	-	-	-				-	
B	Umhlabuyalingana	KZN271	-	YES	-			Sec. 139(1)(b)	YES	
B	Jozini	KZN272	YES	-	-				YES	YES
B	The Big 5 False Bay	KZN273	-	-	-				-	
B	Hlabisa	KZN274	-	-	-	Acting	Acting		YES	
B	Mtubatuba	KZN275	-	YES	-		Acting		-	
B	Mfolozi	KZN281	YES	-	Qualified				-	
B	Ntambanana	KZN283	-	-	-				-	
B	uMlalazi	KZN284	-	YES	-				-	
B	Mthonjaneni	KZN285	-	-	-				-	
B	Nkandla	KZN286	-	-	-				-	
B	Mandeni	KZN291	-	-	-		Acting		-	
B	KwaDukuza	KZN292	-	-	-		Acting		-	
B	Ndwedwe	KZN293	-	-	-				YES	YES
B	Maphumulo	KZN294	-	-	-				-	
B	Ingwe	KZN431	-	-	-	Acting			-	
B	Kwa Sani	KZN432	-	-	-				-	
B	Greater Kokstad	KZN433	-	-	-		Acting		-	
B	Ubuhlebezwe	KZN434	-	-	-		Acting		-	
B	Umzimkhulu	KZN435	-	YES	-				-	
B	Greater Giyani	LIM331	-	-	Qualified	Acting			YES	
B	Greater Letaba	LIM332	-	-	-	Acting			-	
B	Greater Tzaneen	LIM333	-	YES	Qualified				-	
B	Ba-Phalaborwa	LIM334	-	YES	Disclaimer	Acting			-	
B	Maruleng	LIM335	-	-	-				-	
B	Musina	LIM341	-	YES	-	Acting	Acting		-	
B	Mutale	LIM342	-	-	-				-	
B	Thulamela	LIM343	YES	-	Qualified				-	
B	Makhado	LIM344	-	-	Disclaimer				-	
B	Blouberg	LIM351	-	-	Qualified	Acting	Acting		-	
B	Aganang	LIM352	-	-	Disclaimer				-	
B	Molemole	LIM353	-	-	Disclaimer	Acting			-	
B	Lepelle-Nkumpi	LIM355	-	-	-	Acting			-	
B	Thabazimbi	LIM361	YES	YES	Qualified				-	YES
B	Lephalale	LIM362	-	-	Qualified		Acting		YES	
B	Mookgopong	LIM364	-	YES	Disclaimer	Acting	Acting		YES	YES
B	Modimolle	LIM365	-	-	Qualified	Acting			-	
B	Bela Bela	LIM366	-	YES	-	Acting			-	

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
B	Mogalakwena	LIM367	YES	-	-				-	
B	Ephraim Mogale	LIM471	-	-	-				YES	
B	Elias Motsoaledi	LIM472	-	-	Disclaimer	Acting	Acting		-	YES
B	Makhuduthamaga	LIM473	-	-	Disclaimer		Acting		-	
B	Fetakgomo	LIM474	-	-	-				-	
B	Greater Tubatse	LIM475	-	-	Qualified		Acting		-	
B	Albert Luthuli	MP301	YES	-	-	Acting	Acting		-	YES
B	Msukaligwa	MP302	-	YES	-	Acting			-	YES
B	Mkhondo	MP303	-	-	-	Acting		Sec. 139(1)(b)	-	YES
B	Pixley Ka Seme	MP304	-	YES	Disclaimer			Sec. 139(1)(b)	-	YES
B	Lekwa	MP305	-	YES	-	Acting	Acting	Sec. 139(1)(b)	-	YES
B	Dipaleseng	MP306	-	-	Disclaimer				-	YES
B	Victor Khanye	MP311	-	-	-		Acting		-	
B	Emakhazeni	MP314	-	-	-	Acting			-	
B	Thembisile	MP315	-	-	Disclaimer	Acting	Acting	Sec. 139(1)(b)	-	YES
B	Dr J.S. Moroka	MP316	-	-	Disclaimer	Acting	Acting		-	YES
B	Thaba Chweu	MP321	YES	YES	Disclaimer	Acting	Acting	Sec. 139(1)(b)	-	YES
B	Umjindi	MP323	YES	-	Disclaimer	Acting			-	YES
B	Nkomazi	MP324	-	YES	Qualified	Acting	Acting		-	YES
B	Bushbuckridge	MP325	YES	-	-		Acting		YES	YES
B	Moretele	NW371	YES	-	-				YES	YES
B	Kgetlengrivier	NW374	YES	-	-				-	
B	Moses Kotane	NW375	-	-	-			Sec. 139(1)(b)	-	
B	Ratlou	NW381	-	-	-		Acting		-	YES
B	Tswaing	NW382	-	-	-	Acting	Acting	Sec. 139(1)(b)	-	YES
B	Mafikeng	NW383	-	-	-	Acting	Acting	Sec. 139(1)(b)	-	YES
B	Ditsobotla	NW384	-	-	-	Acting			-	
B	Ramotshere Moiloa	NW385	-	-	Qualified		Acting		-	
B	Kagisano	NW391	YES	-	-		Acting		-	
B	Naledi (Nw)	NW392	-	YES	-		Acting		YES	
B	Mamusa	NW393	-	-	-	Acting			YES	
B	Greater Taung	NW394	-	-	Qualified	Acting	Acting		-	
B	Molopo	NW395	-	-	-				-	
B	Lekwa-Teemane	NW396	-	YES	Disclaimer				-	YES
B	Ventersdorp	NW401	YES	YES	-	Acting	Acting		YES	
B	Maquassi Hills	NW404	YES	-	-		Acting		-	
B	Moshaweng	NC451	-	-	-	Acting	Acting		-	
B	Ga-Segonyana	NC452	-	-	Disclaimer				-	
B	Gamagara	NC453	-	-	-		Acting		-	YES

