



**national treasury**

Department:  
National Treasury  
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# **The state of local government finances and financial management as at 30 June 2013**

***Fourth Quarter of the 2012/13 financial year***

*Analysis Document*

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***Produced by:***

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## **1 Introduction**

1. This year marks the fifth publication of the State of Local Government Finances and Financial Management Report (SoLGF). When the SoLGF was first produced in 2009 it highlighted that a large number of municipalities' finances were at risk. It also highlighted that very often the deployment of support through the Siyenza Manje programme of DBSA and other interventions was not aligned to where the need is the greatest. There have been other interventions aimed at capacity building at local government in the past with varying success; the Siyenza Manje programme was restructured into the Financial Management Improvement Programme – Technical Assistance within the National Treasury.
2. There were enormous expectations that the restructured programme will be far more effective in providing meaningful and transformative support to municipalities. It was more important that the deployment of the advisors be informed by proper analysis of municipalities experiencing real financial difficulties and subsequently at risk of failing to fulfil their Constitutional and legislated mandate.
3. The Constitution of the Republic of South Africa, Act 108 of 1996, section 155(7) indicates that the national and provincial governments have the legislative and executive authority to oversee the effective performance by municipalities in respect of the functions listed in Schedules 4 and 5. These services include amongst others the provision of housing, health and library services. It was observed during the 2013 Municipal Budget Benchmark Engagements with the 17 non-delegated municipalities that municipalities are expected to provide these services without or limited funding. Unfunded or under-funded provincial mandates put a strain on municipal resources. This is but one of the significant challenges that are still prevalent at all levels of government.
4. The purpose of this report is to provide a regular overview of the state of municipal finances that can be used to:
  - (a) Identify areas of risk in local government finances so that appropriate system-wide responses can be investigated and developed; and
  - (b) Identify those municipalities who are in financial distress<sup>1</sup> 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
    - An intervention is required in a municipality due to a crisis in its finances (as provided for in section 139 of the Constitution).
5. This report, like the previous versions has been presented to the Technical Committee on Finance (TCF), the Budget Forum, the Budget Council, and will also be circulated to the Presidency, the Department of Cooperative Governance (DCoG) and the provincial treasuries.

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<sup>1</sup> 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 approaching 'financial crisis'.

6. This report uses actual information from the annual financial statements, the current MTREF, and the quarter four information from the municipal in-year financial monitoring system (i.e. the section 71 reports) to improve oversight and facilitate better targeting of national and provincial government support to municipalities. **Annexure A** provides a list of municipalities that according to this analysis are in financial distress.
7. 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 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 and the chief financial 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 as some municipal official's sign-off their numbers merely for the sake of compliance without undertaking a detail analysis as expected of them.
8. National Treasury has incorporated all 278 municipalities into the reporting net and as a routine publishes quarterly performance of all municipalities; the next step of the reform agenda will be to improve on the credibility and reliability of reported performance by municipalities.
9. In working towards achieving this objective a vigorous processes was undertaken by the National Treasury to reconcile and verify both the budget and the audit outcomes. The verification process was conducted in two phases; the first phase was to reconcile the annual budget returns against the council adopted hard copy budgets for the 2012/13 MTREF and the second phase was to verify audit outcomes reported by municipalities against the audited financial statement for the 2008/09 to 2011/12 financial years.
10. The data set used in this analysis cannot be compared to the figures reported in the previous publications due to the process as highlighted above. The verification process has significantly improved credibility of the numbers reported by municipalities for the purpose of this publication.
11. The benefit of this report for municipalities is that it allows them to compare their performance generally to other municipalities in the country and specifically to those in the same category.
12. To better contextualise and complement this analysis, the report also presents information on the latest available local government audit outcomes, the fourth quarter performance of the 2012/13 financial year and statistical information related to municipal manager and chief financial officers (CFO) vacancies.

## **2 The Measures of Financial Health**

13. There is no single measure that can be used to assess the financial health of a municipality. This report therefore evaluates the state of municipal finances using eight key measures (based on the latest available information) identified in the Funding Compliance Methodology and MFMA Circular 42 (Funding a Municipal Budget). Reliance on national and provincial government transfers indicator has been incorporated into this report which was not reported on in the 2012 report.

14. These measures are summarised as follows:

No.	Measure	Purpose
1.	Cash as a percentage of operating expenditure	To determine cost coverage –does the municipality have adequate cash available to meet its operating expenditure requirements?
2.	Persistence of negative cash balances	Identifies whether cash shortages / bank overdrafts pose a “chronic” problem for the municipality.
3.	Over / (Under) spending of original operating budgets	Tests the effectiveness of municipal spending - are municipalities spending in accordance with resources available to them, what is the credibility of the budget and are municipalities able to adjust expenditure should planned revenues not materialise.
4.	Under spending of original capital budgets	Tests the effectiveness of municipal spending – but also provides an indication of whether municipalities are compromising on capital programmes to resolve cash flow challenges, are there planning deficiencies which are impacting on service delivery, etc.
5.	Debtors as a percentage of own revenue	Examines the revenue management capabilities of municipalities.
6.	Year of year growth in debtors	Is the municipality exercising fiscal effort in collecting outstanding debt? To what extent is financial distress the result of poor debtor management?
7.	Creditors as a percentage of cash and investments	Is the municipality able to meet its monthly commitments – does it have sufficient cash to pay its creditors in line with the requirements of the MFMA (cost coverage).
8.	Reliance on national and provincial transfers	Determine the levels at which municipalities are able to generate own funds to finance revenue generating assets to enhance and sustain revenue generating streams.

15. Previous reports have provided an overview of the budget and benchmark assessments of the 17 non-delegated municipalities. However, results of the 2013/14 budget benchmark assessments of the 17 non-delegated municipalities are contained in a separate report and have not been included in this report.

#### **Audit outcomes – 2011/12 financial year**

16. The purpose of the annual audit of the financial statement is to provide the users thereof with an opinion on whether the financial statements fairly present, in all material respect the financial position and results of an auditee’s financial performance and cash flow for the reporting period, in accordance with the applicable financial reporting framework and the requirements of the applicable legislation. It further provides users with reasonable assurance on the degree to which the financial statements are reliable and credible.

17. According to the Auditor-General the financial statements have improved in all the provinces since 2007/08 financial year, except those in Mpumalanga, Limpopo and North West. The Free State province is the only province that has shown significant improvement in the 2011/12 financial year audit. However, only 44 auditees or 14 per cent of the financial statements were found not to have material misstatements. Refer to Annexure D for the financial statements outcome.
18. A slow, but steady increase in the number of auditees with unqualified financial statements in the previous four years from 38 per cent to 48 per cent was observed. However, the regression by most municipalities in 2011/12 financial year brought the overall improvement to only 10 per cent. Local municipalities have consistently performed below the national average, as did all provinces except Gauteng, KwaZulu-Natal and Western Cape provinces.
19. A total of 34 auditees or 10 per cent did not submit financial statements for auditing by 31 August 2012 or 30 September 2012 in the case of consolidated financial statements as required by the Municipal Finance Management Act (MFMA).
20. An overall increase of 11 per cent in the timely submission of annual financial statements was reported by the Office of the Auditor-General. The noticeable improvements were in the North West and Western Cape with an improvement of 78 per cent and 22 per cent respectively. Only three provinces namely; Gauteng, KwaZulu-Natal and the North West submitted all of their financial statements for auditing by the legislated date.
21. The audit process includes an assessment of the root causes of audit findings and also the identification of the internal controls that failed to prevent or detect the error or non-compliance. The following root causes were reported as contributing factors for the persistent poor audit outcomes:
  - i. Slow response by the political leadership in addressing the root causes of prior audit outcomes;
  - ii. Key positions vacant or key officials lacking appropriate competencies; and
  - iii. Lack of consequences for poor performance and transgression.
22. The following table presents a summary of audit opinions for all municipalities between 2008/09 and 2011/12:

**Table 1: Summary of audit opinions for all municipalities, 2008/09 – 2011/12**

Audit Opinion	2008/9		2009/10		2010/11		2011/12	
	No.	%	No.	%	No.	%	No.	%
Adverse	10	4%	7	2%	9	3%	3	1%
Disclaimer	103	36%	53	19%	82	29%	75	27%
Qualified	50	18%	50	18%	55	20%	64	23%
Unqualified - with findings	113	40%	120	42%	117	42%	107	38%
Unqualified - no findings	4	1%	7	2%	13	5%	9	3%
Audits Outstanding	3	1%	46	16%	2	1%	20	7%
<b>Total</b>	<b>283</b>	<b>100%</b>	<b>283</b>	<b>100%</b>	<b>278</b>	<b>100%</b>	<b>278</b>	<b>100%</b>

Source: National Treasury Local Government Database and Auditor-General Consolidated Report 2011/12

23. A noticeable improvement has been seen in audit outcomes between 2008/09 and 2011/12. Adverse opinions decreased from 10 in 2008/09 to 3 in 2011/12 financial year, while Disclaimer opinions also decreased from 103 in 2008/09 to 75 in 2011/12. However, in analysing these figures we need to be mindful that the audit opinions for 20 municipalities were still outstanding.
24. There is a significant increase in the number of outstanding audits increasing from 2 or 1 per cent in the 2010/11 to 20 or 7 per cent in the 2011/12 financial year. A concerted effort will be required from various stakeholders to ensure that the non-compliant municipalities have put in place internal controls and also to come up with early-warning systems to mitigate the risk of non-compliance occurring in future.
25. Nala and Renosterberg Local Municipalities have in two successive years failed to have their audits completed as per the legislation date.
26. Disclaimer and Adverse audit opinions have decreased from 91 in 2010/11 to 78 in 2011/12, while the number of municipalities who failed to achieve a qualified audit opinion have increased from 55 in 2010/11 to 64 2011/12. This outcome implies that 9 municipalities' performance has regressed.
27. The number of municipalities that received unqualified audits with no findings i.e. "clean audit" remained unchanged at 17. The highest number receiving the clean audit being the municipal entities at 8, local municipalities at 6 and 3 district municipalities. A total number of 171 municipalities have remained stagnant between 2010/11 and 2011/12.
28. The absence of a permanent municipal manager or chief financial officer has a direct correlation with the audit outcomes. The following observation was made during this assessment where both the municipal manager and the chief financial officer were in acting positions:
  - i. 6 municipalities received qualified audit opinion (metro and a local municipality);
  - ii. 6 local municipality received a disclaimer opinion; and
  - iii. 5 local municipality's' audit could not be finalised within the legislated period.
29. It should be noted that the relationship between the audit opinion and the financial health of a municipality is not unequivocal or explicit. An unqualified audit opinion is NOT an indicator of the absence of financial problems in a municipality. This is primarily because the audit process does not assess:

- a) The adequacy of the municipality's cash reserves;
  - b) The credibility of the funding of the municipal budget;
  - c) The allocative efficiency of the municipality's spending priorities;
  - d) The quality of the municipality's revenue management capabilities;
  - e) The effectiveness of municipal spending;
  - f) The sustainability of the municipality's capital budget and debt burden; and
  - g) The nature and extent of unauthorized, irregular, fruitless and wasteful expenditure.
30. In this assessment, some municipalities who have received either a clean or unqualified audit opinion are identified as being in financial distress according to the eight key measure identified above.
31. However, there is also a correlation between municipalities that received negative audit opinions on their financial statements and those that are experiencing financial problems. 31 of the municipalities identified in the distress list have received an adverse or disclaimer of opinion and 9 municipalities identified in the distress list could not finalise their audits within the legislated date.

### **3 Governance: Acting Municipal Manager and CFO positions**

32. The complexities in local government, the challenges experienced and high expectations of the public demand that key personnel at municipalities have the necessary skills, experience and capacity to fulfil their responsibilities and exercise their functions and powers. The reforms in financial and performance management have also resulted in a higher level of competency requirements for municipal managers, chief financial officers, supply chain officials and other senior managers.
33. Instability in the administrative leadership can also threaten the financial health of a municipality. As the accounting officer, overall accountability for the administration of the municipality vests with the municipal manager. National Treasury has through its interaction with municipalities generally observed that when this position is vacant, accountability is automatically diluted. This is either because the acting incumbent (if one is appointed) generally feels restricted and inhibited to make certain decisions or if accountability is spread amongst several senior managers, no one person can be held accountable when things go wrong. It is therefore critical to ensure that the post of municipal manager is filled and that the necessary performance agreements and contracts are in place.
34. Another critical position in the municipal structure is that of the chief financial officer. The chief financial officer is responsible for the management of the Budget and Treasury Office, oversees the municipality's finances and ensures compliance with finance related legislation and council policies.
35. In the municipal budget circular No.67 issued by the National Treasury an additional requirement for conditional grant roll-over approval was added. Municipalities applying to retain conditional allocations committed to identifiable projects or requesting a roll-over in terms of section 21(2) of the 2013 Division of the Revenue Act (DoRA) should submit proof that the chief financial officer is permanently appointed. This will ensure there is the

required level of responsibility and accountability from the municipality to spend the roll-over amounts.

36. The following table shows the number of acting municipal managers and CFOs as at 31 August 2013.

**Table 2: Municipalities with acting municipal managers and chief financial officers at 31 August 2013**

2013	Acting MM		Acting CFO		Both Acting		
	No.	%	No.	%	No.	%	
Eastern Cape	45	6	13.3%	6	13.3%	3	6.7%
Free State	24	1	4.2%	10	41.7%	1	4.2%
Gauteng	12	2	16.7%	4	33.3%	0	0.0%
Kw aZulu-Natal	61	9	14.8%	12	19.7%	6	9.8%
Limpopo	30	9	30.0%	5	16.7%	2	6.7%
Mpumalanga	21	4	19.0%	5	23.8%	2	9.5%
Northern Cape	32	9	28.1%	8	25.0%	4	12.5%
North West	23	5	21.7%	5	21.7%	1	4.3%
Western Cape	30	3	10.0%	5	16.7%	3	10.0%
<b>All municipalities</b>	<b>278</b>	<b>48</b>	<b>17.3%</b>	<b>60</b>	<b>21.6%</b>	<b>22</b>	<b>7.9%</b>

2012	Acting MM		Acting CFO		Both Acting		
	No.	%	No.	%	No.	%	
Eastern Cape	45	5	11.1%	10	22.2%	3	6.7%
Free State	24	5	20.8%	7	29.2%	2	8.3%
Gauteng	12	2	16.7%	3	25.0%	0	0.0%
Kw aZulu-Natal	61	18	29.5%	13	21.3%	4	6.6%
Limpopo	30	4	13.3%	11	36.7%	4	13.3%
Mpumalanga	21	5	23.8%	4	19.0%	2	9.5%
Northern Cape	32	8	25.0%	8	25.0%	4	12.5%
North West	23	7	30.4%	10	43.5%	3	13.0%
Western Cape	30	4	13.3%	6	20.0%	2	6.7%
<b>All municipalities</b>	<b>278</b>	<b>58</b>	<b>20.9%</b>	<b>72</b>	<b>25.9%</b>	<b>24</b>	<b>8.6%</b>

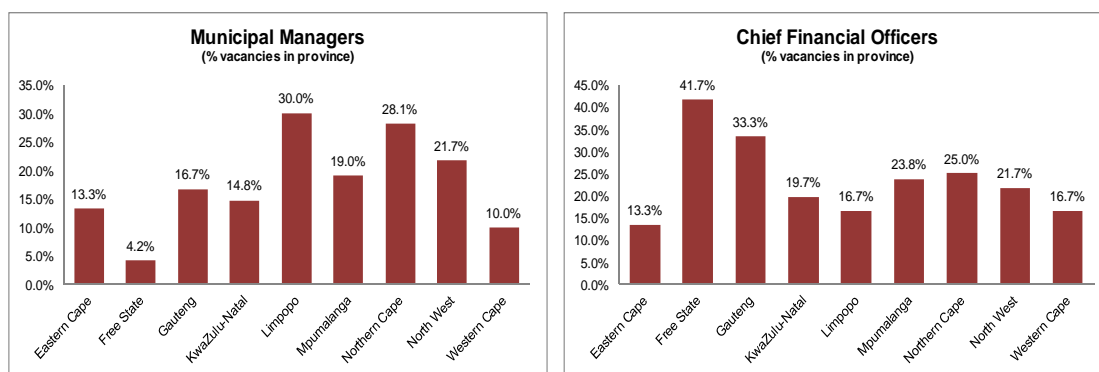
2011	Acting MM		Acting CFO		Both Acting		
	No.	%	No.	%	No.	%	
Eastern Cape	45	8	17.8%	5	11.1%	3	6.7%
Free State	24	5	20.8%	8	33.3%	2	8.3%
Gauteng	12	2	16.7%	1	8.3%	-	-
Kw aZulu-Natal	61	17	27.9%	12	19.7%	3	4.9%
Limpopo	30	9	30.0%	11	36.7%	5	16.7%
Mpumalanga	21	10	47.6%	14	66.7%	8	38.1%
Northern Cape	32	8	25.0%	7	21.9%	4	12.5%
North West	23	13	56.5%	11	47.8%	8	34.8%
Western Cape	30	11	36.7%	6	20.0%	4	13.3%
<b>All municipalities</b>	<b>278</b>	<b>83</b>	<b>29.9%</b>	<b>75</b>	<b>27.0%</b>	<b>37</b>	<b>13.3%</b>

Source: Local Government Budget Analysis - National Treasury



37. From table 2 above, 48 municipalities or 17 per cent of all municipalities have acting municipal managers, 60 municipalities have acting chief financial officers while 22 municipalities have both acting municipal managers and chief financial officers in 2013.
38. The number of Acting MM's has almost halved from 83 in 2011 to 48 in 2013 and the number of Acting CFO's has slightly decreased from 72 or 26 per cent in 2012 to 60 or 22 per cent in 2013. The number of both Acting MM and CFO's has remained unchanged when comparing to the previous year.
39. Two municipalities in the Eastern Cape namely; Great Kei and Sundays River Valley local municipalities do not have an acting municipal manager nor an acting chief financial officer. The absence of leadership leaves these municipalities vulnerable to non-compliance and in a dysfunctional state. Persistent vacancies in key senior positions compromises accountability and the acting arrangements in these key positions do not promote or inculcate the required level of accountability.
40. The on-going instability in municipalities continues to have a negative impact on the service delivery to communities. The instability manifests at a number of levels, including the inability to make even basic managerial decisions which may include the appointment of service providers which could be linked to low capital budget spending.
41. As part of the analysis, National Treasury tried to ascertain whether there was a correlation between the negative audit outcomes and acting administrative leadership. However, no direct correlation could be drawn from the information. More analysis will be required and results will need to be measured over time.

