



2022 SoLGF

STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT

As at 30 June 2022

Audit Outcomes of the 2021/22 financial year
Analysis Document



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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ABBREVIATIONS

AFS	Annual Financial Statements
AGSA	Auditor-General South Africa
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CEDMF	City Economic Development Managers' Forum
CIDMS	Cities Infrastructure and Delivery Management System
CSIP	City Support Implementation Plan
CSP	Cities Support Programme
DBSA	Development Bank of Southern Africa
DPSA	Department of Public Service and Administration
DoRA	Division of Revenue Act
DoRAA	Division of Revenue Amended Act
DPME	Department of Planning, Monitoring and Evaluation
EC	Eastern Cape
FRP	Financial Recovery Plan
FM	Financial management
FMIP	Financial Management Improvement Programme
FMISD	Public Financial Management Capacity Development Programme for Improved Service Delivery
FS	Free State
CoGTA	Department of Cooperative Governance and Traditional Affairs
GT	Gauteng
GVR	General Valuation Roll
IDP	Integrated Development Plan
IT	Information technology
KZN	KwaZulu-Natal

ABBREVIATIONS

LGSETA	Local Government Sector and Education Training Authority
LP	Limpopo
Metro	Metropolitan municipality
MFIP	Municipal Finance Improvement Programme
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MP	Mpumalanga
MSA	Municipal Structures Act
mSCOA	Municipal Standard Chart of Accounts
MTEF	Medium Term Expenditure Framework
MTREF	Medium Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
NC	Northern Cape
NTSPME	National Treasury Strategic Planning, Monitoring & Evaluation
NW	North West
OCPO	Office of the Chief Procurement Officer
SALGA	South African Local Government Association
SEZs	Special Economic Zones
SCM	Supply Chain Management
SMME	Small Medium Micro Enterprises
SoLGF	State of Local Government Finances
SOP	Standard operating procedure
STATSSA	Statistics South Africa
WC	Western Cape

EXECUTIVE SUMMARY

The National Treasury publishes the State of Local Government Finances and Financial Management Report annually in accordance with Section 5 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) as part of its oversight responsibility with regard to municipal financial management.

The 2022 State of Local Government Finances and Financial Management Report uses a set of preset financial ratios and audited financial data to give a quantitative analysis of the financial health of 257 municipalities. The information included in this report is taken from the 2021/22 financial year's audited Annual Financial Statements (AFS).

The local government system is affected by the recurring challenges of institutional ineffectiveness, poor governance which has a negative impact on the quality of services delivered and the financial health of municipalities. At the centre of this is the fragile and distressed political and administrative leadership. In addition, the actuality of the hung councils and the coalition government at some municipalities have led to political instability as most council sittings and other legislated political programmes are not taking place.

Over a number of years, the national government has invested financial and technical resources as part of capacity building initiatives meant to assist municipalities with the municipal budget and financial management reforms. However, there is still a high number of municipalities that are in financial distress. 112 municipalities adopted unfunded budgets and unable to pay their creditors within the legally required 30 days of receiving an invoice as legislated and are also having poor collection rates that are below the norm of 95 per cent.

The Auditor General of South Africa (AGSA) indicated that although the new administration of local government was in place for part of the 2021/22 financial year, there was inevitable instability in the transition, which deteriorated ongoing failures in accountability and performance at municipalities. Despite all that, there have been pockets of improvement and continued excellence at some municipalities that maintained their clean audit status. In addition, the AGSA report also indicates that sixteen (16) municipalities had outstanding audits, and this is a major deterioration since 2015/16 financial year. On the contrary, the assessment of the state of local government finances and financial management undertaken in this report also exposes that municipalities can still be in financial distress even though they achieved clean audits. Although there are municipalities that subsequently concluded their audits after the period under review, this report is mainly based on the status quo as at 30 June 2022.

Notwithstanding the persistent messages on the ineffective use of consultants, there is still over-reliance on consultants which led to high financial consultancy costs that increased from R1.3 billion in 2020/21 to R1.5 billion in 2021/22 financial year. This is concerning as there are no long-term plans to reduce the overreliance on consultants which results in consultants building a system of dependency and not capacitating municipalities.

A total of 38 municipalities were recorded to be placed under intervention as follows: North West (8 municipalities) followed by Free State (7), Eastern Cape (6 municipalities), Mpumalanga (5 municipalities), Northern Cape (4 municipalities), Limpopo (3 municipalities), Gauteng (3 municipalities), Western Cape and KwaZulu-Natal (1 municipality each). In addition, 9 municipalities were also supported with voluntary Financial Recovery Plans (FRP).