The state of local government finances and financial management as at 30 June 2011

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
B	Richtersveld	NC061	YES	YES	-	Acting			-	
B	Nama Khoi	NC062	-	-	-	Acting			-	
B	Kamiesberg	NC064	-	-	Disclaimer	Acting	Acting		-	
B	Hantam	NC065	YES	-	-				-	
B	Karoo Hoogland	NC066	-	-	Qualified				YES	
B	Khai-Ma	NC067	-	-	-				-	
B	Ubuntu	NC071	-	-	Qualified				-	
B	Umsobomvu	NC072	-	-	Qualified				-	YES
B	Emthanjeni	NC073	YES	-	Disclaimer				-	
B	Kareeberg	NC074	YES	YES	-				-	
B	Renosterberg	NC075	YES	YES	-	Acting	Acting		-	YES
B	Thembelihle	NC076	-	YES	-		Acting		-	YES
B	Siyathemba	NC077	YES	-	Disclaimer				-	YES
B	Siyancuma	NC078	YES	-	-				-	YES
B	Mier	NC081	-	YES	Disclaimer				YES	
B	!Kai! Garib	NC082	YES	-	-				-	
B	//Khara Hais	NC083	-	-	-				-	
B	!Kheis	NC084	-	-	Disclaimer				-	
B	Tsantsabane	NC085	YES	YES	-	Acting			YES	YES
B	Kgatelopele	NC086	-	-	-				-	
B	Dikgatlong	NC092	YES	-	Disclaimer	Acting	Acting		-	
B	Magareng	NC093	-	-	-				-	
B	Phokwane	NC094	-	-	Disclaimer				-	
B	Matzikama	WC011	-	-	-				-	
B	Cederberg	WC012	-	-	Qualified				YES	
B	Bergrivier	WC013	-	-	-				-	
B	Saldanha Bay	WC014	-	-	Qualified	Acting			-	YES
B	Swartland	WC015	-	-	-				-	
B	Witzenberg	WC022	-	-	-				-	
B	Breedee Valley	WC025	-	-	-		Acting		-	
B	Langeberg	WC026	-	-	-				-	
B	Theewaterskloof	WC031	YES	-	-				-	
B	Overstrand	WC032	-	-	-				-	
B	Cape Agulhas	WC033	-	-	-				-	
B	Swellendam	WC034	-	YES	-	Acting	Acting		-	YES
B	Kannaland	WC041	YES	YES	Adverse	Acting	Acting		YES	
B	Hessequa	WC042	-	-	-				YES	
B	Mossel Bay	WC043	YES	-	-				-	
B	Oudtshoorn	WC045	-	-	-		Acting		YES	YES