**Figure 1: Acting Municipal Managers and Chief Financial Officers as at 31 August 2013**



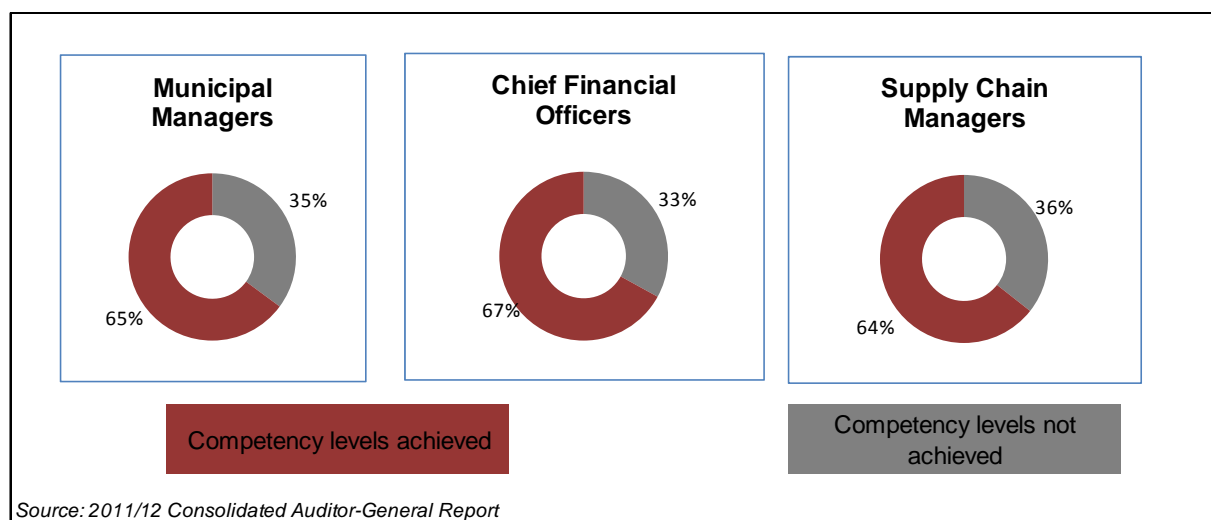
42. According to Figure 1 above, Limpopo province has the highest number of municipal managers in acting positions at 30 per cent followed by Northern Cape at 28.1 per cent while Free State has the highest number of acting chief financial officers at 41.7 per cent.

### Competency levels of people in key positions as at 30 June 2012

43. The Municipal Regulations on Minimum Competency Levels, Gazette 29967 were issued on the 15 June 2007. Officials holding key positions and tasked with financial management responsibilities were required to comply with a set of four requirements for their positions by the deadline date of 1 January 2013.

44. The prescribed requirements cover higher education qualifications, work related experience, core managerial and occupational competencies, financial Management and Supply Chain Management (SCM) competency levels. All municipalities and their municipal entities were given 5½ years to implement these requirements by the given deadline date of 1 January 2013.
45. The rationale behind the competency levels was to give effect to MFMA sections 83, 107 and 119 that require municipal financial officials to have the prescribed competency levels. This was also meant to equip the mentioned officials with the relevant skills to manage finances prudently and in line with the provisions contained within the MFMA (Act 56 of 2003) and the supporting legislations and Regulations governing the local government sector, including the relevant reporting standards.
46. Through MFMA Circular No. 60, municipalities were invited to make an application to National Treasury by the 7 September 2012, seeking its consideration to delay enforcement of the provisions as outlined under Regulations 15 and 18 as a “Special Merit Case”. Such cases are considered individually for each respective municipality based on their particular circumstances; these applications need to be accompanied by a detailed motivation and details of affected officials.
47. Figure 2 below depicts the status of the competency levels as defined in the regulations of the appointed municipal managers, chief financial officers and supply chain managers as at 30 June 2012.

**Figure 2: Competency levels of people in key positions**



48. Given the information presented on figure 2 above, is the use of consultants in municipalities justifiable? The continuous dependency on consultants by municipalities highlights the lack of skills or perhaps the lower level officials appointed do not possess the required qualifications and expertise.
49. As in previous financial years, municipalities continued to appoint consultants to assist them with accounting-related services and the preparation of year-end financial statements. A total of 226 municipalities or 71 per cent was assisted by consultants in

2011/12, compared to 224 or 68 per cent in 2010/11 at a cost of more than R378 million and R295 million respectively.

50. Table 3 below presents the national aggregates for the submission of applications for consideration of Special Merit Cases in line with MFMA Circular No. 60.

**Table 3: Special Merit Case status report**

**Special merit case status report as at 31 July 2013**

Province	No. of Municipalities	Applications received	%	Favourably Considered	%	Outstanding Supporting Information	Applications not received
Eastern Cape	45	34	76%	7	21%	27	11
Free State	24	24	100%	7	29%	17	0
Gauteng	12	12	100%	6	50%	6	0
KwaZulu-Natal	61	61	100%	29	48%	32	0
Limpopo	30	28	93%	13	46%	15	2
Mpumalanga	21	21	100%	11	52%	10	0
Northern Cape	32	31	97%	5	16%	26	1
North West	23	18	78%	6	33%	12	5
Western Cape	30	30	100%	30	100%	0	0
<b>Total</b>	<b>278</b>	<b>259</b>	<b>93%</b>	<b>114</b>	<b>44%</b>	<b>145</b>	<b>19</b>

Source: National Treasury Database

## 4 Current funding compliance assessment information

51. In terms of section 18 of the MFMA a municipal budget must be funded before a municipal council can adopt that budget for implementation. A funded budget is essentially a budget that is funded by cash derived either from realistically anticipated revenues to be collected in that year, government transfers and or from cash backed reserves of previous financial years.
52. It is a common practice amongst most municipalities when preparing their annual budgets to overstate or inflate revenue projections either to reflect a surplus or on the surface to show that excess expenditure requirements are adequately covered by revenues to be collected. Hence, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in the municipality not being able to collect this revenue and therefore finding themselves in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.
53. For this reason, National Treasury has developed a procedure to assess the 'Funding Compliance' of municipal budgets. This procedure has several dimensions and focuses on the future sustainability of the municipality with reference to the following key financial management objectives:
- Short term viability and consideration of whether the community is 'paying its way' relative to economic benefits received;
  - 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);

- c) Achievement of community aspirations and service delivery goals;
  - d) Maintenance of a good credit rating and minimising financing costs; and
  - e) Achieving and maintaining key prudential measurements; e.g. borrowing limits.
54. The Funding Compliance indicates upfront whether a municipality's budget is adequately funded and highlights strategic financial sustainability risks that are not always evident from just looking at the numbers alone. The funding compliance assessment which is Supporting Table SA10 in the Municipal Budget and Reporting Regulation formats completes automatically drawing on information provided in other tables of the budget formats, such as the statement of financial performance, the cash flow statement, statement of financial position and so forth. It therefore brings together information from several tables and populates this into indicators of financial health. The benefit of the funding compliance table is that information cannot be easily distorted but it is dependent on the accuracy of the information provided by the municipality.
55. Based on the outcome of the Funding Compliance assessment for the tabled 2013/14 MTREF period, the following observations were made:
- (a) 8 metros tabled budgets outcomes:
    - 5 metros had budgets that were fully funded over the 2013/14 MTREF period;
    - City of Johannesburg and Nelson Mandela metro' budgets were funded with identified risk for year 1; and
    - Mangaung tabled and adopted an unfunded budget for the 2013/14 MTREF period.
  - (b) 9 secondary cities tabled outcomes:
    - Mbombela and uMhlatuze Local Municipalities were the only two municipalities in this category that had a fully funded budget for the 2013/14 MTREF period;
    - The number of municipalities that tabled unfunded budgets remained constant at 6 as it was reported in the previous report; and
    - Rustenburg Local Municipality was the only municipality in this category that had a funded budget with identified risks.
56. There is a noticeable deterioration in the funding levels of local government budgets, including cash and cash liquidity. Since local government is largely self-financed, national government has limited discretion in terms of imposing expenditure reductions and enforcing performance efficiencies on local government.
57. There seems to be no improvement in the secondary cities' performance when compared to the assessment of the previous MTREF period in this regard.
58. Where municipal budgets are unfunded, it indicates that the proposed levels of spending on operating and capital exceed the revenue available to the municipality. Furthermore, there are no cash backed reserves from previous years to fund any shortfalls.
59. While a thorough assessment of the level of funding compliance is undertaken for the non-delegated municipalities, this process has not been fully replicated by provincial treasuries

in their assessment of MTREF budgets for the delegated municipalities. Only three provincial treasuries have begun to undertake such an assessment with mixed results.

## **5 Assessing the Financial Health of municipalities**

### **5.1 Indicators 1 & 2: Assessing the vulnerability of the cash position of municipalities**

60. In terms of section 45 of the MFMA municipalities are not permitted to close the financial year with any short-term borrowing or overdraft. The fact that some 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.
61. An additional condition for the approval of the roll-over application was introduced during the 2011/12 financial period whereby municipalities that reported a negative cash balance was not considered for an approval on the roll-over request.
62. At a very minimum a municipality should maintain a positive cash position. If the municipality does not reflect a positive cash position, it is the first indicator of financial distress. There are three sub-indicators used to provide a more holistic view of the cash position of municipalities. These are:
- (a) Did the municipality end the financial year with a positive or negative cash balance?
  - (b) Are negative cash balances persistent – i.e. is the negative cash balance temporary in nature or is it indicative of deeper rooted financial difficulties prevalent in the municipality?
  - (c) Even if a municipality has a positive cash balance, should the municipality's revenue base be threatened, for how many months will the municipality continue to fund its' monthly operational expenditure? In other words, what is the cash coverage ratio of the municipality?

#### **(a) Positive or Negative closing cash balances: 30 June 2013**

63. Annexure B1 lists the municipalities that reported negative closing bank balances at the end of the 2012/13 financial year (i.e. their cash position as at 30 June 2013).
64. In this assessment, the following broad outcomes were observed:
- a) 52 municipalities reported negative closing cash positions at the end of the 2012/13 financial year (i.e. their cash position as at 30 June 2013) reflecting a slight increase from the 44 municipalities that reported negative closing cash positions at the end of the 2011/12 financial year;
  - b) None of the metros nor the secondary cities have reported negative closing cash positions;
  - c) There were 25 municipalities that did not report their final cash flow for month 12; and
  - d) These 25 municipalities were excluded from the evaluation of cash positions as at 30 June 2013 making it difficult to assess any improvements against previous reports.

65. 40 of the 278 municipalities recorded a negative cash balance for a period exceeding six months. This is a significant improvement when compared to the previous financial year where 66 municipalities recorded a negative cash balance at the end of the financial year.
66. 14 municipalities have recorded negative balances for two successive years. The implication of these outcomes is that these municipalities have failed to comply with the requirements of the MFMA. Refer to Annexure B1 for the detailed list.
67. Annexure B2 provides the names of the 25 municipalities that failed to report closing cash positions for the end of the 2012/13 financial year as part of their section 71 reports reporting obligations or reported information that was clearly incorrect. The failure to provide this information should not be dismissed lightly. 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 such critical information, particularly at year end.

**(b) Persistence of negative cash balances**

68. 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 those with unreliable information.

**Table 4: Persistence of municipalities' negative end of month cash balances**

Municipalities	Audited Outcome 2011/12	Section 71 Report for the financial year 2012/13			
		Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>					
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:					
for more than 3 months of previous 6 months	0	0	0	0	0
between 2 and 3 months of the previous 6 months	0	1	0	0	0
less than 2 months of the previous 6 months	0	0	1	0	0
<b>Secondary cities (19)</b>					
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:					
for more than 3 months of previous 6 months	0	2	2	1	1
between 2 and 3 months of the previous 6 months	0	1	1	1	0
less than 2 months of the previous 6 months	0	0	0	0	1
<b>Other Local Municipalities (Towns) (207)</b>					
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:					
for more than 3 months of previous 6 months	0	8	22	30	37
between 2 and 3 months of the previous 6 months	0	19	18	21	22
less than 2 months of the previous 6 months	0	19	18	15	6
<b>District municipalities(44)</b>					
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:					
for more than 3 months of previous 6 months	0	1	0	2	2
between 2 and 3 months of the previous 6 months	0	0	2	2	9
less than 2 months of the previous 6 months	0	3	4	8	1
<b>All Municipalities (278)</b>					
No. of municipalities with negative cash balances over the last 6 months	-	-	-	-	-
No. of municipalities whose cash balance was negative over the last 6 months:					
for more than 3 months of previous 6 months	-	11	24	33	40
between 2 and 3 months of the previous 6 months	-	21	21	24	31
less than 2 months of the previous 6 months	-	22	23	23	8

Source: National Treasury - Local Government Budget Analysis Database

69. The above table shows that while the number of municipalities with negative cash balances over the last 6 months appears to have stabilised there is no real improvement from last year. 86 municipalities representing about a third of all municipalities have had negative cash balances over the last 6 months compared to 88 in the previous year. Of the 86 municipalities, 67 of these are local municipalities.
70. Metros have generally had positive cash positions throughout the 2012/13 financial year, with an exception of the City of Tshwane that reported a negative cash balance for July and November 2012.
71. The performance of secondary cities has shown significant improvement over the last year. 1 secondary city had a negative cash balance over the last six months.
72. Of the 37 local municipalities that reported negative cash balances 16 or 8 per cent of municipalities reported 6 months of negative cash balances. It also indicates that there are strategic risks in this category.
73. The performance of districts has deteriorated over the last year. Of the 44 district municipalities, 2 districts which account for 5 per cent of all districts have had negative cash balances over the last six months, while 9 municipalities have had negative cash

balances of between 2 and 3 months. This is a clear example of poor cash flow management as most districts do not have own revenue sources and are reliant on grants from the national fiscus.

74. It does not necessarily indicate that if a municipality has a positive cash position that it has 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 municipal budget and reporting formats enable the evaluation of this aspect provided the municipality submits the correct information. Of the 17 non-delegated municipalities, only 7 municipalities have fully funded budgets going forward into the 2013 MTREF period.

**(c) Cash coverage position of municipalities**

75. A municipality also needs to have enough cash on hand to meet its monthly payments as and when they fall due. In this regard, calculating the level of cash coverage in a municipality is 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 table below shows the number of municipalities that at the end of June 2013 had less than three months cash coverage.



**Table 5: Municipalities' cash coverage**

Municipalities	Audited Outcome 2011/12	Section 71 Report for the financial year 2012/13				
		Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>						
No. of munits for which cash data is unavailable	0	0	0	0	0	0
No. whose cash coverage is						
more than 3 months of operational expenditure	2	7	7	8	7	2
between 1 and 3 months of operational expenditure	4	0	0	0	1	5
1 month or less of operational expenditure	2	1	1	0	0	1
<b>Secondary cities (19)</b>						
No. of munits for which cash data is unavailable	0	0	0	0	0	0
No. whose cash coverage is						
more than 3 months of operational expenditure	3	12	13	14	9	4
between 1 and 3 months of operational expenditure	4	5	4	3	7	4
1 month or less of operational expenditure	12	2	2	2	3	11
<b>Other Local Municipalities (Towns) (207)</b>						
No. of munits for which cash data is unavailable	1	0	1	3	3	0
No. whose cash coverage is						
more than 3 months of operational expenditure	60	135	130	139	93	60
between 1 and 3 months of operational expenditure	43	25	28	19	20	38
1 month or less of operational expenditure	103	47	48	46	91	109
<b>District municipalities(44)</b>						
No. of munits for which cash data is unavailable	0	0	0	0	0	0
No. whose cash coverage is						
more than 3 months of operational expenditure	19	34	35	37	24	19
between 1 and 3 months of operational expenditure	11	7	4	4	4	4
1 month or less of operational expenditure	14	3	5	3	16	21
<b>All Municipalities (278)</b>						
No. of munits for which cash data is unavailable	1	-	1	3	3	-
No. whose cash coverage is						
more than 3 months of operational expenditure	84	188	185	198	133	85
between 1 and 3 months of operational expenditure	62	37	36	26	32	51
1 month or less of operational expenditure	131	53	56	51	110	142

Source: National Treasury - Local Government Budget Analysis Database

76. It must firstly be acknowledged that reporting on cash information has improved from 2011/12. There was 1 municipality in 2011/12 with no cash data available. This was reduced to zero in 2012/13. The quarterly performance depicts a different outcome which could imply that municipalities deliberately delay payments to creditors to improve their cash position. As at the end of June 2013, the following observations on municipal cash coverage were made:

- a) 85 municipalities had a cash coverage ratio which exceeded 3 months of operational expenditure indicating a good financial position;
- b) 51 municipalities also had a cash coverage ratio of between 1 and 3 months indicating a level of risk particularly for those municipalities who fall on the lower end of this classification; and

- c) 142 municipalities had a cash coverage ratio of less than 1 month indicating that should these municipalities revenue streams be threatened all monthly expenditure will not be covered by available cash available.
77. There has been no improvement in the cash coverage of metros compared to the 2011/12 financial year. As at 30 June 2012, only 2 out of 8 metros appeared to be financially sustainable of which the same trend has been observed for the 2012/13 financial year. Five of the municipalities have cash coverage of between 1 and 3 months and 1 metro appear to be in a vulnerable position (1 month or less of operational expenditure).
78. The performance of secondary cities has remained stagnant with no visible improvement in the number of municipalities that have increased their cash coverage in excess of three months. The number of municipalities with less than a month's cash coverage has also increased, albeit marginally. The general maintenance of the status quo indicates no increased effort to improve the financial condition of municipalities in this category.
79. There has been no improvement in other local municipalities over the last year with the number of local municipalities who have more than three months cash coverage remaining constant at 60 municipalities. There has been a slight increase in the number of other local municipalities who have previously had less than one month of cash coverage from 103 in 2011/12 to 109 in 2012/13.
80. District municipalities have deteriorated in their cash coverage performance between 2011/12 and 2012/13. The number of district municipalities exposed to vulnerable cash coverage ratios (i.e. less than one month of operational expenditure) has increased from 14 at the end of the 2011/12 financial year to 21 at the end of 2012/13.
81. In aggregate, municipalities are beginning to demonstrate an understanding of the importance of budgeting for operating surpluses to mitigate cash and liquidity challenges, however the progress is still not satisfactory. In addition, this prudent budgeting approach will contribute in generating internal capacity to fund capital infrastructure from own revenue sources.
82. Any one of the following events could push the municipalities that already have very low cash coverage into a negative cash position:
- a) A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs on the affordability of household budgets;
  - b) The need to pay suppliers, especially contractors responsible for capital projects (whose billings are often lumpy and towards year-end);
  - c) 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;
  - d) Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue; or
  - e) A rate-payers/consumers boycott.
83. 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:

- a) Municipalities do not, in general, conduct regular bank reconciliations throughout the year and defer this important control measure to the end of the financial year. This means that quarterly reporting of the cash position remains critically flawed; and
- b) 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 close off processes when journals are processed and figures are finalised for the compilation of the annual financial statements.