To address capacity challenges, the National Treasury supports the municipalities through various programmes such as

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the City Support Programme (CSP), Municipal Finance Improvement Programme (MFIP), minimum competency levels and revenue management. A new approach to Financial Recovery Plans was introduced consisting of a rescue phase, stabilisation phase and sustainability phase. In addition, National Treasury is collaborating with other stakeholders such as the Department of Cooperative Governance (DCoG), South Africa Local Government Association (SALGA), and the Financial and Fiscal Commission (FFC) to implement the reforms to review the local government capacity building system.

The 2021/22 financial results revealed that the state of local government finances and financial management is not improving. Even if the number of municipalities that are in financial distress decreased from 165 in 2020/21 to 157 in 2021/22, the state of municipal finances remains a cause for concern. There are serious financial problems in about half of municipalities in South Africa. These problems include weak revenue collection efforts, significant operational deficits and a growth in the rand value of creditors. Of concern is the growing number of municipalities, in most cases the small local municipalities that are failing to pay third parties such as pension funds, which is a criminal offence. The most significant contributing factors to these financial problems in municipalities are:

- **Negative cash and cash equivalents balances at year end.** A total of 15 municipalities had negative cash balances at the end of 2021/22, comprising of one (1) metro, 12 locals and two (2) districts. The municipalities that have negative cash balances at year-end usually have serious financial management problems. When a municipality does not have enough liquid cash to pay salaries and suppliers, it is likely to result in serious cash flow problems;
- **Inadequate cash and investments to pay current obligations (liquidity ratio).** A total of 188 municipalities made up of seven (7) metros and 19 secondary cities indicated that their cash and investments were inadequate to cover current liabilities. Furthermore, 137 local municipalities and 25 district municipalities also had inadequate cash and investments available to pay current liabilities. This is a deterioration when compared to a total of 179 municipalities in 2020/21;
- **Negative current ratios (current liabilities exceed current assets).** Five (5) metros have indicated that their current assets are less than the current liabilities in 2021/22, this presents a significant risk as metros are the drivers of economic growth and indicates financial problems;
- **Unfunded budgets remain high.** A total of 112 municipalities adopted unfunded budgets in 2021/22, an increase compared to 106 municipalities in 2020/21. Unfunded budgets contravene the provisions of Section 18 of the MFMA and this indicates that municipalities are overestimating their anticipated revenue and plan excessive spending, which often results in a financial crisis;
- **Inadequate infrastructure investments.** Funding for capital infrastructure remains an ongoing challenge for many municipalities. Lack of infrastructure investment deters the ability of municipalities to address service delivery backlogs and to support more rapid economic growth. A total of 94 municipalities spent less than 10 per cent of their total expenditure on infrastructure in 2021/22, while the norm is between 10 to 20 per cent of the total budget of the municipality;
- **Persistent underspending on repairs and maintenance of existing infrastructure.** More than 90 per cent of municipalities spent below the 8 per cent norm on repairs and maintenance of their assets. Asset maintenance is fundamental to prevent breakdowns of infrastructure assets and to avoid interruptions to service delivery. A total of 235 municipalities spent less than 8 per cent of repairs and maintenance on assets while only 25 municipalities have met the target of 8 per cent;
- Similarly, **spending on renewal and upgrading of existing assets remains substantially low.** A total

EXECUTIVE SUMMARY

of 157 municipalities under invested in asset renewal below the recommended 40 per cent of the capital budget. This is an indication that municipalities are not prioritising asset management to ensure sustainability of services beyond the initial or original useful life of the asset. Another concerning factor is that many of these infrastructure assets have decreased in value and others have become obsolete. Therefore, underspending on asset renewal increases the risk of future asset deterioration;

- **Distribution losses remains high due to ageing infrastructure.** Many municipalities are experiencing revenue losses in water and electricity due to ageing and poor condition of their infrastructure assets;
- **Inability to access capital markets to meet infrastructure investment needs.** Many municipalities, particularly smaller towns, do not have the capacity to borrow or take up additional borrowing due to their revenue limitations or cash flow challenges and therefore remain grant dependent;
- **High creditors payment periods and escalating amounts owed to creditors, especially Eskom and Water Boards.** Only 33 municipalities settled their creditors within 30 days of receiving the invoice in 2021/22 while 224 took more than 30 days to pay creditors. One of the first indications of cash flow problems or a lack of appropriate and efficient measures to ensure prompt payments is the failure to pay creditors within 30 days. This is another regression in paying for services on time as there were 47 municipalities in the 2020/21 that managed to pay creditors within 30 days; and
- **Persistent underspending on conditional grants.** Municipalities lost R3.8 billion to the national fiscus due to unspent conditional grants. The municipal disaster and relief grants recorded performance of 40.8 per cent and 59 per cent respectively and this underperformance is concerning given the inherent need to address disasters as they occur.