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
B	Bitou	WC047	-	-	-		Acting		-	
B	Knysna	WC048	-	-	-		Acting		YES	
B	Laingsburg	WC051	-	-	Qualified				-	YES
B	Prince Albert	WC052	-	-	Disclaimer	Acting	Acting		-	YES
B	Beaufort West	WC053	YES	-	-				-	
C	Cacadu	DC10	-	-	-				-	
C	Amathole	DC12	-	-	Qualified				-	
C	Chris Hanani	DC13	-	-	Disclaimer				-	
C	Joe Gqabi	DC14	-	-	Qualified	Acting			-	YES
C	O .R. Tambo	DC15	YES	YES	Qualified				-	
C	Alfred Nzo	DC44	-	-	-				-	YES
C	Xhariep	DC16	-	-	Qualified	Acting			-	
C	Motheo	DC17	-	-	-				-	
C	Lejweleputswa	DC18	-	YES	-	Acting			-	
C	Thabo Mofutsanyana	DC19	-	-	-			Sec. 139(1)(b)	-	
C	Fezile Dabi	DC20	-	-	-				-	
C	Sedibeng	DC42	-	-	-				-	
C	Metsweding	DC46	YES	YES	-				-	
C	West Rand	DC48	-	YES	-				-	
C	Ugu	DC21	-	YES	-				-	YES
C	uMgungundlovu	DC22	-	-	-	Acting			-	YES
C	Uthukela	DC23	-	-	-		Acting		-	
C	Umzinyathi	DC24	-	-	-				-	
C	Amajuba	DC25	-	-	-		Acting		-	
C	Zululand	DC26	-	-	-				-	YES
C	Umkhanyakude	DC27	YES	YES	-	Acting			YES	YES
C	uThungulu	DC28	-	-	-				-	YES
C	iLembe	DC29	YES	YES	-	Acting			-	
C	Sisonke	DC43	-	-	-				YES	
C	Mopani	DC33	YES	-	-				YES	
C	Vhembe	DC34	-	-	Qualified				-	
C	Capricorn	DC35	-	YES	Disclaimer		Acting		-	
C	Waterberg	DC36	-	-	-				-	
C	Greater Sekhukhune	DC47	-	-	Disclaimer	Acting	Acting		-	
C	Gert Sibande	DC30	-	-	-				-	
C	Nkangala	DC31	YES	-	-	Acting			-	
C	Ehlanzeni	DC32	-	-	-	Acting			-	YES
C	Bojanala Platinum	DC37	-	-	-				-	
C	Ngaka Modiri Molema	DC38	-	-	-	Acting	Acting	Sec. 139(1)(b)	-	YES

Cat. Code	Mun_Name	Muni Code	Financial Distress 2008/9	Financial Distress 2010/11	Audit Outcomes 2009/10	CFO vacant (October 2011)	MM vacant (October 2011)	s.139 Interventions (June 2011)	Siyenza Manje Support (July 2010)	MFIP Support (October 2011)
C	Dr Ruth Segomotsi Mompati	DC39	-	-	-				-	
C	Dr Kenneth Kaunda	DC40	-	-	-	Acting	Acting		-	
C	John Taolo Gaetsewe	DC45	-	-	Qualified		Acting		-	
C	Namakwa	DC6	YES	-	-				YES	
C	Pixley Ka Seme	DC7	-	-	Qualified				-	
C	Siyanda	DC8	-	-	-				-	
C	Frances Baard	DC9	-	-	-		Acting		-	
C	West Coast	DC1	-	-	-				-	
C	Cape Winelands DM	DC2	YES	-	-				-	
C	Overberg	DC3	-	-	-		Acting	Sec. 139(1)(b)	-	
C	Eden	DC4	-	-	-	Acting			YES	
C	Central Karoo	DC5	-	-	-				-	