## **5.2 Indicator 3: Over / underspending of operational budgets**

- 84. 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.
- 85. 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 under spending relative to their original budgets. This bad practice has been addressed by the Municipal Budget and Reporting Regulations which regulates the timing and number of adjustments budgets municipalities are allowed to pass.
- 86. The table below reflects the overspending of operational budgets from 2008/09 to 2012/13 per category of municipality:

**Table 6: Overspending on operational budgets**

	Audited Outcome				Section 71 Report for the financial year 2012/13				
	2008/09	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>									
Total Original Operating Budgets	90 094	105 938	121 642	135 464	139 403	139 403	140 446	140 446	140 446
Total Overspending of Original Operating Budgets	550	1 414	1 330	1 236	-	-	-	-	-
Overspending as % of original operating budgets	1%	1%	1%	1%	0%	0%	0%	0%	0%
<i>Number of municipalities who overspent by</i>									
less than 10% of their operational budget	3	2	2	3	0	0	0	0	0
between 10% and 25% of their operational budget	1	0	0	0	0	0	0	0	0
more than 25% of their operational budget	0	0	0	0	0	0	0	0	0
<b>Secondary cities (19)</b>									
Total Original Operating Budgets	16 216	23 530	25 603	28 795	32 035	32 035	32 904	32 904	32 904
Total Overspending of Original Operating Budgets	4 468	1 055	2 508	3 195	-	-	-	-	1
Overspending as % of original operating budgets	28%	4%	10%	11%	0%	0%	0%	0%	0%
<i>Number of municipalities who overspent by</i>									
less than 10% of their operational budget	5	3	3	5	0	0	0	0	1
between 10% and 25% of their operational budget	6	3	6	1	0	0	0	0	0
more than 25% of their operational budget	2	1	2	2	0	0	0	0	0
<b>Other Local Municipalities (Towns) (207)</b>									
Total Original Operating Budgets	12 852	28 089	35 344	39 648	44 098	44 098	46 127	46 127	46 127
Total Overspending of Original Operating Budgets	15 162	5 918	5 093	8 026	114	92	418	526	2 588
Overspending as % of original operating budgets	118%	21%	14%	20%	0%	0%	1%	1%	6%
<i>Number of municipalities who overspent by</i>									
less than 10% of their operational budget	18	29	33	37	0	0	0	1	13
between 10% and 25% of their operational budget	14	32	37	33	0	0	0	0	8
more than 25% of their operational budget	20	48	58	56	2	2	7	6	17
<b>District municipalities(44)</b>									
Total Original Operating Budgets	5 827	10 606	12 824	13 676	14 320	14 320	14 462	14 462	14 462
Total Overspending of Original Operating Budgets	5 522	3 418	2 208	2 880	-	-	-	-	537
Overspending as % of original operating budgets	95%	32%	17%	21%	0%	0%	0%	0%	4%
<i>Number of municipalities who overspent by</i>									
less than 10% of their operational budget	2	4	6	5	0	0	0	0	3
between 10% and 25% of their operational budget	3	4	2	4	0	0	0	0	3
more than 25% of their operational budget	9	14	11	13	0	0	0	0	2

Source: National Treasury - Local Government Budget Analysis Database

87. Table 6 above indicates that none of the metros have overspent their operational budgets. All metros have spent in accordance with their planned revenue and expenditure projections. This indicates that the credibility of budgeting at metropolitan level is fairly accurate.
88. With respect to secondary cities, 1 secondary city has reported an overspending of less than 10 per cent of the operational budget. Similar to metros, this indicates the ability of secondary cities to manage their expenditure in line with their revenue further indicating generally credible budgeting.
89. A significant improvement has been noted on the overspending by local municipalities. 56 of the 207 local municipalities of all local municipalities had overspent their operational budgets by more than 25 per cent in 2011/12. Only 17 municipalities reported overspending in this category in 2012/13.
90. A significant decrease in the number of municipalities overspending on their operational budgets has been observed. The overspending decreased from R8 billion in 2011/12 to R2.6 billion in 2012/13. This indicates that the quality of budgeting by local municipalities is improving and revenue and expenditure management has also improved.

91. A general improvement in managing the annual budgets has been observed in all municipal categories.
92. Table 7 below indicates the aggregated underspending of the adjusted operating budget which amounted to R25.6 billion or 11 per cent for the year under review.
93. Local municipalities have the highest underspending at 18 per cent followed by the district municipalities at 16 per cent. The metros reported the lowest underspending at 7 per cent. A general increase in the underspending of operational budget has been noted when compared to the 2011/12 financial year. With respect to Secondary cities a 9 per cent increase and a 12 per cent increase in the Local municipalities has been noted.
94. Of particular concern is that 56 Local municipalities underspent their operational budget by more than 25 per cent. This could be indicative of over optimistic revenue budgets adopted by municipal councils which lacks credibility.

**Table 7: Under-spending of operational budgets**

	Audited Outcome				Section 71 Report for the financial year 2012/13				
	2008/09	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>									
Total Original Operating Budgets	90 094	105 938	121 642	135 464	139 403	139 403	140 446	140 446	140 446
Total Underspending of Original Operating Budgets	8 381	10 709	15 027	12 310	107 742	106 530	111 022	104 092	10 135
Underspending as % of original operating budgets	9%	10%	12%	9%	77%	76%	79%	74%	7%
<i>Number of municipalities who underspent by</i>									
less than 10% of their operational budget	1	3	3	4	0	0	0	0	6
between 10% and 25% of their operational budget	2	2	2	0	0	0	0	0	2
more than 25% of their operational budget	1	1	1	1	8	8	8	8	0
<b>Secondary cities (19)</b>									
Total Original Operating Budgets	16 216	23 530	25 603	28 795	32 035	32 035	32 904	32 904	32 904
Total Underspending of Original Operating Budgets	334	1 592	509	1 692	25 421	24 868	25 926	25 610	4 853
Underspending as % of original operating budgets	2%	7%	2%	6%	79%	78%	79%	78%	15%
<i>Number of municipalities who underspent by</i>									
less than 10% of their operational budget	1	8	7	6	0	0	0	0	8
between 10% and 25% of their operational budget	2	4	1	4	0	0	0	0	7
more than 25% of their operational budget	0	0	0	0	19	19	19	19	3
<b>Other Local Municipalities (Towns) (207)</b>									
Total Original Operating Budgets	12 852	28 089	35 344	39 648	44 098	44 098	46 127	46 127	46 127
Total Underspending of Original Operating Budgets	2 039	2 088	2 182	2 294	35 173	33 946	36 742	35 334	8 312
Underspending as % of original operating budgets	16%	7%	6%	6%	80%	77%	80%	77%	18%
<i>Number of municipalities who underspent by</i>									
less than 10% of their operational budget	9	29	39	50	0	0	0	1	42
between 10% and 25% of their operational budget	11	30	25	11	0	0	0	0	70
more than 25% of their operational budget	9	19	13	13	203	203	199	198	56
<b>District municipalities(44)</b>									
Total Original Operating Budgets	5 827	10 606	12 824	13 676	14 320	14 320	14 462	14 462	14 462
Total Underspending of Original Operating Budgets	654	1 109	1 714	1 167	11 740	11 110	11 266	10 788	2 341
Underspending as % of original operating budgets	11%	10%	13%	9%	82%	78%	78%	75%	16%
<i>Number of municipalities who underspent by</i>									
less than 10% of their operational budget	3	7	6	7	0	0	0	0	10
between 10% and 25% of their operational budget	4	8	11	10	0	0	1	0	17
more than 25% of their operational budget	3	3	8	5	44	44	43	44	9

Source: National Treasury - Local Government Budget Analysis Database

### 5.3 Indicator 4: Under-spending of capital budgets

95. The under-spending of capital budgets in municipalities is mainly attributed to difficulties with planning and executing capital projects. However, it could also indicate potential cash flow problems in municipalities. Total under-spending of the 2012/13 original capital budget was R13.4 billion or 24.7 per cent compared to the R14 billion or 31.6 per cent reported against the adjusted capital budget in the S71 reports for the fourth quarter.

**Table 8: Under-spending of capital budgets**

	Audited Outcome				Section 71 Report for the financial year 2012/13				
	2008/09	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>									
Total Original Capital Budget	27 855	26 546	20 763	20 694	25 082	25 082	26 731	26 731	26 731
Total Underspending of Original Capital Budget	(1 848)	(3 191)	(3 560)	(2 173)	(22 689)	(20 774)	(23 031)	(14 400)	(3 997)
Underspending as % of Original Capital Budget	-7%	-12%	-17%	-10%	-90%	-83%	-86%	-54%	-15%
Number of municipalities who underspent by									
less than 10% of their capital budget	4	2	3	5	0	0	0	0	3
between 10 and 30% of their capital budget	3	5	3	1	0	0	0	0	4
more than 30% of their capital budget	1	1	2	2	8	8	8	8	1
<b>Secondary cities (19)</b>									
Total Original Capital Budget	6 166	6 532	5 027	5 650	5 684	5 684	6 069	6 069	6 069
Total Underspending of Original Capital Budget	(1 645)	(2 162)	(1 332)	(2 292)	(5 223)	(4 804)	(5 221)	(4 124)	(1 934)
Underspending as % of Original Capital Budget	-27%	-33%	-26%	-41%	-92%	-85%	-86%	-68%	-32%
Number of municipalities who underspent by									
less than 10% of their capital budget	8	5	8	3	0	0	0	0	0
between 10 and 30% of their capital budget	2	3	3	3	0	0	0	0	10
more than 30% of their capital budget	9	11	8	13	19	19	19	19	9
<b>Other Local Municipalities (Towns) (207)</b>									
Total Original Capital Budget	3 102	8 752	10 578	11 446	12 847	12 847	13 572	13 572	13 572
Total Underspending of Original Capital Budget	(1 260)	(3 081)	(3 526)	(4 059)	(11 473)	(11 009)	(11 792)	(10 132)	(5 413)
Underspending as % of Original Capital Budget	-41%	-35%	-33%	-35%	-89%	-86%	-87%	-75%	-40%
Number of municipalities who underspent by									
less than 10% of their capital budget	168	95	81	74	7	7	7	9	49
between 10 and 30% of their capital budget	9	40	43	43	1	0	0	3	46
more than 30% of their capital budget	30	72	83	90	199	200	200	195	112
<b>District municipalities (44)</b>									
Total Original Capital Budget	3 234	5 996	5 352	7 243	8 177	8 177	7 990	7 990	7 990
Total Underspending of Original Capital Budget	(1 405)	(3 291)	(1 603)	(3 479)	(7 088)	(6 607)	(6 673)	(5 851)	(2 076)
Underspending as % of Original Capital Budget	-43%	-55%	-30%	-48%	-87%	-81%	-84%	-73%	-26%
Number of municipalities who underspent by									
less than 10% of their capital budget	26	15	16	12	4	4	2	4	12
between 10 and 30% of their capital budget	9	4	5	5	0	0	0	0	15
more than 30% of their capital budget	9	25	23	27	40	40	42	40	17

96. Current trends indicate that capital budgets continue to underspend while municipalities overspend on operating budgets. Contributing factors include amongst others:

- i. Poorly prepared budgets which lack credibility;
- ii. Over ambitious capital programmes which in many instances are underfunded;
- iii. Liquidity and cash flow challenges;
- iv. Weak revenue management; and
- v. Non-priority spending driven by operating budget.

97. The overall total underspending of capital budget by metros has increased from R2.2 billion in 2011/12 to R4 billion. This represents a regress in performance by the metros. However a noticeable improvement has been noted with metros underspending by 10 to 30 per cent. Given that most metros fund a significant portion of the capital budget from their own funding, underspending could be more the result of own funding being unavailable in terms of cash or slow procurement processes.
98. The capital budgets of local municipalities are largely grant funded and hence a lack of funding is not the probable cause of poor capital spending. In local municipalities, it is fair to conclude that failure to spend the capital budget is more the result of poor planning and a lack of project management. There were 90 local municipalities in 2011/12 financial year which overspent their capital budgets by more than 30 per cent. Of great concern is that the number has increased to 121 local municipalities in the 2012/13 financial year. Contrary to local municipalities, district municipalities have improved their performance with 10 municipalities improving their performance for the same category

#### **Indicator 5 and 6: Levels of Growth in Consumer Debtors**

99. 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 on-going deteriorating trend.
100. However, when the quality of municipal reporting on this information improves, the National Treasury is still committed to make the following refinements but only at the opportune time:
- a) 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;
  - b) 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; and
  - c) 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.
101. The table below shows that at 30 June 2013, there were at least 190 municipalities with debtor levels higher than 30 per cent of own revenue. This represents an increase from June 2012 where a 154 municipalities reported debtors in excess of 30 per cent of own revenue.

**Table 9: Debtors as at 30 June 2013 percentage of own revenue**

	Audited Outcome				Section 71 Report for the financial year 2012/13				
	2008/09	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>									
Total Own Revenue	88 324	103 506	110 426	128 137	33 752	32 350	30 059	35 019	131 179
Total Debtors	30 915	32 412	38 636	46 089	50 022	47 287	48 087	48 653	48 653
Debtors as a % of total own revenue	35%	31%	35%	36%	148%	146%	160%	139%	37%
<b>No. whose total debtors are</b>									
less than 15% of their total own revenue	0	0	0	0	0	0	0	0	0
between 15 and 30% of their total own revenue	5	5	5	5	0	0	0	0	3
more than 30% of their total own revenue	3	3	3	3	8	8	8	8	5
<b>Secondary cities (19)</b>									
Total Own Revenue	20 476	21 967	23 746	26 401	7 698	6 417	6 424	7 035	27 574
Total Debtors	7 100	9 839	11 489	13 904	14 774	15 367	15 993	16 318	16 318
Debtors as a % of total own revenue	35%	45%	48%	53%	192%	239%	249%	232%	59%
<b>No. whose total debtors are</b>									
less than 15% of their total own revenue	7	5	4	4	0	0	0	0	3
between 15 and 30% of their total own revenue	4	4	3	3	1	1	0	1	3
more than 30% of their total own revenue	8	10	12	12	18	18	19	18	13
<b>Other Local Municipalities (Towns) (207)</b>									
Total Own Revenue	21 377	25 921	28 529	35 201	8 896	6 077	6 317	7 076	28 368
Total Debtors	7 214	11 768	13 558	16 433	20 124	19 734	20 356	19 101	19 101
Debtors as a % of total own revenue	34%	45%	48%	47%	226%	325%	322%	270%	67%
<b>No. whose total debtors are</b>									
less than 15% of their total own revenue	122	48	45	40	2	8	5	16	32
between 15 and 30% of their total own revenue	16	41	38	44	2	2	0	4	23
more than 30% of their total own revenue	67	117	123	121	203	196	200	186	152
<b>District municipalities(44)</b>									
Total Own Revenue	5 303	5 689	6 628	7 611	660	898	942	874	3 373
Total Debtors	1 477	1 858	2 275	2 837	2 334	3 156	2 906	2 815	2 815
Debtors as a % of total own revenue	28%	33%	34%	37%	354%	351%	309%	322%	83%
<b>No. whose total debtors are</b>									
less than 15% of their total own revenue	33	28	23	21	14	11	12	14	20
between 15 and 30% of their total own revenue	3	5	7	5	4	5	2	4	4
more than 30% of their total own revenue	8	11	14	18	26	28	30	26	20

Source: National Treasury - Local Government Budget Analysis Database

102. All metropolitan municipalities have reported debtors in excess of 30 per cent of own revenue for each quarter of the 2012/13 financial year through the S71 reporting process. However, at year end based on the unaudited outcomes for 2012/13, 5 metros reported to be in this position while the remaining 3 have indicated that outstanding debt accounts for between 15 and 30 per cent of own revenue.
103. The performance of secondary cities has remained unchanged when compared to the 2011/12 financial year. From the information in the table, it is evident that there has been no real improvement in the management of debtors by secondary cities. The number of municipalities in this category who have debtors in excess of 30 per cent of own revenue has shown a slow but steady increase between 2008/09 and 2012/13.
104. Deterioration in the number of local municipalities who had debtor balances exceeding 30 per cent of own revenue has increased from 121 in 2011/12 to 152 in 2012/13. A slight improvement has been observed amongst district municipalities. However, the performance in this regard is probably due to the limited powers and functions of the district municipalities to raise own revenue.
105. Debtors as a percentage of total revenue has increased significantly, this is indicative of lack of effective credit and debt collection strategies in municipalities as debtor levels remain very high as depicted in the above table.



106. The total debtors for all 278 Municipalities increased from R77.6 billion in 2011/2012 to R86.9 billion in 2012/2013; an increase of R9 billion.
107. Of the above-mentioned amount R48.7 billion is owed to metropolitan municipalities. The City of Johannesburg is owed the largest amount at R17.2 billion. Secondary cities were owed R16.3 billion in outstanding consumer debt; this represents an increase of 8.4 per cent from the R15.1 billion reported in the corresponding period (2011/12 financial year).
108. Efforts to assist municipalities in unbundling outstanding government debt are underway. As from 1 July 2013 municipalities are required to further unbundle debtors; in-year reporting refinements include the unbundling of government debtors into national and provincial departments and the disclosure of the interest component of outstanding debtors separately. This information is critical in unpacking and understanding debt owed to municipalities and the impact of such debt on financial sustainability. This is also required to limit the use of 'other debtors' in the reporting returns; 'other debtors' as a percentage of outstanding debtors is unacceptably high and the use "other debtors" is highly discouraged.
109. The respective provincial treasuries have undertaken a process to provide assistance to municipalities in this regard.
110. The underperformance of actual collections against billed revenue can be attributed to amongst others, the affordability of municipal services. The on-going economic slowdown and substantial increases in electricity tariffs are starting to impact on affordability and subsequently the ability of consumers to pay for services. It is important to note that the growth in the level of consumer debtors may also be attributed to the following:
  - 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);
  - b) 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;
  - c) Poorly designed revenue management, indigent and debtor policies;
  - d) Resistance among certain communities to pay for certain types of services (or to be billed in a particular way); and
  - e) Rate-payer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.
111. Table 9 below shows growth in consumer debtors across financial years.