To address the municipal failures in a more efficient and effective manner, the Municipal Financial Recovery Services (MFRS) unit of the National Treasury developed and implemented a new phased approach that directed the development of financial recovery plans in municipalities.

INTRODUCTION

1. This is the eleventh report of the State of Local Government Finances and Financial Management (SoLGF) published annually by the National Treasury. The report provides an assessment of the state of municipal financial health for the financial year that ended on 30 June 2022. It also reviews the overall performance of local government including the analysis of financial health as well as structural and operational challenges impeding the effective functioning of municipalities. In the previous reports, the municipalities in financial distressed were identified, the steps were taken to initiate the applicable intervention mode in line with the extent of the financial and service delivery challenges.
2. The information contained in this report is based on the financial information submitted by municipalities to the National Treasury's Local Government Database and Reporting System (LGDRS). Even though municipalities were given the opportunity to verify the accuracy and consistency of financial information, there are still discrepancies between the data on the LGDRS system and the information in the audited annual financial statements. It remains the responsibility of a municipality to ensure that data on the LGDRS reconciles with the audited information since the National Treasury only utilises the data from LGDRS to conduct any analysis. This is to enforce compliance with the requirements of the Municipal Standard Chart of Accounts (*mSCOA*).
3. The *mSCOA* regulation requires municipalities to upload financial information in a data string format on the Local Government Upload portal using the six *mSCOA* regulated segments. The regulations additionally require municipalities to plan, budget, transact and report directly from their financial systems that are *mSCOA* compliant to ensure consistency of data. However, several municipalities are still not planning, budgeting, transacting, and reporting directly in or from their core financial systems. Reports are manually prepared on excel spreadsheets and then imported into the financial system for submission to the LG Upload portal. This results in discrepancies in data. At the core of this problem is:
 - Incorrect use of the *mSCOA* chart and municipal accounting practices by municipal officials;
 - Some municipalities do not perform checks at month-end to ensure prudent financial reporting; and
 - Poor or no Information and Communication Technology (ICT) upgrades (servers, hardware and software) and maintenance, resulting in the ICT environment not being able to cope with the modern technology required to implement *mSCOA*.
4. The AGSA reported that a total of sixteen (16) audits were not finalised timeously as municipalities did not submit the financial statements by the legislated date. At the time of writing this report, 11 municipalities were unable to upload the 2021/22 audited *mSCOA* data strings successfully to the local government database. Of these 11, three (3) submitted with technical errors and eight (8) had not submitted due to the incomplete audit process, which means that five (5) municipalities eventually concluded the audit and subsequently submitted the audit data strings. Figure 1 below depicts the municipalities with outstanding 2021/22 data strings, and of concern is that the City of Tshwane is the only Metro that submitted with errors and no corrections have been made.

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Figure 1: Number of municipalities with outstanding/ submitted with errors 2021/22 audited data strings

Demarcation Description	Demarc Code	CAP	Financial Year	Submission Code		Due Date	Status of Schedule	Date of Version of Submission	SCOA Version Submission	Closed/ Op	
Financial Data											
Location Level Selected: National (All)											
Province : EASTERN CAPE (EC)											
Senqu	EC142	M	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Province : FREE STATE (FS)											
Kopanong	FS162	M	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Mantsopa	FS196	M	2022	AUDA	Audited Actuals	2023/01/31	Submitted/with Errors	2023/06/26 01	6.5	C	
Masilonyana	FS181	L	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Nala	FS185	M	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Province : GAUTENG (GT)											
City of Tshwane	TSH	H	2022	AUDA	Audited Actuals	2023/01/31	Submitted/with Errors	2023/07/17 01	6.5	C	
Province : KWAZULU-NATAL (KZ)											
Umkhanyakude	DC27	M	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Province : LIMPOPO (LP)											
Waterberg	DC36	L	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Province : NORTH WEST (NW)											
Ditsobotla	NW384	L	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	
Kgetlengrivier	NW374	L	2022	AUDA	Audited Actuals	2023/01/31	Submitted/with Errors	2022/08/02 02	6.5	C	
Province : WESTERN CAPE (WC)											
Bitou	WC047	M	2022	AUDA	Audited Actuals	2023/01/31	Outstanding		6.5	C	

5. Notwithstanding the data challenges, this report provides a broad and high-level perspective of key financial trends and indicators commonly used in both public and private sectors. National Treasury publishes this report annually in accordance with Section 5 of the MFMA as part of its monitoring and oversight responsibility pertaining to municipal financial management. This report is also a useful instrument for municipal councils, sector departments, provincial treasuries, legislature and Parliament in making strategic decisions about municipalities.