Annexure B1 – Municipalities reporting negative cash positions at 31 March 2011

Name of Municipality	Code	Cash position: Fourth Quarter ended 30 June 2010 (R Thousands)	No. of months operating expenditure in deficit
Province: Eastern Cape (EC)			
Joe Gqabi	DC14	(90 414)	-4.9
O .R. Tambo	DC15	(329 024)	-5.4
Ikwezi	EC103	(529)	-0.3
Ndlambe	EC105	(38 865)	-2.4
Sundays River Valley	EC106	(163)	0.0
Baviaans	EC107	(1 688)	-0.7
Kouga	EC108	(1 762)	-0.1
Ngqushwa	EC126	(16 346)	-3.0
Elundini	EC141	(4 119)	-0.5
Matatiele	EC441	(5 518)	-0.6
Province: Free State (FS)			
Fezile Dabi	DC20	(11 427)	-1.1
Kopanong	FS162	(19 908)	-1.3
Mohokare	FS163	(2 717)	-0.5
Tswelopele	FS183	(1 901)	-0.3
Dihlabeng	FS192	(2 681)	-0.1
Maluti-a-Phofung	FS194	(2 854)	0.0
Phumelela	FS195	(3 077)	-0.5
Province: Gauteng (GT)			
Merafong City	GT484	(117 789)	-2.5
Province: Kwazulu-Natal (KZN)			
Uthukela	DC23	(94 317)	-3.1
Umzinyathi	DC24	(4 965)	-0.4
iLembe	DC29	(65 554)	-2.4
Vulamehlo	KZN211	(1 363)	-0.6
uMngeni	KZN222	(6 073)	-0.4
Impendle	KZN224	(352)	-0.1
Umtshezi	KZN234	(9 537)	-0.7
Nquthu	KZN242	(7 024)	-1.5
Dannhauser	KZN254	(7 167)	-1.9
uPhongolo	KZN262	(446)	-0.1
Nongoma	KZN265	(34 433)	-5.8
Umhlabuyalingana	KZN271	(1 654)	-1.0
Mtubatuba	KZN275	(8 875)	-1.8
uMhlathuze	KZN282	(27 637)	-0.2
Ingwe	KZN431	(3 235)	-1.1
Province: Limpopo (LIM)			
Mopani	DC33	(181 283)	-4.1
Molemole	LIM353	(8 368)	-1.9
Mogalakwena	LIM367	(155 844)	-5.4
Province: Mpumalanga (MP)			
Emalahleni (Mp)	MP312	(40 843)	-0.4
Dr J.S. Moroka	MP316	(4 216)	-0.2
Province: North West (NW)			
Lekwa-Teemane	NW396	(7 855)	-0.9
Province: Northern Cape (NC)			
Kamiesberg	NC064	(3 741)	-1.9
Kareeberg	NC074	(270)	-0.1
Siyathemba	NC077	(1 547)	-0.4
Mier	NC081	(815)	-1.1
!Kheis	NC084	(1 102)	-0.8
Magareng	NC093	(5 096)	-0.9
Ga-Segonyana	NC452	(1 200)	-0.1
Province: Western Cape (WC)			
Saldanha Bay	WC014	(77 983)	-2.5
Mossel Bay	WC043	(1 734)	0.0
Beaufort West	WC053	(4 182)	-0.4

Annexure B2 – Municipalities that did not report cash position at 30 June 2011 or whose reported numbers were obviously inaccurate

Name of Municipality	Code	Name of Municipality	Code
Eastern Cape (EC)		Province: North West	
Cacadu	DC10	Ratlou	NW381
Chris Hani	DC13	Tswaing	NW382
Camdeboo	EC101	Ramotshere Moiloa	NW385
Kou-Kamma	EC109	Kagisano	NW391
Mbhashe	EC121	Mamusa	NW393
Nkonkobe	EC127		
Nxuba	EC128	Province: Northern Cape	
Inxuba Yethemba	EC131	Pixley Ka Seme	DC7
Sakhisizwe	EC138	//Khara Hais	NC083
Gariep	EC144	Tsantsabane	NC085
Ntabankulu	EC152	Kgatelopele	NC086
Nyandeni	EC155	Dikgatlong	NC092
		Phokwane	NC094
		Moshaweng	NC451
		Gamagara	NC453
Free State (FS)			
Nala	FS185		
Setsoto	FS191		
Nketoana	FS193		
Gauteng (GT)			
Kungwini	GT462		
Emfuleni	GT421		
Sedibeng	DC42		
Province: Kwazulu-Natal			
Vulamehlo	KZN211		
uMngeni	KZN222		
Kwa Sani	KZN432		
Province: Limpopo			
Greater Sekhukhune	DC47		
Ephraim Mogale	LIM471		
Province: Mpumalanga			
Ehlanzeni	DC32		
Msukaligwa	MP302		
Mkhondo	MP303		
Pixley Ka Seme	MP304		
Dipaleseng	MP306		
Victor Khanye	MP311		
Emakhazeni	MP314		
Thembisile	MP315		
Umjindi	MP323		
Bushbuckridge	MP325		
Govan Mbeki	MP307		