**Table 10: Growth in consumer debtors as at 30 June 2013**

	Audited Outcome			Section 71 Report for the financial year 2012/13				
	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>								
No. whose debtors grew	6	7	8	7	4	5	6	6
No. whose debtors increased by								
less than 10% over period shown	1	2	1	4	4	5	1	1
between 10% and 20% over period shown	4	4	4	2	0	0	4	4
more than 20% over period shown	1	1	3	1	0	0	1	1
<b>Secondary cities (19)</b>								
No. whose debtors grew	18	15	18	18	13	16	18	18
No. whose debtors increased by								
less than 10% over period shown	4	4	3	10	12	15	5	5
between 10% and 20% over period shown	5	7	11	6	1	1	8	8
more than 20% over period shown	9	4	4	2	0	0	5	5
<b>Other Local Municipalities (Towns) (207)</b>								
No. whose debtors grew	169	151	161	176	122	156	146	146
No. whose debtors increased by								
less than 10% over period shown	15	22	26	75	102	115	28	28
between 10% and 20% over period shown	25	46	60	52	14	23	54	54
more than 20% over period shown	129	83	75	49	6	18	64	64
<b>District municipalities(44)</b>								
No. whose debtors grew	29	20	21	23	28	25	22	22
No. whose debtors increased by								
less than 10% over period shown	3	2	3	9	11	12	1	1
between 10% and 20% over period shown	3	3	4	5	5	3	6	6
more than 20% over period shown	23	15	14	9	12	10	15	15
<b>All Municipalities (278)</b>								
No. whose debtors grew	222	193	208	224	167	202	192	192
No. whose debtors increased by								
less than 10% over period shown	23	30	33	98	129	147	35	35
between 10% and 20% over period shown	37	60	79	65	20	27	72	72
more than 20% over period shown	162	103	96	61	18	28	85	85

Source: National Treasury - Local Government Budget Analysis Database

112. Comparing the information between 2011/12 and 2012/13 it is evident that municipalities in all categories are still struggling to curb the growth in consumer debtors, however a slight decrease in debtors growth has been noted. A total of 192 municipalities reported growth in debtors between June 2012 and June 2013, compared to 208 for the previous period, this is a significant improvement.
113. Overall, 85 municipalities experienced growth in debtors in excess of 20 per cent between June 2012 and June 2013. This indicates either a failure to implement proper debtor management processes or a breakdown of existing processes.
114. Municipal consumer debtors are increasing while anticipated collections do not materialise; this can be attributed to the annual Eskom increases, the economic slowdown and unemployment impacting on household's ability to pay for municipal services as well as lack of political will to collect.

## Indicator 7: Levels of Creditors

115. 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.

116. 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 the very least this involves ensuring that the timing of the municipality’s expenditures is matched by its flow of income.

117. 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 11: Creditors as a percentage of cash and investments**

	Audited Outcome				Section 71 Report for the financial year 2012/13				
	2008/09	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	Year to Date 2012/13
<b>Metropolitan municipalities (8)</b>									
Total Cashflow	-	-	-	20 242	17 999	20 058	28 539	27 030	27 030
Total Creditors	8 672	8 002	11 331	10 267	7 954	7 961	10 233	10 329	10 329
Creditors as a % of Total Cash	0%	0%	0%	51%	44%	40%	36%	38%	38%
<b>No. whose Total Creditors are</b>									
less than 25% of their Cash	0	0	0	3	4	4	4	3	3
between 25 and 50% of their Cash	0	0	0	1	1	1	2	2	2
between 50 and 75% of their Cash	0	0	0	1	1	2	0	2	2
more than 75% of their Cash	0	0	0	3	2	1	2	1	1
<b>Secondary cities (19)</b>									
Total Cashflow	-	-	-	3 420	3 804	4 244	5 036	3 491	3 569
Total Creditors	979	1 517	2 149	2 732	2 584	2 825	2 697	3 261	3 261
Creditors as a % of Total Cashflow	0%	0%	0%	80%	68%	67%	54%	93%	91%
<b>No. whose Total Creditors are</b>									
less than 25% of their Cash	0	0	0	5	7	6	6	3	4
between 25 and 50% of their Cash	0	0	0	1	3	2	4	2	2
between 50 and 75% of their Cash	0	0	0	2	1	5	1	3	3
more than 75% of their Cash	0	0	0	10	8	6	8	10	10
<b>Other Local Municipalities (Towns) (207)</b>									
Total Cashflow	-	-	-	8 003	7 693	8 650	10 096	6 057	6 674
Total Creditors	807	1 393	1 932	2 594	3 087	3 166	3 281	3 469	3 469
Creditors as a % of Total Cashflow	0%	0%	0%	32%	40%	37%	32%	57%	52%
<b>No. whose Total Creditors are</b>									
less than 25% of their Cash	0	0	0	132	125	131	137	123	141
between 25 and 50% of their Cash	0	0	0	19	10	15	16	7	8
between 50 and 75% of their Cash	0	0	0	6	11	14	11	8	8
more than 75% of their Cash	0	0	0	47	60	43	39	46	49
<b>District municipalities(44)</b>									
Total Cashflow	-	-	-	4 989	6 626	7 717	9 003	5 051	5 035
Total Creditors	420	712	842	1 111	1 190	972	1 187	987	987
Creditors as a % of Total Cashflow	0%	0%	0%	22%	18%	13%	13%	20%	20%
<b>No. whose Total Creditors are</b>									
less than 25% of their Cash	0	0	0	28	28	32	31	30	31
between 25 and 50% of their Cash	0	0	0	4	2	3	6	2	2
between 50 and 75% of their Cash	0	0	0	1	0	5	0	1	1
more than 75% of their Cash	0	0	0	11	14	4	7	10	10

Source: National Treasury - Local Government Budget Analysis Database

118. 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 received by the municipality. Nevertheless, there are some very concerning indications that many municipalities are delaying the payment of creditors because of a lack of cash.
119. There is an improvement in the cash position for the metros as only 1 metro reported creditors at more than 75 per cent of total cash and investments as at 30 June 2013 when compared to 3 reported for 30 June 2012. Of concern is the performance of the secondary cities where the number increased from 8 to 10 when compared to 30 June 2012. The increase in cash and investment for secondary cities has also resulted in an increase in creditors; the non-payment of creditors implies that the funding has not flowed out of the municipality hence higher cash levels.
120. Among the local municipalities, 49 had creditors of more than 75 per cent of their cash and investments at the end of June 2013. This an increase compared to 47 reported in June 2012 and is unacceptably high and is a further indication of the deteriorating cash position among local municipalities due to them depleting their cash and reserves to fund extensive and overly ambitious capital programmes and / or compiling unfunded budgets.
121. The performance for the district municipalities has remained almost the same when compared to 30 June 2012 at 9 municipalities. For the year ending 30 June 2103, 10 district municipalities had creditors at more than 75 per cent of their cash and investment.
122. The overall performance for this indicator has remained constant when compared to the previous financial year.
123. According to the fourth quarter section 71 report the creditors age analysis shows that R18 billion is owed by municipalities as at 30 June 2013. The Free State province has the highest percentage of creditors outstanding for more than 90 days at 66.1 per cent followed by Mpumalanga at 58.9 per cent. Gauteng and Western Cape are the only two provinces that appear to be managing their creditors effectively.
124. The increase in creditors of R2.1 billion is indicative of liquidity and cash challenges faced by municipalities. In many instances municipalities spend more than they generate resulting in increased outstanding creditors. Another contributing factor is that municipalities adopt over optimistic budget estimates in collections and they overspend on their operating expenditure budget.
125. The general trend is that municipalities are delaying paying creditors at the end of the financial year so as to end the year in a 'positive cash position' and ensure compliance with the Municipal Finance Management Act.

#### **Indicator 8: Reliance on national and provincial transfers**

126. It is a concern that municipalities are dependent on grants to finance capital expenditure. A high reliance on grant funding for the capital programme impedes local economic development and places current economic infrastructure at risk. It is widely accepted that cities are the growth engines of the economy and that they must provide for investment in new asset infrastructure in addition to asset renewal. This requires appropriate funding of the capital budget; an increasing dependency on grant funding presents a significant risk. The lower level of internally generated funding is a worrying trend as municipalities are

becoming increasingly dependent on grants thereby neglecting to fund infrastructure from own revenue sources.

127. The following table indicates the reliance on national and provincial grants to fund capital budgets of municipalities.

**Table 12: Reliance on national and provincial transfers to fund capital budgets**

	Audited Outcome				Section 71 Report for the financial year 2012/13				Year to Date 2012/13
	2008/09	2009/10	2010/11	2011/12	Quarter 1: 30 Sep '12	Quarter 2: 31 Dec '12	Quarter 3: 31 Mar '13	Quarter 4: 30 Jun '13	
<b>Metropolitan municipalities (8)</b>									
No. of munics for which data is unavailable	0	0	0	0	0	0	0	0	0
<b>No. who receive more than</b>									
less than 30% of revenue from national transfers	2	1	3	0	1	1	0	0	0
between 30% and 75% revenue from national transfers	5	7	4	7	5	4	6	7	7
more than 75% of revenue from national transfers	1	0	1	1	2	3	2	1	1
<b>Secondary cities (19)</b>									
No. of munics for which data is unavailable	0	0	0	1	0	0	0	0	0
<b>No. who receive more than</b>									
less than 30% of revenue from national transfers	8	4	5	4	4	0	3	4	2
between 30% and 75% revenue from national transfers	5	10	10	12	10	14	10	8	11
more than 75% of revenue from national transfers	6	5	4	2	5	5	6	7	6
<b>Other Local Municipalities (Towns) (207)</b>									
No. of munics for which data is unavailable	8	5	5	9	14	11	12	10	3
<b>No. who receive more than</b>									
less than 30% of revenue from national transfers	28	22	22	20	16	10	16	13	8
between 30% and 75% revenue from national transfers	41	46	46	45	39	43	41	48	53
more than 75% of revenue from national transfers	130	134	134	133	138	143	138	136	143
<b>District municipalities(44)</b>									
No. of munics for which data is unavailable	0	0	0	1	1	2	3	1	1
<b>No. who receive more than</b>									
less than 30% of revenue from national transfers	14	16	16	18	17	17	17	18	18
between 30% and 75% revenue from national transfers	6	7	4	4	6	1	3	4	5
more than 75% of revenue from national transfers	24	21	24	21	20	24	21	21	20
<b>All Municipalities (278)</b>									
No. of munics for which data is unavailable	8	5	5	11	15	13	15	11	4
<b>No. who receive more than</b>									
less than 30% of revenue from national transfers	52	43	46	42	38	28	36	35	28
between 30% and 75% revenue from national transfers	57	70	64	68	60	62	60	67	76
more than 75% of revenue from national transfers	161	160	163	157	165	175	167	165	170

128. Buffalo City is the only metropolitan municipality receiving more than 75 per cent revenue from national transfers in funding their capital budget, while 6 secondary cities fell in the same category for the 2012/13 financial year. This is an increase of 4 municipalities when compared to the 2011/12 financial year.

129. Gauteng metros are the only municipalities in this category which indicate dependence of less than 50 per cent on government transfers. The good performance is expected as the province is considered the economic hub of the country and therefore the rate of economic activity is high rendering these metros with a high fiscal capacity to generate own revenue.

130. It is encouraging to see that 18 district municipalities are in a position to generate own revenue to fund their capital budgets, while half of the district municipalities fall within the category that finances more than 75 per cent of capital budget from government grants.

131. 66 municipalities' budgets rely entirely on government transfers which indicate lack of internal revenue generation.

## Under-spending of Conditional Grants

132. Linked to the under-spending of the capital programme is the under-spending of conditional grants. For the year under review, the following observations were made:

**Table 13: Conditional grants transferred from national departments to municipalities**

R thousands	Division of revenue Act No. 5 of 2012	Adjustment (Mid year)	Total Available 2012/13	Transferred to municipalities for direct grants
Direct transfers	22 720 789	244 989	22 965 778	22 714 263
Indirect transfers	5 088 107	(132 415)	4 955 692	-
Equitable share	37 873 396	-	37 873 396	37 147 769
Urban Settlement Development Grant	7 392 206	-	7 392 206	7 392 206
Municipal Disaster Grant	330 003	-	330 003	330 003
<b>Total</b>	<b>73 404 501</b>	<b>112 574</b>	<b>73 517 075</b>	<b>67 584 241</b>

133. The Division of Revenue Act, 2011 (Act No.6 of 2012) allocated R73.4 billion in transfers to local government. This consists of the local government equitable share of R37.8 billion and R35.6 billion for both direct and indirect grants respectively. Of the gazetted equitable share an amount of R37.2 was transferred to municipalities, the difference of R726 million was as a result of the off-setting against the unspent conditional grants.

134. As at 30 June 2013 an amount of R22.7 billion had been transferred by the national departments administering the grants to municipalities which constitute 98.9 per cent of the total direct allocation of conditional grants of R22.9 billion. According to the expenditure reports provided by the transferring officers only 76.9 per cent was spent against the total conditional allocations as the end of quarter four. This performance excludes the Urban Settlement Development Grant (USDG) and indirect grants.

135. The lowest performing grant is the Electricity Demand Side Management Grant (EDSM) with performance reported by the national department of 28.1 per cent while municipalities reported 48.6 per cent. The purpose of the grant is to provide subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

136. Performance against the Water Services Operating and Transfer Subsidy Grant is also low with the national department reporting expenditure of 49.7 per cent. What is concerning is the significant variance between performance reported by the national department and that of municipalities. Municipalities reported annual performance of 113.4 per cent. It is suspected that the reported performance by municipalities is distorted owing to the inclusion of the previous year expenditure.

137. The persistent under-spending on infrastructure projects could be as a result of, amongst others; delays in project registration, absence of project management units, lack of capacity, delays with contractors, limited multi-year budgeting and political interference in the capital procurement processes.

138. The National Treasury approved an amount of R4.6 billion with respect to the unspent committed funds that were rolled-over to the 2012/13 financial year. At the end of quarter four municipalities reported expenditure of only 9.9 per cent or R454 million. It is evident that municipalities are struggling to implement the capital budget since 90 per cent of the roll-overs approved are for infrastructure related grants. Municipalities reported expenditure of less than 10 per cent against the approved roll-over for the 2011/12 financial year.

## **6 Other issues impacting on the financial health of a municipality**

### **6.1 Significant electricity and water losses**

139. Generally, in municipalities there is substantial scope for both reducing the amount of electricity demand and increasing revenue by reducing the losses in the distribution of electricity. Some losses in the system are inevitable as certain amount of power is consumed during the transmission and distribution of electricity along the cables. Other losses may occur as a result of theft and vandalism. Internationally, the acceptable margin of electricity losses in distribution systems is 3.5 per cent. According to the 2011/12 financial year audit reports metropolitan municipalities suffered significant losses. These losses represent the loss of a significant amount of revenue, which needs to be recovered from the consumers, thus unfairly raising the cost of electricity to them.
140. Significant water losses have also been identified in Buffalo City recording the highest loss followed by Mangaung at 47.3 per cent and 39.9 per cent respectively for the 2011/12 financial year. Non-revenue water is defined as the volume of water supplied by the municipality for which no revenue is received. This occurs when the volume of water purchased by the municipality is less than the volume of water sold. Aging infrastructure, limited expenditure on capital asset renewal and operational repairs and maintenance especially on reticulation infrastructure has been identified as contributing to inefficiencies and leakages.
141. The table below depicts that the 8 metropolitan municipalities suffered electricity and water losses of R3.6 billion and R2.5 billion respectively. The City of Johannesburg has suffered the highest losses on both water and electricity. Municipalities should adopt strategies to curb these losses as the savings will result in improved cash flow positions.

**Table 14: Significant Water and Electricity losses for the metros**

Electricity Losses	2011/12 Financial Year		2010/11 Financial Year	
	R thousand	%	R thousand	%
Buffalo City	97 545	13%	76 277	12%
Cape Town	225 050	11%	101 529	9%
Ekurhuleni Metro	659 971	11%	551 989	12%
eThekweini	364 000	6%	262 800	6%
City of Johannesburg	1 372 899	18%	1 217 000	20%
City of Tshwane	673 476	12%	375 940	9%
Mangaung	183 034	11%	130 533	7%
Nelson Mandela Bay	16 043	9%	Not disclosed	
<b>Total</b>	<b>3 592 017</b>		<b>2 716 068</b>	

Water Losses	2011/12 Financial Year		2010/11 Financial Year	
	R thousand	%	R thousand	%
Buffalo City	105 222	47.3%	92 324	37.6%
Cape Town	76 965	8.6%	90 050	10.7%
Ekurhuleni Metro	468 331	30.3%	402 144	29.6%
eThekweini	411 000	35.2%	360 400	33.2%
City of Johannesburg	805 200	30.3%	723 500	34.2%
City of Tshwane	389 200	24.7%	296 760	28.6%
Mangaung	111 479	39.0%	114 210	46.0%
Nelson Mandela Bay	127 200	21.0%	145 500	29.3%
<b>Total</b>	<b>2 494 597</b>		<b>2 224 887 517</b>	

Source: 2011/12 Audit reports and audited financial statements

## 6.2 Inadequate budgets for repairs and maintenance and asset management

142. MFMA Funding compliance guideline (MFMA Circular No. 42) identifies the repairs and maintenance expenditure level as one of the indicators to be considered during the budget process. This measure is included within the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected. For example, a degrading electricity or water network will not earn revenue if supply cannot be sustained. Repairs and maintenance levels should be examined by trend, benchmarking and engineering recommendations.
143. If funding for R&M displays a reducing trend this is evidence that insufficient funds are being committed to asset repair and could also indicate that the overall budget is not credible and/or sustainable in the medium to long term.
144. The Local Government Budgets and Expenditure publication highlighted the serious repairs and maintenance and renewal backlogs that exist in relation to municipal infrastructure, particularly municipalities' electricity, water reticulation, sewage, storm water and roads systems. It is noted that these backlogs are impacting negatively on the financial sustainability of municipalities, the reliability and quality of municipal services, as well as municipalities' contribution to supporting economic growth.



145. In the past, reporting on repairs and maintenance has been challenging and unreliable. National Treasury has put in place a mechanism of monitoring the reporting on the repairs and maintenance expenditure by introducing a monthly reporting return to ensure better quality budgeting and reporting on repairs and maintenance expenditure. The return became applicable from 1 July 2012/13; however the reporting levels are not satisfactory as not all municipalities submit the required information.
146. 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 category is not immediately visible or 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:
- i. Deteriorating reliability and quality of services;
  - ii. Move to more expensive crisis maintenance, rather than planned maintenance;
  - iii. Increasing the future cost of maintenance and refurbishment;
  - iv. Shortening the useful lifespan of assets, necessitating earlier replacement; and
  - v. Reduced revenues due to the failure to sell water and electricity, and other services.
147. Asset Management must be considered a key spending priority for municipalities as municipal infrastructure is pivotal to ensuring sustainable and continuous service delivery. Asset management comprises of two distinct categories of expenditure; asset renewal as part of the capital programme and operational repairs and maintenance of infrastructure. Municipalities are not sufficiently prioritising expenditure and are subsequently allocating limited funding to these strategic spending areas.

## **7 The role of National and Provincial Treasury in improving the state of local government finances**

148. National Treasury has institutionalised two formal engagements with the 17 non-delegated municipalities as part of its monitoring and oversight role; namely the annual Mid-year Budget and Performance Assessment and the Municipal Budget and Benchmarking Engagements.
149. The National Treasury has further requested the provincial treasuries to replicate these processes for all the delegated municipalities. Most of the provincial treasuries are also conducting the municipal budget engagements for the 261 delegated municipalities on an annual basis. Three provincial treasuries have made significant progress in this regard namely; Gauteng, KwaZulu-Natal and Western Cape.
150. The implementation of the annual municipal budget and benchmark assessments has influenced prudent financial management processes in municipalities. Noticeable improvements have been observed in the budgeting and planning frameworks of the 17 delegated municipalities since the inception of these engagements.
151. According to the Auditor-General, the national and provincial oversight for local government by treasuries and cooperative governance departments should be

strengthened to improve municipalities' administrative and financial abilities. There is a need for a shift towards enabling municipalities in a more practical and sustainable manner by providing operational guidelines, access to training and availability of specialised skills.

**a. Initiatives targeted at addressing financial management challenges - Municipal Financial Management Support**

152. **Municipal budgeting systems** - Municipal budgeting reforms introduced include: (i) the promulgation of Municipal Budget and Reporting Regulations which have standardised the formats for the compilation of the medium-term revenue and expenditure frameworks (budgets) of all municipalities; (ii) implementation of a funding compliance assessment tool which enables municipalities to assess the level of funding of a municipal budget prior to adoption; (iii) issued the "Dummy Budget Guide" to ensure a balance between financial and narrative information contained in the budget document.
153. **Municipal reporting system** - Developed and implemented a comprehensive reporting system for local government through: (i) the creation of a Local Government Database to facilitate the collection and storage of data; (ii) institutionalised a culture of monthly reporting in terms of Section 71 of the MFMA by all 278 municipalities; (iii) routine publication of municipal budget and in-year financial performance; and (iv) continually striving to increase the scope and quality of the reporting.
154. **Local Government Conditional Grant Monitoring System** - In addition to improving the oversight and monitoring of local government conditional grants, a number of initiatives are specifically targeted at strengthening municipal infrastructure grant performance, namely (i) supporting the acceleration of the capital infrastructure projects through the conditional grants pledging process; and (ii) the invoking of section 20 of the Annual Division of Revenue Act in respect of unspent conditional grants.
155. **Local government publications** - The routine publishing of budget and in-year financial performance information for local government has escalated the performance of local government into the public domain. These publications provide information which was previously not readily available. Routine publications include the consolidated MTREF budget information for all municipalities; quarterly Section 71 reports; State of Municipal Finances Report; over and under expenditure report to Parliament; Local Government Budgets and Expenditure Review; and report on the tabling dates of budgets to Parliament.
156. **Capacity building and stakeholder management** - Various initiatives are undertaken around capacity building and stakeholder management on a regular basis, including (i) continuous training, capacity building and support to provincial treasuries, sector departments, SALGA and councillors; (ii) issuing of annual budget circulars and best practice guidelines; and (iii) stakeholder management in ensuring an aligned response to the challenges experienced by local government.
157. **Special Projects** - Current projects aimed at further improving the overall performance of local government include (i) the development of a standard classification framework for local government (Standard Chart of Accounts); (ii) financial modelling and costing methodologies in assisting when setting tariffs; (iii) local government revenue management initiatives; (iv) development of a potential system solution for local

government and (v) the development of non-financial indicators and benchmarking engagements.

158. **Monitoring tools** - National Treasury in consultation with all provincial treasuries and the Department of Cooperative Governance (DCoG) have developed a number of tools to monitor municipal financial performance and assist municipalities to focus on critical key success factors in financial management, governance, transparency and accountability. The 30 Monitoring Indicators tool is largely a compliance monitoring tool covering key strategic areas that are critical for successful implementation of the MFMA. A self-assessment tool, namely the Financial Management Capability Maturity Model (FMCMM) is currently being piloted in municipalities and will assist them to transcend from mere compliance to full entrenchment of best practices in financial management.
159. **Financial indicators** - To address the inconsistent application and interpretation of financial ratios in the municipal environment NT has developed uniform sets of key municipal financial ratios and norms which will be issued through a MFMA Circular. Consultation on the proposed ratios is still in progress. These ratios and norms should assist municipalities to predict, identify, prevent, avoid, and resolve financial problems/crisis timeously (early warning mechanisms); and make strategic decisions on a more informed, predictive and sustainable basis. National and provincial departments can also use these indicators to monitor municipal financial performance and intervene appropriately and timeously, where applicable.
160. **Section 139 Constitutional Interventions** - At end of July 2013 there were thirteen section 139 Constitution interventions in operation in Western Cape, North West, Mpumalanga and KwaZulu Natal. Previous provincial interventions have not yet yielded the desired results. It is critical that before the interventions are terminated the issues and reasons for the basis for intervention are resolved so that the objectives of the intervention are met. Clear deliverables and timelines should form part of the Terms of Reference of administrators. Any interventions in municipalities must be synchronised between all the relevant government departments in order to increase effective coordination, avoid double-dipping and overstressing government resources, and also to avoid overwhelming municipalities.

**b. Current municipal capacity building – Financial support**

161. **Municipal Systems Improvement Grant** - The Municipal Systems Improvement Grant provides funding to all non-metropolitan municipalities to help them implement their local government turnaround strategies. No specific allocation criteria is used as this grant is allocated equally to all local and district municipalities (R 890 000 per municipality in 2013/14). Spending performance on the grant is good (105.7 per cent in 2012/13 (preliminary)).
162. **Local Government Finance Management Grant** - The Finance Management Grant funds the modernisation of financial management and implementation of MFMA. This grant is allocated to all municipalities (including metros). Allocations to individual municipalities are very similar ranging between R1.2 million to R1.6 million per municipality in 2013/14, with the only exception being Tshwane Metro which is allocated R5 million p.a. over the 2013 MTEF owing to the merger of Metsweding District municipality, Nokeng Tsa Taemane and Kungwini Local Municipalities in 2011.

163. **Infrastructure Skills Development Grant** - Introduced in 2012, this grant places interns with technical skills in well capacitated municipalities for a two-year period and then gets transferred to municipalities who are struggling to attract skilled labour to complete their internship. Over the 2013 MTEF, this grant is allocated to 5 municipalities in Eastern Cape; 2 in Free State; 3 in KwaZulu Natal; 2 in Limpopo; 2 in Northern Cape; 1 in North Western and 1 in Western Cape.

**c) The Municipal Finance Improvement Programme (MFIP)**

164. Financial management expertise was previously deployed to municipalities via the Siyenza Manje programme managed by the DBSA. However, a decision was taken to remove the financial management component of this programme and transfer to this National Treasury. In addition the Infrastructure component of the programme was moved to Cooperative Governance and Traditional Affairs (CoGTA) under the Municipal Infrastructure Support Agency (MISA).

165. The Municipal Finance Improvement Programme (MFIP) as it is now called focuses on capacity building covering various Financial Management Disciplines and attempts to address gaps in the implementation of the MFMA.

166. 70 municipalities and 8 provincial treasuries are currently receiving support through an MFIP advisor appointed to these municipalities and provincial treasuries. Municipalities have each signed Support Plans which serves as the basis for support and assists in prioritising activities that require support. In order to monitor progress and impact, reports must be submitted to the Municipal Steering Committee which consists of inter alia, the Municipal Manager, Chief Financial Officer, Mayor or Councillor for Finance placing accountability for the support with the municipality.

167. However, the achievements of the programme vary as circumstances in municipalities differ. Differences in municipal capacity such as filling of vacancies, appointment of suitably qualified officials, changes to structures, policies, procedures, etc. will affect the outcomes of this programme.

**d) Municipal Infrastructure Support Agent (MISA)**

168. The objective of the programme is to accelerate service delivery initiatives and enhance capacity in municipalities.

169. Through MISA, the department will be able to accelerate service delivery through five programmes, namely:

- i. Municipal infrastructure assessment and diagnosis of the challenges with a view to find solutions that are viable and sustainable;
- ii. Provision of municipal infrastructure capacity support;
- iii. Municipal infrastructure implementation support;
- iv. Sector capacity development including internship for unemployed graduates within municipalities; and
- v. Effective monitoring and evaluation.

170. The focus of the capacity support is on (i) strengthening municipal technical capacity building for infrastructure delivery; (ii) developing sector wide technical capacity building for local government; (iii) providing funding for the development of municipal built environment technical skills; (iv) professionalising local government officials in compliance with statutory provisions for technical professions; and (v) facilitating lasting partnerships on technical capacity building with public and private sector entities.
171. 65 technical consultants and 19 professional service providers are currently providing support to 102 municipalities including 25 priority district municipalities. Detailed diagnostic reviews and integrated support plans have been completed for 92 municipalities to facilitate a comprehensive and focused approach towards service delivery acceleration.

**e) City Support Programme (CSP)**

172. The CSP was designed to respond to demands from metropolitan municipalities for an integrated programme of assistance in addressing strategic challenges they face in transforming their built environments. Although this is a programme that is co-ordinated nationally, cities are seen as the drivers and the institutional arrangement for the cities' participation and engagement has been the City Budget Forum. At a national level the interdepartmental technical committee that has been overseeing the development of the Integrated Urban Development Framework (which DCoG is leading on) is also the forum for national departments' co-ordination on the CSP.
173. The implementation support covers the sectors of:
- a. urban governance, planning and financing;
  - b. human settlements;
  - c. public transport; and
  - d. environmental sustainability.
174. Interventions being implemented include the following:
- a. technical engagements with cities on the urban network strategy (a spatial strategy that assists cities to identify and design an integrated investment and regulatory programme for spatial transformation);
  - b. introduction of the Integrated City Development Grant to provide an incentive for metros to integrate and focus their use of available infrastructure investment (other grants, own revenue, leveraging private sector funding) and regulatory instruments (land use management e.g. zoning) within identified delineated spaces (integration zones) so as to achieve a more compact, inclusive and integrated spatial form;
  - c. introduction of Built Environment Performance Indicators to measure and reward cities for their progress in the implementation of their strategies for spatial transformation; and
  - d. operationalisation this year of a Project Preparation Facility (PPF) in order to strengthen the planning and design process (pipelining) for catalytic and strategic infrastructure programmes. In addition an Infrastructure Delivery Management System, including toolkits is being developed to ensure that there is proper management of capital programmes and projects.

**f) Service delivery performance management indicators tool**

175. The White Paper on Local Government (1998) proposed the introduction of performance management systems to local government, as a tool to ensure that service delivery could be monitored and measured.
176. Over the years, a number of government departments have since developed various tools to assist municipalities to better manage both the financial and non-financial performance. The National Treasury has developed three indicators namely; the funding compliance assessment tool, the 30 MFMA indicators and the service delivery budget implementation plan (SDBIP) quarterly reports. The following departments are amongst other institutions that have developed indicators, The Presidency, DCoG, Department of Water Affairs and Department of Minerals and Energy.
177. The current state of performance indicators is fragmented; therefore there is a need to have a uniform approach. National Treasury in an effort to address this challenge has introduced standard SDBIP indicators which all municipalities will be required to report on a quarterly basis as part of the S71 reporting process. A performance reporting template was introduced in 2011/12 for the metros however; metros are not providing a complete and accurate set of information. Performance reporting would be institutionalized over a three year period, with the current year (2013/14) focused on the metros and the 19 large cities and the third year on all remaining municipalities.

**Role of Provincial Treasuries**

178. Notwithstanding the varying levels in capacity constraints among the Provincial Treasuries, their roles are stipulated as follows:
- i. Clear monitoring and intervention role;
  - ii. Administer, Guide and Co-ordinate MFMA implementation in the Province;
  - iii. Support capacity building and training within municipalities;
  - iv. National Treasury delegations: additional municipalities to PT's; and
  - v. Strong coordinated working relationship with departments of Local Government.
179. National and provincial governments have a constitutional responsibility to monitor the state of local government financial management and finances, and to provide appropriate support. Where a municipality fails to fulfil its constitutional obligations, there is an obligation on the provincial executive (in the first instance), and then the national executive, to intervene in the municipality to set things in order and protect the interests of the public.
180. Last year's state of local government finances highlighted the haphazard manner in which financial management support is being deployed to municipalities. National Government had to confront these problems if general financial management has to improve through targeted support which identified the need to build up the capacity of provinces, and more specifically provincial treasuries, so that they are better able to provide support to local government.

## 8 Municipalities in financial distress: Annexure A

181. Financial distress may be defined as a condition where a municipality cannot meet or has difficulty paying off its financial obligations. The chance of financial distress increases when the municipality has poor governance structures, no ability to implement the council adopted budget, high fixed costs and revenues that are sensitive to economic downturns.
182. According to our methodology, a worst performing municipality would obtain 24 points (taking cognisance of all 8 indicators used in this report), while a border line case would record 18 points. Of interest is the fact that none of the 278 municipalities obtained a score of 3 (which is the worst performance measure) against any of the eight indicators, which is encouraging.
183. **Annexure A** lists the names of the 95 municipalities that this analysis identifies as being in financial distress. The total number of municipalities in financial distress remained almost unchanged from last year's total of 96. There are also 4 municipalities whose financial status did not improve as they appear for the fourth consecutive year in this list namely; Emalahleni, Kopanong, Mohokare and Thaba Chweu. This also means that 37 municipalities improved their financial status but more worrying is the fact that there are 65 new municipalities that are classified as being in financial distress.
184. **Annexure C** provides a consolidated analysis of the 278 municipalities' audit outcomes, capital budget performance, current interventions, vacancies in key positions, municipalities identified as financial distressed and the trends thereof.
185. It is encouraging to note that none of the metropolitan municipalities have been identified to being in financial distress. In the 2012 report Mangaung was the only metro in financial distress and it was also identified as such as part of the secondary cities in the 2011 report. There are five secondary cities that are in financial distress, two of these were also in financial distress in the previous year. These municipalities are Polokwane, Govan Mbeki and City of Matlosana. Emfuleni and Emalahleni (MP) are the two municipalities that have been identified in consecutive years.
186. What is also of great concern is that there are nine district municipalities which have been identified as being in financial distress. All of these are new compared to the eight that have been identified last year.
187. Not shown in **Annexure A** is that a further 37 municipalities are on the borderline of being classified as in financial distress.
188. The above suggests that there is scope to improve the targeting of support to those municipalities identified as being in financial distress.

## 9 Risks posed by the current state of municipal finances

189. 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; and
- iv. Repairs and maintenance is invariably among the first expenditures cut placing service delivery at risk, as well as future revenues.

**b. Fiscal risks**

- i. Poor financial management processes and systems exposes the municipality to corruption;
- ii. The municipalities are failing to properly utilise the resources available to them by failing to collect available revenues; and
- iii. Poor financial management increases the cost of borrowing to municipalities.

**c. Political interventions**

- i. Some municipalities have established top-heavy “Political offices” which have proven to be unaffordable, often these offices provide political advice on administrative matters thereby undermining and duplicating the role of the municipal manager, chief financial officer and senior managers; and
- ii. Political interference in administrative decision making processes compromises municipal finances, including supply chain management. The interference in some municipalities impedes on revenue collection, this is related to the fact that the political electorate do not want to antagonise the voting communities.

## **10 Summary**

190. This report provides an overview of financial health of municipalities. Based on selected measures, it broadly indicates where problems exist and where problems appear to persist requiring further intervention or support.
191. It evident from the analysis contained in this report that reporting by municipalities has improved significantly enabling better application of the selected measures to identify municipalities that are potentially in distress and municipalities that require support. However, a number of challenges remains such as low capital spending on infrastructure, increases in debtors, lack of credible budgeting, limited revenue streams and top heavy political parallel structures undermine the administration of municipalities.
192. The 2012/13 report has been enhanced to include the scores per municipality used to determine which municipality is in financial distress. It is hoped that municipalities will utilise this information constructively to institute measures that will avert a potential financial crisis.
193. Lastly, the following annexures have been discussed and included in the report:
- i. Annexure A : Municipalities in financial distress.
  - ii. Annexure B1 : Municipalities reporting negative cash positions.
  - iii. Annexure B2 : Municipalities that did not report cash position.



- iv. Annexure C : Consolidated audit outcomes, interventions, vacancies and distress list.
- v. Annexure D : Findings arising from the audit of financial statements.
- vi. Annexure E : Consolidated assessment results on the metros.

Annexure A

**Municipalities in financial distress – 30 June 2013** (the highlighted lines indicate the municipalities identified as being in financial distress).

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspending Operation	T5 - Underspending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	Result
Nelson Mandela Bay	NMA	1	2	2	1	2	1	3	1	13	-
Ekurhuleni Metro	EKU	1	2	2	1	1	1	3	1	12	-
City Of Johannesburg	JHB	1	2	2	1	1	1	3	2	13	-
City Of Tshwane	TSH	1	3	2	1	1	1	2	3	14	-
eThekweni	ETH	1	2	2	1	2	1	2	1	12	-
Cape Town	CPT	1	1	2	1	2	1	2	1	11	-
Buffalo City	BUF	1	1	3	2	3	1	3	1	15	-
Mangaung	MAN	1	2	2	2	2	1	3	2	15	-
Matjhabeng	FS184	1	2	3	2	2	1	3	3	17	-
<b>Emfuleni</b>	<b>GT421</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>21</b>	<b>YES</b>
Mogale City	GT481	1	3	1	2	2	1	3	3	16	-
Msunduzi	KZN225	1	3	2	1	2	1	3	3	16	-
New castle	KZN252	1	1	2	1	3	1	3	1	13	-
uMhlatuze	KZN282	1	2	2	3	3	1	1	2	15	-
<b>Polokwane</b>	<b>LIM354</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>18</b>	<b>YES</b>
<b>Govan Mbeki</b>	<b>MP307</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>19</b>	<b>YES</b>
<b>Emalahleni (Mp)</b>	<b>MP312</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Steve Tshwete	MP313	1	3	1	1	3	1	1	3	14	-
Mbombela	MP322	3	3	2	1	3	1	3	1	17	-
Madibeng	NW372	1	3	3	2	2	1	3	2	17	-
Rustenburg	NW373	1	1	2	2	2	1	3	1	13	-
Tlokweng	NW402	1	2	1	1	3	1	2	2	13	-
<b>City Of Matlosana</b>	<b>NW403</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>18</b>	<b>YES</b>
Sol Plaatje	NC091	1	1	2	2	3	1	3	1	14	-
Drakenstein	WC023	1	3	1	1	3	1	2	3	15	-
Stellenbosch	WC024	1	3	2	2	2	1	1	3	15	-
George	WC044	1	1	2	1	2	1	2	1	11	-
Camdeboo	EC101	2	3	2	2	3	1	1	3	17	-
Blue Crane Route	EC102	1	2	3	3	3	1	3	1	17	-
<b>Ikwezi</b>	<b>EC103</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>20</b>	<b>YES</b>
Makana	EC104	1	1	2	3	3	1	3	1	15	-
Ndlambe	EC105	3	3	1	2	3	1	3	1	17	-
<b>Sundays River Valley</b>	<b>EC106</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
Baviaans	EC107	3	3	3	1	3	1	2	1	17	-
Kouga	EC108	3	3	3	2	1	1	2	1	16	-
<b>Kou-Kamma</b>	<b>EC109</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>19</b>	<b>YES</b>
Mbhashe	EC121	1	1	3	3	3	1	3	1	16	-
Mquma	EC122	1	1	3	2	3	1	3	1	15	-
Great Kei	EC123	1	1	3	3	3	1	3	1	16	-
Amahlathi	EC124	1	1	1	3	3	1	3	1	14	-
Ngqushwa	EC126	1	1	2	2	3	1	3	1	14	-
Nkonkobe	EC127	1	3	2	2	1	1	3	1	14	-
<b>Nxuba</b>	<b>EC128</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
<b>Inxuba Yethemba</b>	<b>EC131</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Tsolwana	EC132	1	2	3	3	3	1	3	1	17	-
Inkwanca	EC133	3	3	3	3	1	1	1	1	16	-
Lukhanji	EC134	1	1	3	2	3	1	3	1	15	-
Intsika Yethu	EC135	2	3	3	3	3	1	1	1	17	-
<b>Emalahleni (Ec)</b>	<b>EC136</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
Engcobo	EC137	1	1	2	3	3	1	2	1	14	-
Sakhisizwe	EC138	1	1	3	2	3	1	1	1	13	-
Elundini	EC141	1	1	3	2	2	1	3	1	14	-
Senqu	EC142	1	3	2	2	3	1	2	3	17	-

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Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	YES
Maletswai	EC143	1	2	3	2	3	3	3	3	20	YES
Gariep	EC144	1	3	1	3	3	1	3	3	18	YES
Ngquza Hills	EC153	1	2	3	3	3	1	1	1	15	-
Port St Johns	EC154	3	3	3	1	3	1	3	1	18	YES
Nyandeni	EC155	1	2	3	3	3	1	3	1	17	-
Mhlontlo	EC156	1	3	2	2	3	1	1	1	14	-
King Sabata Dalindyebo	EC157	1	2	2	3	3	1	3	1	16	-
Matatiele	EC441	2	3	2	2	3	1	3	1	17	-
Umzimvubu	EC442	1	1	3	3	3	1	1	1	14	-
Mbizana	EC443	1	1	3	3	3	1	3	1	16	-
Ntabankulu	EC444	1	3	3	1	1	1	3	2	15	-
Letsemeng	FS161	1	1	3	3	1	1	3	1	14	-
Kopanong	FS162	3	3	3	3	3	1	3	1	20	YES
Mohokare	FS163	2	3	3	3	3	1	3	3	21	YES
Naledi (Fs)	FS164	1	3	3	3	3	1	3	3	20	YES
Masilonyana	FS181	1	3	3	3	3	1	3	3	20	YES
Tokologo	FS182	1	3	3	3	3	1	1	1	16	-
Tsw elopele	FS183	1	3	3	1	3	1	3	1	16	-
Nala	FS185	1	3	3	3	2	1	3	1	17	-
Setsoto	FS191	2	3	3	2	3	1	3	1	18	YES
Dhlabeng	FS192	1	1	3	2	3	1	3	1	15	-
Nketoana	FS193	3	3	3	3	2	1	3	1	19	YES
Maluti-a-Phofung	FS194	3	3	3	3	3	1	3	1	20	YES
Phumelela	FS195	1	1	3	2	3	1	3	2	16	-
Mantsopa	FS196	1	3	3	2	3	1	3	3	19	YES
Moqhaka	FS201	3	3	3	2	3	1	3	1	19	YES
Ngw athe	FS203	1	2	2	1	3	2	3	3	17	-
Metsimaholo	FS204	3	3	2	3	3	1	3	3	21	YES
Mafube	FS205	2	3	2	2	1	1	3	3	17	-
Midvaal	GT422	1	3	1	2	3	1	2	3	16	-
Lesedi	GT423	1	3	2	1	3	1	3	3	17	-
Randfontein	GT482	1	3	2	2	3	1	3	3	18	YES
Westonaria	GT483	2	3	2	1	1	2	3	3	17	-
Merafong City	GT484	1	2	3	2	1	1	3	1	14	-
Vulamehlo	KZN211	1	1	3	1	3	1	1	1	12	-
Umdoni	KZN212	1	3	2	3	2	1	3	3	18	YES
Umzumbe	KZN213	1	1	3	3	2	1	2	1	14	-
uMuziwabantu	KZN214	1	3	3	2	3	1	3	3	19	YES
Ezinqoleni	KZN215	1	1	3	2	2	2	2	1	14	-
Hibiscus Coast	KZN216	3	3	2	2	3	1	2	1	17	-
uMshwathi	KZN221	1	3	3	3	3	1	3	3	20	YES
uMngeni	KZN222	3	3	3	2	3	2	3	1	20	YES
Mpofana	KZN223	2	3	3	3	3	1	3	1	19	YES
Impendle	KZN224	3	3	3	3	3	2	3	1	21	YES
Mkhambathini	KZN226	1	2	3	3	3	1	2	1	16	-
Richmond	KZN227	3	3	3	1	3	1	3	1	18	YES
Ernambithi/Ladysmith	KZN232	1	2	3	3	2	1	3	1	16	-
Indaka	KZN233	1	1	2	3	3	2	1	1	14	-
Umtshezi	KZN234	1	3	3	1	3	1	3	3	18	YES
Okhahlamba	KZN235	1	1	2	2	3	1	3	1	14	-
Imbabazane	KZN236	1	1	3	3	3	1	3	1	16	-
Endumeni	KZN241	3	3	2	2	3	1	3	3	20	YES
Nquthu	KZN242	1	1	3	1	3	1	2	1	13	-
Msinga	KZN244	3	3	3	3	3	1	1	1	18	YES
Umvoti	KZN245	1	1	3	3	3	1	2	1	15	-
eMadlangeni	KZN253	1	2	3	3	3	2	3	1	18	YES
Dannhauser	KZN254	1	2	3	3	3	2	3	1	18	YES
eDumbe	KZN261	2	3	3	3	3	1	3	3	21	YES
uPhongolo	KZN262	2	3	3	2	3	1	3	3	20	YES

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Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	-
Abaqulusi	KZN263	3	3	3	3	2	1	1	1	17	-
<b>Nongoma</b>	<b>KZN265</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>20</b>	<b>YES</b>
Ulundi	KZN266	3	3	3	3	3	1	3	1	20	YES
Umhlabuyalingana	KZN271	2	3	3	2	3	1	3	1	18	YES
Jozini	KZN272	3	3	3	3	2	1	3	1	19	YES
The Big 5 False Bay	KZN273	1	3	3	2	3	1	3	3	19	YES
Hlabisa	KZN274	3	3	3	3	3	3	2	1	21	YES
Mubatuba	KZN275	1	1	3	2	3	2	3	1	16	-
<b>Mfolozi</b>	<b>KZN281</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>21</b>	<b>YES</b>
Ntambanana	KZN283	1	1	3	3	2	1	1	1	13	-
<b>uMlalazi</b>	<b>KZN284</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>19</b>	<b>YES</b>
Mthonjaneni	KZN285	1	1	3	3	3	1	1	1	14	-
Nkandla	KZN286	1	1	3	3	3	1	3	1	16	-
Mandeni	KZN291	1	2	3	1	3	1	3	1	15	-
Kw aDukuza	KZN292	1	1	1	1	3	1	1	1	10	-
<b>Ndwedwe</b>	<b>KZN293</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Maphumulo	KZN294	1	1	3	3	3	2	3	1	17	-
<b>Ingwe</b>	<b>KZN431</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
<b>Kwa Sani</b>	<b>KZN432</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>19</b>	<b>YES</b>
<b>Greater Kokstad</b>	<b>KZN433</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>19</b>	<b>YES</b>
Ubuhlebezwe	KZN434	1	1	2	2	3	1	3	1	14	-
<b>Umzimkhulu</b>	<b>KZN435</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>20</b>	<b>YES</b>
Greater Giyani	LIM331	1	1	2	2	3	2	3	1	15	-
Greater Letaba	LIM332	1	1	3	2	3	1	3	1	15	-
Greater Tzaneen	LIM333	3	3	2	1	2	1	3	1	16	-
Ba-Phalaborwa	LIM334	1	3	2	2	2	1	3	1	15	-
Maruleng	LIM335	1	1	3	3	2	1	3	1	15	-
<b>Musina</b>	<b>LIM341</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>18</b>	<b>YES</b>
<b>Mutale</b>	<b>LIM342</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Thulamela	LIM343	1	1	3	3	3	1	3	1	16	-
<b>Makhado</b>	<b>LIM344</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Blouberg	LIM351	1	2	3	2	3	1	3	1	16	-
Aganang	LIM352	1	2	3	2	2	2	3	1	16	-
Molemole	LIM353	1	1	2	2	3	1	3	1	14	-
Lepelle-Nkumpi	LIM355	1	1	1	3	3	1	3	1	14	-
Thabazimbi	LIM361	1	1	2	3	3	1	1	3	15	-
Lephalale	LIM362	1	1	3	3	3	1	3	1	16	-
<b>Mookgopong</b>	<b>LIM364</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
Modimolle	LIM365	1	1	3	2	3	1	3	1	15	-
<b>Bela Bela</b>	<b>LIM366</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>20</b>	<b>YES</b>
<b>Mogalakwena</b>	<b>LIM367</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
Ephraim Mogale	LIM471	1	1	2	2	3	1	3	1	14	-
Elias Motsoaledi	LIM472	1	1	2	2	3	1	3	1	14	-
Makhuduthamaga	LIM473	1	1	3	2	3	1	3	1	15	-
Fetakgomo	LIM474	1	1	2	1	3	1	3	1	13	-
<b>Greater Tubatse</b>	<b>LIM475</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>21</b>	<b>YES</b>
<b>Albert Luthuli</b>	<b>MP301</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Msukaligwa	MP302	1	2	3	2	3	1	3	1	16	-
Mkhondo	MP303	1	1	1	2	3	1	1	1	11	-
Pixley Ka Seme	MP304	1	2	3	3	1	1	3	3	17	-
<b>Lekwa</b>	<b>MP305</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>21</b>	<b>YES</b>
Dipaleseng	MP306	1	2	3	3	3	1	1	1	15	-
Victor Khanye	MP311	1	2	3	1	3	1	3	1	15	-
Erakhazeni	MP314	1	2	3	3	1	1	3	2	16	-
Thembisile	MP315	1	1	3	1	1	1	3	1	12	-
Dr J.S. Moroka	MP316	1	1	3	1	3	1	3	1	14	-
<b>Thaba Chweu</b>	<b>MP321</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>20</b>	<b>YES</b>
<b>Umjindi</b>	<b>MP323</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
<b>Nkomazi</b>	<b>MP324</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>19</b>	<b>YES</b>
<b>Bushbuckridge</b>	<b>MP325</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>18</b>	<b>YES</b>

The state of local government finances and financial management as at 30 June 2013

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	-
Richtersveld	NC061	1	3	3	3	3	1	3	3	20	YES
Nama Khoi	NC062	1	3	3	2	3	1	3	3	19	YES
Kamiesberg	NC064	3	3	3	3	3	1	3	1	20	YES
Hantam	NC065	3	3	3	1	2	1	3	1	17	-
Karoo Hoogland	NC066	2	3	3	3	1	1	3	1	17	-
Khai-Ma	NC067	1	2	2	2	3	2	3	3	18	YES
Ubuntu	NC071	3	3	1	3	3	1	3	1	18	YES
Umsobomvu	NC072	1	1	2	1	2	1	3	1	12	-
Erntjanjeni	NC073	1	2	2	1	3	1	3	1	14	-
Kareeberg	NC074	1	1	3	2	3	1	2	1	14	-
Renosterberg	NC075	1	2	3	3	3	1	3	3	19	YES
Thembelihle	NC076	3	3	3	3	2	1	3	3	21	YES
Siyathemba	NC077	1	3	3	2	2	1	3	3	18	YES
Siyancuma	NC078	3	3	1	3	3	1	3	1	18	YES
Mer	NC081	1	1	3	3	3	1	3	1	16	-
IKaili Garib	NC082	3	3	3	1	2	1	3	1	17	-
IKhara Hais	NC083	3	3	2	2	3	1	1	1	16	-
IKheis	NC084	1	2	3	3	3	1	1	1	15	-
Tsantsabane	NC085	1	1	1	3	3	1	1	1	12	-
Kgatelopele	NC086	2	2	3	2	3	1	3	1	17	-
Dikgatlong	NC092	2	3	3	1	3	1	3	3	19	YES
Magareng	NC093	3	3	3	3	3	1	3	1	20	YES
Phokwane	NC094	1	1	3	2	2	1	3	1	14	-
Moshaweng	NC451	1	3	3	3	3	3	3	3	22	YES
Ga-Segonyana	NC452	1	3	3	3	3	1	3	1	18	YES
Gamagara	NC453	3	3	2	2	3	2	2	1	18	YES
Moretele	NW371	1	1	3	2	2	1	3	1	14	-
Kgetlengrivier	NW374	1	3	3	2	3	1	3	3	19	YES
Moses Kotane	NW375	1	1	3	2	3	1	3	1	15	-
Ratlou	NW381	1	2	2	3	2	1	3	1	15	-
Tswaing	NW382	3	3	3	1	3	1	1	1	16	-
Mafikeng	NW383	1	1	3	2	3	1	3	2	16	-
Ditsobotla	NW384	1	3	2	3	3	1	3	3	19	YES
Ramotshere Moiloa	NW385	1	1	2	3	3	1	1	1	13	-
Kagisano/ Molopo	NW397	1	2	3	3	2	2	1	1	15	-
Naledi (Nw)	NW392	1	3	3	1	2	1	3	3	17	-
Mamusa	NW393	1	2	3	3	3	1	3	1	17	-
Greater Taung	NW394	1	3	1	2	3	1	3	1	15	-
Lekwa-Teemane	NW396	3	3	3	1	3	1	3	1	18	YES
Ventersdorp	NW401	1	2	3	1	3	1	3	1	15	-
Maquassi Hills	NW404	2	3	3	2	2	1	3	3	19	YES
Matzikama	WC011	2	3	3	2	3	1	2	2	18	YES
Cederberg	WC012	1	3	3	3	3	1	3	3	20	YES
Bergrivier	WC013	1	3	3	1	1	1	3	1	14	-
Saldanha Bay	WC014	1	1	2	1	3	1	2	1	12	-
Swartland	WC015	1	1	1	2	2	1	1	1	10	-
Witzenberg	WC022	1	3	3	1	3	1	3	3	18	YES
Breede Valley	WC025	1	2	2	1	2	1	2	2	13	-
Langeberg	WC026	1	2	2	1	2	1	1	1	11	-
Theewaterskloof	WC031	1	2	3	2	2	1	3	1	15	-
Overstrand	WC032	1	2	1	1	2	1	1	3	12	-
Cape Agulhas	WC033	1	3	2	2	1	1	1	1	12	-
Swellendam	WC034	3	3	2	2	1	1	3	1	16	-
Kannaland	WC041	2	3	3	3	3	1	3	1	19	YES
Hessequa	WC042	1	2	2	2	3	1	1	1	13	-
Mossel Bay	WC043	1	1	2	2	1	1	1	1	10	-
Oudtshoorn	WC045	1	3	3	1	3	1	2	1	15	-
Bitou	WC047	1	2	2	1	3	1	2	1	13	-
Knysna	WC048	1	2	2	1	3	1	2	2	14	-
Laingsburg	WC051	1	3	2	3	3	1	2	1	16	-
Prince Albert	WC052	1	2	3	1	3	1	3	1	15	-
Beaufort West	WC053	1	2	3	1	3	1	3	1	15	-

The state of local government finances and financial management as at 30 June 2013

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	-
Cacadu	DC10	1	1	1	3	3	1	3	1	14	-
Amathole	DC12	1	1	3	2	3	1	3	1	15	-
Chris Hani	DC13	1	1	3	3	3	1	1	1	14	-
<b>Joe Gqabi</b>	<b>DC14</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
O.R. Tambo	DC15	1	1	3	2	2	1	3	1	14	-
<b>Alfred Nzo</b>	<b>DC44</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
Xhariep	DC16	2	3	3	1	3	1	1	3	17	-
Lejweleputswa	DC18	1	3	1	2	1	3	2	1	14	-
Thabo Mofutsanyana	DC19	1	3	3	2	3	1	1	3	17	-
Fezile Dabi	DC20	1	1	1	2	3	1	1	1	11	-
Sedibeng	DC42	1	3	1	1	3	1	1	3	14	-
West Rand	DC48	1	1	1	2	3	2	3	1	14	-
Ugu	DC21	2	3	3	1	3	1	3	1	17	-
<b>uMgungundlovu</b>	<b>DC22</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>20</b>	<b>YES</b>
Uthukela	DC23	1	1	3	2	2	1	3	1	14	-
<b>Umzinyathi</b>	<b>DC24</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>20</b>	<b>YES</b>
Amajuba	DC25	2	3	3	3	2	1	1	1	16	-
<b>Zululand</b>	<b>DC26</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>19</b>	<b>YES</b>
<b>Umkhanyakude</b>	<b>DC27</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>18</b>	<b>YES</b>
uThungulu	DC28	1	1	3	2	3	1	2	1	14	-
iLembe	DC29	1	2	2	1	2	1	3	2	14	-
Sisonke	DC43	1	2	3	2	2	1	3	1	15	-
Mopani	DC33	2	3	3	3	3	1	1	1	17	-
Vhembe	DC34	1	1	3	3	3	2	3	1	17	-
Capricorn	DC35	1	1	3	1	2	3	3	3	17	-
Waterberg	DC36	1	1	1	2	3	1	1	1	11	-
Greater Sekhukhune	DC47	1	1	3	1	3	3	3	1	16	-
Gert Sibande	DC30	1	1	1	3	3	1	1	3	14	-
Nkangala	DC31	1	1	1	3	3	3	3	1	16	-
Ehlanzeni	DC32	2	3	2	2	3	1	1	1	15	-
Bojanala Platinum	DC37	1	3	2	3	1	1	3	1	15	-
Ngaka Modiri Molema	DC38	3	3	2	3	3	1	1	1	17	-
Dr Ruth Segomotsi Mompati	DC39	1	2	3	3	2	1	1	3	16	-
Dr Kenneth Kaunda	DC40	1	1	1	3	3	1	1	1	12	-
John Taolo Gaetsewe	DC45	2	3	1	1	3	3	3	1	17	-
Namakwa	DC6	1	3	1	3	3	1	1	1	14	-
Pxley Ka Seme	DC7	1	3	1	2	3	1	1	3	15	-
Siyanda	DC8	1	1	3	1	2	1	1	1	11	-
Frances Baard	DC9	1	1	1	2	3	1	2	1	12	-
West Coast	DC1	1	3	1	1	1	1	1	3	12	-
Cape Winelands DM	DC2	1	1	1	2	3	3	1	1	13	-
Overberg	DC3	1	2	1	3	3	1	1	1	13	-
Eden	DC4	1	1	1	2	2	3	2	1	13	-
Central Karoo	DC5	1	3	1	2	3	1	1	3	15	-
<b>Total</b>		<b>279</b>	<b>279</b>	<b>279</b>	<b>279</b>	<b>279</b>	<b>279</b>	<b>279</b>	<b>279</b>		<b>95</b>

Annexure B1

Municipalities reporting negative cash positions as at 30 June 2013

	Name	Code	Province	Cash position R'000
1	Port St Johns	EC154	EC	-29 174
2	Baviaans	EC107	EC	-8 170
3	Intsika Yethu	EC135	EC	-6 065
4	Matatiele	EC441	EC	-5 455
5	Ndlambe	EC105	EC	-5 248
6	Alfred Nzo	DC44	EC	-4 587
7	Emalahleni (Ec)	EC136	EC	-4 554
8	Nxuba	EC128	EC	-2 254
9	Ikwezi	EC103	EC	-1 636
10	Kouga	EC108	EC	-175
11	Maluti-a-Phofung	FS194	FS	-58 579
12	Kopanong	FS162	FS	-56 431
13	Setsoto	FS191	FS	-11 808
14	Moqhaka	FS201	FS	-6 396
15	Nketoana	FS193	FS	-881
16	Hibiscus Coast	KZN216	KZN	-241 197
17	uMgungundlovu	DC22	KZN	-132 308
18	Hlabisa	KZN274	KZN	-70 286
19	Umkhanyakude	DC27	KZN	-56 842
20	Jozini	KZN272	KZN	-46 630
21	Ugu	DC21	KZN	-45 716
22	Zululand	DC26	KZN	-45 308
23	Ulundi	KZN266	KZN	-41 446
24	Greater Kokstad	KZN433	KZN	-17 645
25	Umkhlabuyalingana	KZN271	KZN	-7 990
26	Amajuba	DC25	KZN	-7 401
27	Ingw e	KZN431	KZN	-3 752
28	Impendle	KZN224	KZN	-2 318
29	Abaqulusi	KZN263	KZN	-1 821
30	uMngeni	KZN222	KZN	-1 033
31	Richmond	KZN227	KZN	-973
32	Greater Tzaneen	LIM333	LIM	-79 109
33	Mogalakw ena	LIM367	LIM	-72 272
34	Mutale	LIM342	LIM	-39 282
35	Mookgopong	LIM364	LIM	-10 126
36	Greater Tubatse	LIM475	LIM	-5 127
37	Albert Luthuli	MP301	MP	-13 387
38	Ehlanzeni	DC32	MP	-8 100
39	Mbombela	MP322	MP	-6 309
40	Umjindi	MP323	MP	-2 455
41	Gamagara	NC453	NC	-32 809
42	//Khara Hais	NC083	NC	-14 546
43	!Kai! Garib	NC082	NC	-8 877
44	Magareng	NC093	NC	-6 856
45	Ubuntu	NC071	NC	-4 457
46	Siyancuma	NC078	NC	-1 980
47	John Taolo Gaetsew e	DC45	NC	-1 565
48	Karoo Hoogland	NC066	NC	-261
49	Ngaka Modiri Molema	DC38	NW	-11 014
50	Lekw a-Teemane	NW396	NW	-255
51	Sw ellendam	WC034	WC	-2 586
52	Kannaland	WC041	WC	-1 480

**Annexure B2**

**Annexure B2: Municipalities that did not report cash position as at 30 June 2013 or whose reported numbers were clearly inaccurate**

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	<b>Name of municipality</b>	<b>Code</b>	<b>Province</b>
1	Sundays River Valley	EC106	EC
2	Inxuba Yethemba	EC131	EC
3	Inkwanca	EC133	EC
4	Sakhisizwe	EC138	EC
5	Ngquza Hills	EC153	EC
6	Mhlontlo	EC156	EC
7	Naledi (Fs)	FS164	FS
8	Nala	FS185	FS
9	Randfontein	GT482	GT
10	Umdoni	KZN212	KZN
11	Msinga	KZN244	KZN
12	Nkandla	KZN286	KZN
13	Mopani	DC33	LIM
14	Musina	LIM341	LIM
15	Lephalale	LIM362	LIM
16	Msukaligwa	MP302	MP
17	Mkhondo	MP303	MP
18	Emalaheni (Mp)	MP312	MP
19	Kamiesberg	NC064	NC
20	!Kheis	NC084	NC
21	Tsantsabane	NC085	NC
22	Tswaing	NW382	NW
23	Ditsobotla	NW384	NW
24	Ramotshere Moiloa	NW385	NW
25	Mamusa	NW393	NW

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Consolidated audit outcomes, interventions, vacancies and distress list

Annexure C

Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Metros	Nelson Mandela Bay	-	Qualified	-	Acting	Acting	0	0	0
	Ekurhuleni Metro	-	Financially unqualified with findings	-	Permanent	Acting	0	0	1
	City Of Johannesburg	-	Qualified	-	Permanent	Acting	0	0	0
	City Of Tshwane	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	eThekweni	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Cape Town	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Buffalo City	-	Qualified	YES	Permanent	Permanent	0	0	0
	Mangaung	-	Qualified	YES	Permanent	Permanent	0	0	2
Secondary Cities	Matjhabeng	-	Disclaimer	-	Permanent	Acting	0	0	2
	<b>Emfuleni</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	Mogale City	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Msunduzi	-	Financially unqualified with findings	-	Permanent	Permanent	Terminated	Yes	2
	New castle	-	Qualified	YES	Permanent	Permanent	Terminated	0	1
	uMhlatuze	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	<b>Polokwane</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	<b>Govan Mbeki</b>	<b>YES</b>	<b>Qualified</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>1</b>
	<b>Emalahleni (Mp)</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>4</b>
	Steve Tshwete	-	Financially unqualified with no findings	YES	Permanent	Permanent	0	0	0
	Mbombela	-	Financially unqualified with findings	YES	Permanent	Acting	0	0	1
	Madibeng	-	Disclaimer	-	Permanent	Permanent	Terminated	0	3
	Rustenburg	-	Qualified	YES	Permanent	Permanent	0	0	0
	Tlokweng	-	Financially unqualified with findings	YES	Acting	Permanent	0	0	0
	<b>City Of Matlosana</b>	<b>YES</b>	<b>Disclaimer</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>1</b>
	Sol Plaatje	-	Qualified	YES	Permanent	Permanent	0	0	0
Drakenstein	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0	
Stellenbosch	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0	
George	-	Financially unqualified with no findings	YES	Permanent	Permanent	0	0	0	
Local Municipalities	Camdeboo	-	Disclaimer	-	Acting	Permanent	0	0	0
	Blue Crane Route	-	Qualified	-	Acting	Permanent	0	0	1
	<b>Ikwezi</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	Makana	-	Disclaimer	-	Permanent	Acting	0	0	3
	Ndlambe	-	Qualified	-	Permanent	Permanent	0	0	1
	<b>Sundays River Valley</b>	<b>YES</b>	<b>Qualified</b>	<b>YES</b>	<b>Permanent</b>	<b>VACANT</b>	<b>Terminated</b>	<b>Yes</b>	<b>2</b>
	Baviaans	-	Disclaimer	-	Permanent	Permanent	0	Yes	1
	Kouga	-	Qualified	-	Permanent	Permanent	0	0	1
	<b>Kou-Kamma</b>	<b>YES</b>	<b>Qualified</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	Mbashe	-	Qualified	-	Acting	Permanent	0	0	0
	Mnquma	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	3
	Great Kei	-	Disclaimer	-	Permanent	VACANT	0	0	0
	Amahlathi	-	Qualified	-	Permanent	Permanent	0	0	0
	Ngqushwana	-	Disclaimer	YES	Acting	Acting	0	0	1
	Nkonkobe	-	Qualified	-	Permanent	Acting	0	Yes	0
<b>Nxuba</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>0</b>	<b>0</b>	<b>2</b>	
<b>Inxuba Yethemba</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>	
Tsolwana	-	Qualified	YES	Permanent	Permanent	0	0	0	

The state of local government finances and financial management as at 30 June 2013

Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Local Municipalities	Inkwanca	-	Disclaimer	-	Permanent	Permanent	0	0	2
	Lukhanji	-	Disclaimer	YES	Permanent	Permanent	0	0	0
	Intsika Yethu	-	Disclaimer	-	Permanent	Permanent	0	0	1
	<b>Emalahleni (Ec)</b>	<b>YES</b>	<b>Disclaimer</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	Engcobo	-	Qualified	YES	Permanent	Permanent	0	0	1
	Sakhisizwe	-	Qualified	-	Permanent	Permanent	0	Yes	1
	Elundini	-	Financially unqualified with findings	YES	Permanent	Permanent	0	Yes	2
	Senqu	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	<b>Maletswai</b>	<b>YES</b>	<b>Qualified</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	<b>Gariep</b>	<b>YES</b>	<b>Qualified</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>1</b>
	Mbizana	-	Adverse	-	Permanent	Permanent	0	0	0
	Ntbankulu	-	Qualified	-	Permanent	Permanent	0	0	2
	Ngquza Hills	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	<b>Port St Johns</b>	<b>YES</b>	<b>Qualified</b>	<b>YES</b>	<b>Acting</b>	<b>Acting</b>	<b>0</b>	<b>0</b>	<b>1</b>
	Nyandeni	-	Qualified	-	Permanent	Permanent	0	0	0
	Mhlontlo	-	Qualified	-	Permanent	Permanent	0	0	1
	King Sabata Dalindyebo	-	Disclaimer	YES	Permanent	Permanent	0	0	2
	Matatiele	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	2
	Umtzimbubu	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Letsemeng	-	Qualified	-	Permanent	Acting	0	Yes	0
	<b>Kopanong</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>4</b>
	<b>Mohokare</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>4</b>
	<b>Naledi (Fs)</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	<b>Mantsopa</b>	<b>YES</b>	<b>Disclaimer</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	<b>Masilonyana</b>	<b>YES</b>	<b>Qualified</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>Terminated</b>	<b>Yes</b>	<b>3</b>
	Tokologo	-	Qualified	-	Permanent	Permanent	0	Yes	2
	Tswelopele	-	Financially unqualified with findings	-	Permanent	Permanent	0	Yes	2
	Nala	-	Audit not finalised at legislated date	YES	Permanent	Acting	0	Yes	2
	<b>Setsoto</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	Ditlabeng	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	<b>Nketoana</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>0</b>	<b>Yes</b>	<b>1</b>
	<b>Maluti-a-Phofung</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	Phumelela	-	Disclaimer	YES	Permanent	Acting	0	Yes	3
	<b>Moqhaka</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
Ngwathe	-	Audit not finalised at legislated date	YES	Permanent	Permanent	0	Yes	2	
<b>Metsimaholo</b>	<b>YES</b>	<b>Qualified</b>	<b>YES</b>	<b>Permanent</b>	<b>Acting</b>	<b>0</b>	<b>Yes</b>	<b>3</b>	
Mafube	-	Disclaimer	-	Permanent	Acting	0	0	1	
Midvaal	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	1	
Lesedi	-	Financially unqualified with findings	YES	Permanent	Acting	0	0	2	
<b>Randfontein</b>	<b>YES</b>	<b>Qualified</b>	<b>YES</b>	<b>Acting</b>	<b>Acting</b>	<b>0</b>	<b>0</b>	<b>2</b>	
Westonaria	-	Qualified	-	Permanent	Permanent	0	0	2	
Merafong City	-	Financially unqualified with findings	-	Acting	Acting	0	0	0	
Vulamehlo	-	Financially unqualified with findings	-	Permanent	Permanent	0	Yes	1	
<b>Umdoni</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>3</b>	
Umzumbi	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0	

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Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Local Municipalities	uMuziwabantu	YES	Financially unqualified with findings	YES	Permanent	Permanent	0	0	3
	Ezinqoleni	-	Qualified	-	Permanent	Permanent	0	0	0
	Hibiscus Coast	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	uMshwathi	YES	Financially unqualified with findings	YES	Permanent	Permanent	0	0	3
	uMngeni	YES	Financially unqualified with findings	-	Permanent	Acting	0	0	3
	Mpofana	YES	Financially unqualified with findings	YES	Acting	Acting	0	Yes	1
	Impendle	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Mkhambathini	-	Financially unqualified with findings	YES	Acting	Permanent	0	Yes	0
	Richmond	YES	Financially unqualified with findings	YES	Permanent	Permanent	0	0	2
	Emnambithi/Ladysmith	-	Financially unqualified with findings	-	Permanent	Acting	0	0	0
	Indaka	-	Qualified	-	Permanent	Acting	In progress	0	1
	Umtshezi	YES	Financially unqualified with no findings	YES	Permanent	Permanent		0	1
	Okhahlamba	-	Financially unqualified with findings	YES	Permanent	Permanent	Terminated	Yes	0
	Inbabazane	-	Financially unqualified with findings	YES	Acting	Acting	In progress	Yes	0
	Endumeni	YES	Financially unqualified with findings	YES	Acting	Acting	0	0	3
	Nquthu	-	Financially unqualified with findings	-	Permanent	Permanent	0	Yes	0
	Msinga	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Umvoti	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	eMadlangeni	YES	Financially unqualified with findings	YES	Permanent	Acting	0	0	2
	Dannhauser	YES	Financially unqualified with findings	YES	Permanent	Permanent	0	0	2
	eDumbe	YES	Disclaimer	-	Permanent	Permanent	0	0	3
	uPhongolo	YES	Disclaimer	YES	Permanent	Permanent	0	0	2
	Abaqulusi	-	Disclaimer	YES	Acting	Acting	In progress	0	1
	Nongoma	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	2
	Ulundi	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	2
	Umhlabuyalingana	YES	Disclaimer	YES	Permanent	Permanent	Terminated	0	2
	Jozini	YES	Qualified	-	Permanent	Permanent	0	Yes	2
	The Big 5 False Bay	YES	Qualified	-	Permanent	Permanent	0	0	1
	Hlabisa	YES	Qualified	-	Permanent	Permanent	0	0	1
	Mtubatuba	-	Disclaimer	YES	Permanent	Permanent	In progress	0	2
	Mbonambi	YES	Financially unqualified with findings	YES	Permanent	Permanent	0	0	3
	Ntambanana	-	Financially unqualified with findings	YES	Permanent	Acting	0	0	0
	uMlalazi	YES	Financially unqualified with findings	YES	Permanent	Permanent	0	0	2
	Mthonjaneni	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
Nkandla	-	Financially unqualified with findings	-	Acting	Permanent	0	0	0	
Mandeni	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0	
Kw aDukuza	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0	
Ndwedwe	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	1	
Maphumulo	-	Financially unqualified with findings	YES	Acting	Acting	0	0	0	
Ingwe	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	1	

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Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Local Municipalities	Kwa Sani	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	2
	Greater Kokstad	YES	Qualified	-	Permanent	Permanent	0	0	1
	Ubuhlebezwe	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	Umzimkhulu	YES	Financially unqualified with findings	-	Permanent	Permanent	0	0	2
	Greater Giyani	-	Disclaimer	YES	Permanent	Permanent	0	0	0
	Greater Letaba	-	Qualified	YES	Permanent	Acting	0	0	0
	Greater Tzaneen	-	Disclaimer	YES	Permanent	Permanent	0	0	1
	Ba-Phalaborwa	-	Disclaimer	-	Permanent	Permanent	0	Yes	2
	Maruleng	-	Qualified	YES	Permanent	Acting	0	0	0
	Musina	YES	Qualified	-	Permanent	Permanent	0	0	2
	Mutale	YES	Disclaimer	-	Acting	Permanent	0	0	1
	Thulamela	-	Qualified	-	Permanent	Permanent	0	0	1
	Makhado	YES	Disclaimer	-	Permanent	Permanent	0	0	1
	Blouberg	-	Disclaimer	YES	Permanent	Permanent	0	0	0
	Aganang	-	Disclaimer	YES	Permanent	Permanent	0	0	0
	Molemole	-	Audit not finalised at legislated date	YES	Acting	Permanent	0	0	0
	Lepelle-Nkumpi	-	Disclaimer	YES	Acting	Permanent	0	0	0
	Thabazimbi	-	Disclaimer	-	Permanent	Permanent	0	0	2
	Lephalale	-	Qualified	-	Permanent	Permanent	0	0	0
	Mookgopong	YES	Qualified	YES	Permanent	Permanent	0	0	3
	Modimolle	-	Disclaimer	YES	Acting	Permanent	0	0	1
	Bela Bela	YES	Adverse Financially unqualified with findings	YES	Acting	Permanent	0	Yes	2
	Mogalakwena	YES	Financially unqualified with findings	-	Acting	Permanent	0	0	3
	Ephraim Mogale	-	Qualified	YES	Acting	Acting	0	0	0
	Elias Motsoaledi	-	Qualified	-	Permanent	Permanent	0	Yes	0
	Makhuduthamaga	-	Qualified	YES	Permanent	Permanent	0	0	0
	Fetakgomo	-	Qualified	YES	Acting	Permanent	0	0	1
	Greater Tubatse	YES	Qualified	YES	Acting	Acting	0	0	1
	Albert Luthuli	YES	Qualified	-	Permanent	Permanent	0	Yes	2
	Msukaligwa	-	Disclaimer	-	Permanent	Permanent	0	Yes	2
	Mkhondo	-	Audit not finalised at legislated date	YES	Permanent	Permanent	Terminated	Yes	0
	Pixley Ka Seme (Mp)	-	Qualified	-	Permanent	Permanent	Terminated	Yes	1
	Lekwa	YES	Disclaimer	YES	Permanent	Permanent	Terminated	0	3
	Dipaleseng	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
Victor Khanye	-	Financially unqualified with findings	-	Permanent	Acting	0	0	0	
Emakhazeni	-	Qualified	-	Acting	Acting	0	0	0	
Thembisile	-	Qualified	-	Permanent	Permanent	Terminated	Yes	0	
Dr J.S. Moroka	-	Qualified	-	Acting	Permanent	0	Yes	0	
Thaba Chweu	YES	Disclaimer	YES	Acting	Acting	Terminated	Yes	4	
Umjindi	YES	Qualified	-	Permanent	Permanent	0	Yes	2	
Nkomazi	YES	Disclaimer	-	Permanent	Permanent	0	Yes	3	
Bushbuckridge	YES	Disclaimer	YES	Permanent	Acting	In progress	Yes	2	
Moretele	-	Disclaimer	-	Acting	Permanent	0	Yes	1	
Kgetlengrivier	YES	Disclaimer	YES	Acting	Permanent	0	0	2	

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Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Local Municipalities	Moses Kotane	-	Qualified	YES	Permanent	Permanent	Terminated	0	1
	Ratlou	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Tswaing	-	Disclaimer	YES	Permanent	Permanent	Terminated	Yes	0
	Mafikeng	-	Disclaimer	YES	Permanent	Permanent	Terminated	Yes	1
	<b>Ditsobotla</b>	<b>YES</b>	<b>Disclaimer</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>commence and In progress</b>	<b>0</b>	<b>1</b>
	Ramatshere Moiloa	-	Disclaimer	YES	Permanent	Acting	0	0	1
	Kagisano-Molopo	-	Disclaimer	-	Permanent	Acting	0	0	1
	Naledi (Nw)	-	Disclaimer	-	Acting	Permanent	0	0	1
	Mamusa	-	Disclaimer	-	Permanent	Permanent	0	0	1
	Greater Taung	-	Disclaimer	YES	Acting	Acting	0	0	1
	<b>Lekwa-Teemane</b>	<b>YES</b>	<b>Disclaimer</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>3</b>
	Ventersdorp	-	Disclaimer	YES	Permanent	Permanent	0	0	3
	<b>Maquassi Hills</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>commence and In progress</b>	<b>0</b>	<b>2</b>
	<b>Joe Morolong</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	<b>Ga-Segonyana</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>1</b>
	<b>Gamagara</b>	<b>YES</b>	<b>Disclaimer</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	<b>Richtersveld</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>3</b>
	<b>Nama Khoi</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	<b>Kamiesberg</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	Hantam	-	Qualified	-	Permanent	Permanent	0	0	2
	Karoo Hoogland	-	Audit not finalised at legislated date	-	Acting	Permanent	0	0	1
	<b>Khai-Ma</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Acting</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	<b>Ubuntu</b>	<b>YES</b>	<b>Qualified</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>
	Umsobomvu	-	Financially unqualified with findings	YES	Permanent	Permanent	0	Yes	0
	Emthanjeni	-	Qualified	YES	Permanent	Permanent	0	0	1
	Kareeberg	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	3
	<b>Renosterberg</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Acting</b>	<b>Acting</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	<b>Thembelihle</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	<b>Siyathemba</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Acting</b>	<b>Acting</b>	<b>0</b>	<b>0</b>	<b>2</b>
	<b>Siyancuma</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>3</b>
	Mier	-	Audit not finalised at legislated date	YES	Acting	Acting	0	0	1
	Ikai Garib	-	Audit not finalised at legislated date	-	Permanent	Acting	0	0	2
	//Khara Hais	-	Disclaimer	YES	Acting	Permanent	0	0	0
	Ikheis	-	Disclaimer	-	Acting	Permanent	0	0	0
	Tsantsabane	-	Audit not finalised at legislated date	YES	Acting	Acting	0	0	2
	Kgatelopele	-	Audit not finalised at legislated date	YES	Permanent	Acting	0	Yes	0
	<b>Dikgatlong</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>3</b>
	<b>Magareng</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>1</b>
	Phokwane	-	Disclaimer	YES	Permanent	Permanent	0	0	0
	<b>Matzikama</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>1</b>
	<b>Cederberg</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>1</b>
	Bergrivier	-	Qualified	-	Permanent	Permanent	0	0	0
Saldanha Bay	-	Financially unqualified with findings	YES	Permanent	Permanent	0	Yes	0	
Swartland	-	Financially unqualified with no findings	-	Permanent	Permanent	0	0	0	
<b>Witzenberg</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>2</b>	

The state of local government finances and financial management as at 30 June 2013

Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Local Municipalities	Breede Valley	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Langeberg	-	Financially unqualified with no findings	-	Permanent	Permanent	0	0	0
	Theew aterskloof	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	1
	Overstrand	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Cape Agulhas	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Sw ellendam	-	Audit not finalised at legislated date	-	Acting	Acting	0	0	1
	<b>Kannaland</b>	<b>YES</b>	<b>Audit not finalised at legislated date</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>3</b>
	Hessequa	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	Mossel Bay	-	Financially unqualified with no findings	-	Permanent	Permanent	0	0	1
	Oudtshoorn	-	Audit not finalised at legislated date	YES	Acting	Acting	0	Yes	0
	Bitou	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	Knysna	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Laingsburg	-	Financially unqualified with findings	YES	Permanent	Permanent	0	Yes	1
	Prince Albert	-	Financially unqualified with findings	-	Permanent	Permanent	0	Yes	1
	Beaufort West	-	Financially unqualified with findings	YES	Permanent	Acting	0	0	2
	Cacadu	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	Amathole	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Chris Hani	-	Adverse	-	Permanent	Permanent	0	0	0
	<b>Joe Gqabi</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>YES</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	O.R. Tambo	-	Disclaimer	YES	Permanent	Permanent	0	0	2
	<b>Alfred Nzo</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>2</b>
	Xhariep	-	Financially unqualified with findings	YES	Acting	Acting	0	0	1
	Lejw eleputsw a	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Thabo Mofutsanyana	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	Fezile Dabi	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	0
	Sedibeng	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	West Rand	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Ugu	-	Qualified	YES	Permanent	Permanent	0	Yes	1
	<b>uMgungundlovu</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>1</b>
	Uthukela	-	Disclaimer	-	Acting	Acting	0	0	0
	<b>Umzinyathi</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Permanent</b>	<b>Acting</b>	<b>In progress</b>	<b>0</b>	<b>1</b>
	Amajuba	-	Financially unqualified with findings	YES	Permanent	Permanent	Terminated	0	0
	<b>Zululand</b>	<b>YES</b>	<b>Financially unqualified with findings</b>	<b>-</b>	<b>Permanent</b>	<b>Permanent</b>	<b>0</b>	<b>Yes</b>	<b>1</b>
	<b>Umkhanyakude</b>	<b>YES</b>	<b>Disclaimer</b>	<b>-</b>	<b>Acting</b>	<b>Permanent</b>	<b>0</b>	<b>0</b>	<b>3</b>
	uThungulu	-	Financially unqualified with findings	YES	Permanent	Permanent	0	Yes	0
	iLembe	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	2
	Sisonke	-	Qualified	YES	Permanent	Permanent	0	0	0
	Mopani	-	Disclaimer	YES	Permanent	Permanent	0	0	2
	Vhembe	-	Disclaimer	-	Permanent	Acting	0	0	1
	Capricorn	-	Qualified	YES	Permanent	Permanent	0	0	1
	Waterberg	-	Financially unqualified with no findings	YES	Permanent	Permanent	0	0	0
	Greater Sekhukhune	-	Disclaimer	YES	Permanent	Permanent	0	Yes	0
	Gert Sibande	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Nkangala	-	Financially unqualified with findings	YES	Acting	Permanent	0	0	1
	Ehlanzeni	-	Financially unqualified with no findings	-	Permanent	Permanent	0	0	1

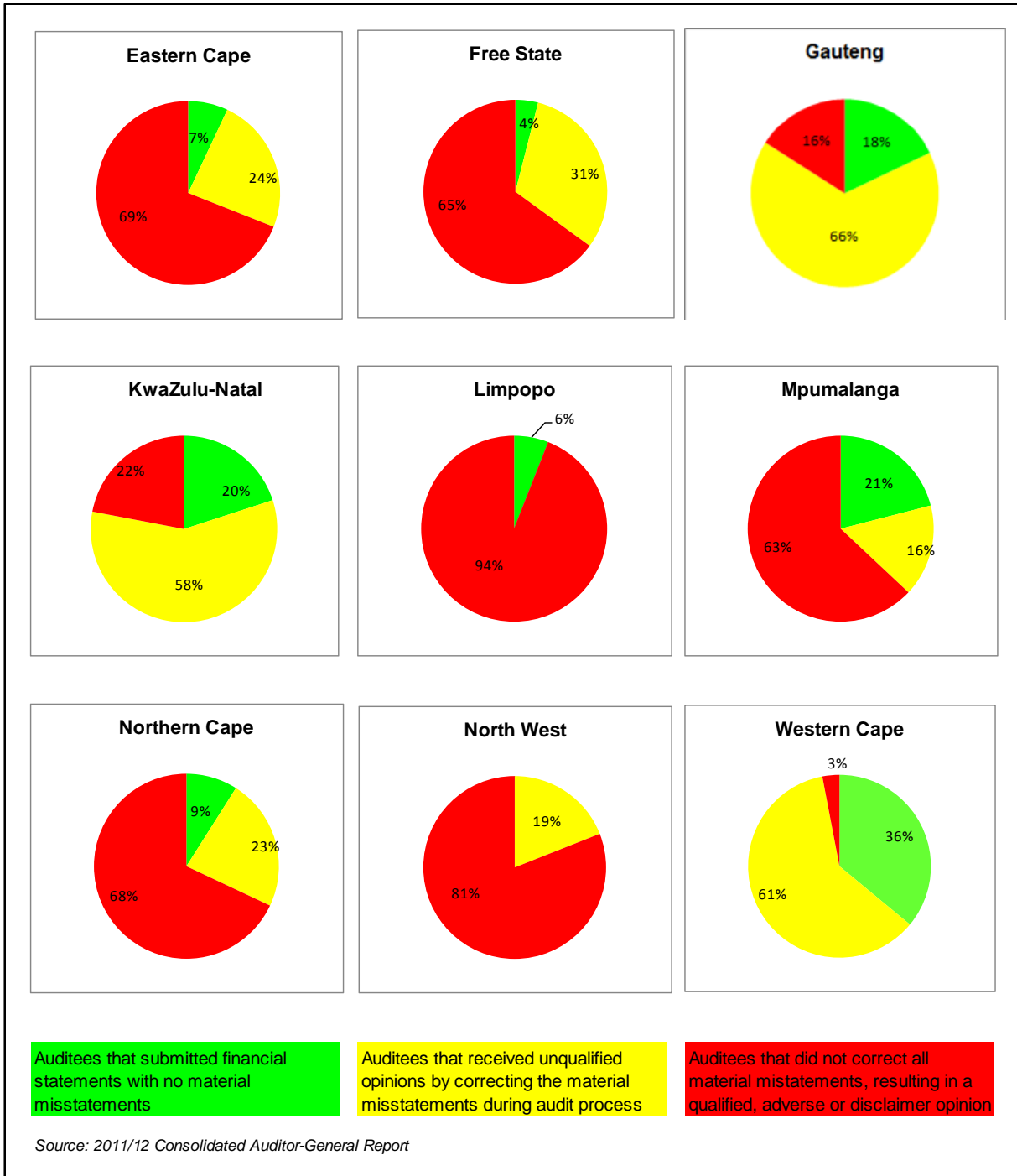
The state of local government finances and financial management as at 30 June 2013

Cat	Mun_Name	Financial Distress 2012/13	Audit Outcomes 2011/12	Persistent Capital Underspending 2011-13	MM vacant (September 2013)	CFO vacant (September 2013)	S139 Interventions (June 2013)	MFIP Support (August 2013)	Persistent Distress
Local Municipalities	Bojanala Platinum	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Ngaka Modiri Molema	-	Disclaimer	-	Permanent	Permanent	Terminated	0	1
	Dr Ruth Segomotsi Mompati	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Dr Kenneth Kaunda	-	Financially unqualified with findings	YES	Permanent	Acting	0	0	0
	John Taolo Gaetsewe	-	Qualified	-	Permanent	Acting	0	0	0
	Namakwa	-	Financially unqualified with findings	YES	Permanent	Permanent	0	0	1
	Pfikeri Ka Seme	-	Qualified	-	Acting	Permanent	Terminated	0	1
	Siyanda	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Frances Baard	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	West Coast	-	Financially unqualified with no findings	-	Permanent	Permanent	0	0	0
	Cape Winelands DM	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	1
	Overberg	-	Financially unqualified with findings	YES	Acting	Acting	Terminated	Yes	0
	Eden	-	Financially unqualified with findings	-	Permanent	Permanent	0	0	0
	Central Karoo	-	Financially unqualified with findings	-	Permanent	Acting	0	Yes	1

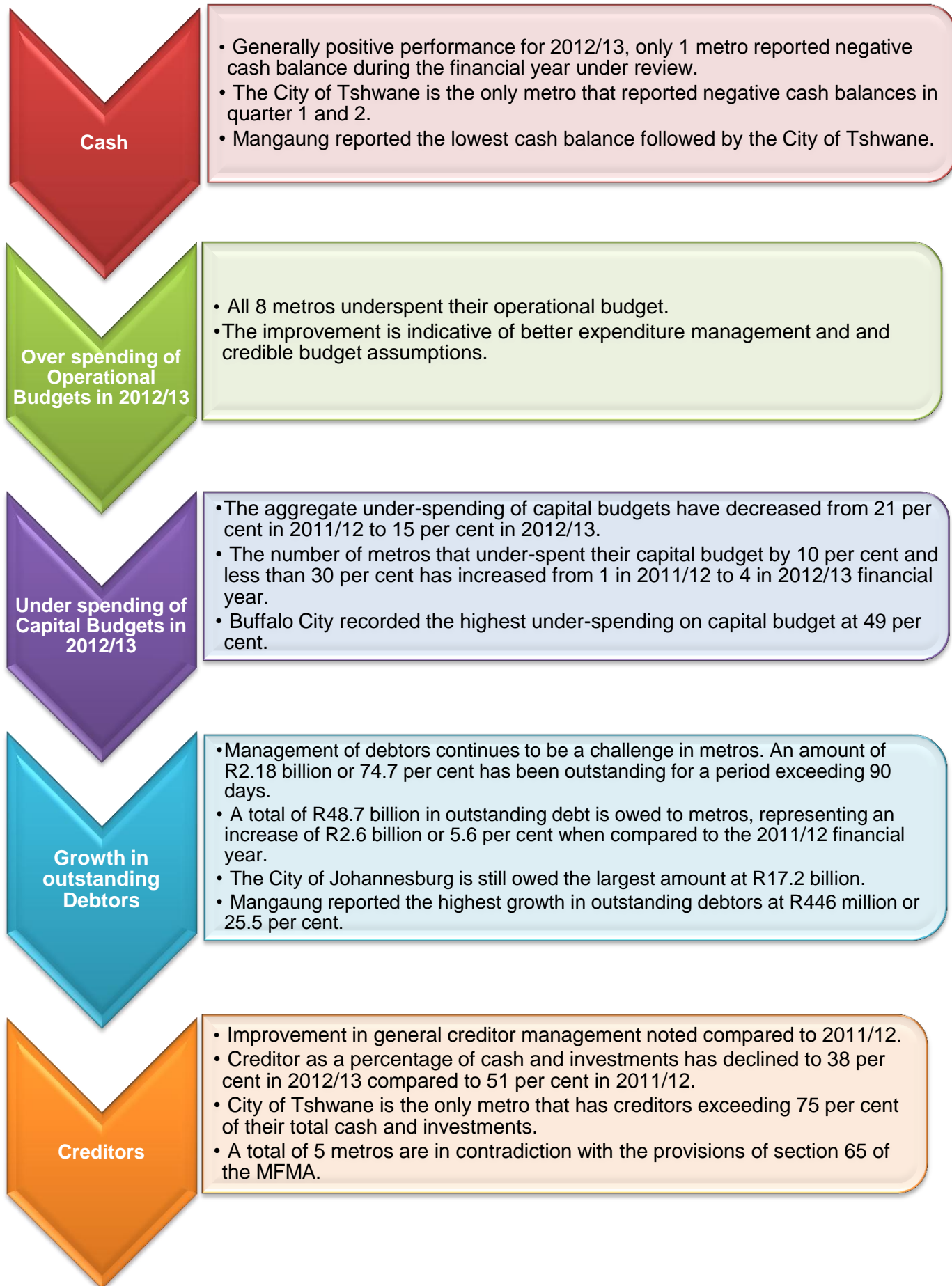
Findings arising from the audit of financial statements

Annexure D

Material misstatements in the financial statements







1. Cash Performance

	2011/12	2012/13	Overall Trend	Municipality	Risk	Action
<b>Positive Cash balance: 30 June 2012</b>	8	8	➡	All metro recorded positive cash balances	Low	None required
<b>Negative Cash balances (assessed as the number of months over the previous 6 months)</b>						
For more than 3 months	0	0	➡	None	Low	
Between 1 and 3 months	0	0	➡	None	Low	
Less than 1 months	0	0	➡	None	Moderate	Liquidity to be monitored
<b>Cash Coverage (ability of municipality to cover monthly operational expenditure):</b>						
More than 3 months of operational expenditure	1	2	⬆	Buffalo City, Cape Town	Low	
Between 1-3 months	4	5	⬆	City of Johannesburg, Ekurhuleni, Etheke wini, Mangaung, Nelson Mandela Bay	Low	
1 month or less	3	1	⬇	City Of Tshwane	Moderate to high	Requires monthly monitoring



Trend sustained over the financial year. No significant improvements or deterioration



Deterioration in trend observed



Improvement in trend observed

2. Over-spending of operational budgets

	2008/9	2009/10	2010/11	2011/12	2012/13	Overall Trend	Risk	Action
Total operating Budget (R'000)	90 094 022	105 937 858	121 642 282	135 464 283	140 446 365			
Total overspending of original operating budgets	8 380 883	10 709 429	15 026 666	12 309 581	10 134 918	⬆	Low	None
Percentage overspending	9%	10%	12%	9%	7%	⬆		
Over-spending of less than 10% of operational budget	None							
Over-spending of between 10% and 25% of operational budget	None							
Over-spending of more than 25% of operational budget	None							


### 3. Under-spending of capital budget

	2008/9	2009/10	2010/11	2011/12	2012/13	Overall Trend	Overall Risk	Action
Total Capital Budget (R'000)	27 855	26 546	20 763	20 694	26 731			
Total under-spending of original capital budget	1 840	3 191	3 560	2 173	3 997	↓	Moderate to high	None
Percentage under-spending	7%	12%	17%	11%	15%	→		
Under-spending of less than 10% of capital budget	Ekurhuleni, City of Johannesburg, Tshwane							
Under-spending of between 10% and 30% of capital budget	Nelson Mandela Bay, Mangaung, eThekweni, City of Cape Town							
Under-spending of more than 30% of capital budget	Buffalo City							

### 4. Growth in consumer debtors

	2008/9	2009/10	2010/11	2011/12	2012/13	Overall Trend	Overall Risk	Action
Total Own Revenue (R'000)	88 323 983	103 505 841	110 426 191	128 136 795	131 179 499			
Total Debtors	30 915 354	32 411 634	38 635 574	46 089 114	48 652 541	↓	Moderate to high	
Debtors as a % of own revenue	35%	31%	35%	36%	37%	→		
<b>Debtors as a percentage of own revenue</b>								
Debtors less than 15% of total own revenue	None							
Debtors between 15% and 30% of total own revenue	City of Cape Town, City of Tshwane, eThekweni,							
Debtors more than 30% of total own revenue	Buffalo City, City of Johannesburg, Ekurhuleni, Mangaung, Nelson Mandela Bay							
<b>Annual growth in debtors</b>								
Growth in debtors of less than 10% over period	City of Cape Town, Ekurhuleni, eThekweni							
Growth in debtors of between 10% and 20% over period	Buffalo City, City of Johannesburg, City of Tshwane, Nelson Mandela Bay							
Growth in debtors of more than 20% over period	Mangaung							

5. Creditor Management

	2011/12	2012/13	Overall Trend	Overall Risk	Action
Total Cash and Investments (R'000)	20 241 825	27 029 885			
Total Creditors	10 266 872	10 329 116		Moderate	
Creditors as a % of total cash	51%	38%			
Creditors less than 25% of total cash	Buffalo City, City of Cape Town, Nelson Mandela Bay				
Creditors between 25% and 50% of total cash	Ekurhuleni, Etheke w ini				
Creditors between 50% and 75% of total cash	City of Johannesburg, Mangaung				
Creditors more than 75% of total cash	City of Tshwane				