INTRODUCTION

6. Annexure A1 identifies municipalities in financial distress based on the assessment of their financial health. About 157 municipalities were identified to be in varying degrees of financial problems. These financial problems are typically characterised by poor cash flow management, increasing debtors' books and creditors, as well as inadequate repairs and maintenance on infrastructure. Even worse, some of these municipalities have repeated disclaimed audit opinions and unfunded budgets.
7. Annexure A2 contains an analysis of municipalities in financial distress, audit outcomes and unfunded budgets for a five-year period. The list in Annexure A2 shows that 10 of the 38 municipalities that obtained unqualified audit opinions without findings are in financial distress. As a result, it can be concluded that there is no correlation between financial problems and audit results. For instance, clean audit does not always imply sound financial health. In addition to this, a total of 50 of the 104 municipalities that obtained unqualified audit opinions with findings are in financial distress.

UNDERLYING ISSUES IN THE LOCAL GOVERNMENT SYSTEM AND VIABLE SOLUTIONS

8. The state of local government finances has worsened over a few years and that did not take place in isolation, but parallel to the poor and or declining governance, institutional arrangements, and service delivery. Central to these are weak leadership both at the political and administrative level. Therefore, the deterioration in the Local Government system can also be attributed to the failures at the political level, that is, municipal councils, which adversely impact the administrative level including the Executive Management Team led by the Accounting Officer. Subsequently, this led to the serious decline in the local government financial management and sustainability with several municipalities increasingly being unable to fulfil their legislative mandate.
9. The political factionalism has direct impact on the quality of the administration employed by the municipalities, and this is because the political leadership tend to take the instructions from political principals that are outside of the formal governance structure on who to employ.
10. To address these challenges, there have been initiatives through the development of regulations as well as the capacity building support programmes to both the political office bearers and administrators. For example, the introduction of the local government regulations (introduced by the ministry of Cooperative Governance and Traditional Affairs in January 2014) on the appointment and conditions of service for executive managers which prescribe the process for the recruitment, selection and appointment of senior managers in local government. Similarly, His Excellency, President Cyril Ramaphosa signed into law the Municipal Systems Amendment Bill which prevent municipal and senior managers from holding political office. The legislation prevents officials in municipalities from holding political office in a party, whether in a permanent, temporary, or acting capacity. Moreover, the Act clarified that managers directly accountable to the municipal manager, which are section 56 managers, may be appointed on a permanent basis and the objective is to provide security of tenure against the context that, in most cases, they are obligated to the politics of the day.
11. The formation of coalitions within the local government sphere has resulted in some level of instability as the municipalities that have coalitions have become a major issue since the 2016 and 2021 local government elections, when an increasing number of municipalities, including the biggest metropolitan cities, had so-called 'hung councils', i.e. no single party won a majority of the council seats. Therefore, this requires systemic changes on political governance to address the current failures which includes, amongst others:
 - the development of legislation that will provide guidance on the governance of coalition government and accountability framework on all coalitions;
 - review the role of District government to create an administrative hub that will house expertise and shared services for the local municipalities within the district;
 - developing minimum competencies for appointment of councillors which will enable local government to be treated as a business and ensure that they are able to perform their functions; and
 - the development of a blacklisting criterion for councillors involved in wrongdoing to ensure consequence management.

UNDERLYING ISSUES IN THE LOCAL GOVERNMENT SYSTEM AND VIABLE SOLUTIONS

12. Most municipalities have bloated organisational structures, high proportion of vacancies, absence of suitably competent senior managers and Chief Financial Officers (CFOs) which take up most of the budget expenditure beyond the prescribed norm and affordability. Most municipalities lack appropriate skills and there are levels of vacancies for technical directors and budget and treasury offices. These further increases expenditure pertaining to the use of technical and financial consultants.
13. The domino effect of institutional incapacity is seen in the inability of municipalities to fully spend the allocated conditional grants meant to build service delivery infrastructure. A total of R3.8 billion was paid back to the national fiscus in 2021/22 due to skills gaps in the budget and treasury office, finance and project management units. Therefore, an accountability framework must be applied, and action taken against officials failing to spend budgets.
14. The ongoing initiative to address unfunded budgets and the criteria that will drive the utilisation of Section 216(2) of the Constitution (withholding of the Equitable Share) as a punitive measure for persistent non-compliance is critical. This is also related to the 43 municipalities that were identified to be in financial and service delivery crisis as the vast majority are battling to adopt funded budgets. Therefore, the oversight role of treasuries must be strengthened to ensure that municipalities are supported before they reach a state of collapse which will limit occurrence of interventions. However, it is critical to ensure that the correct mode of intervention is imposed to the municipality in order to achieve the outcomes that are meant to turn this around.

SPIRAL INCREASE OF DEBT OWED BY MUNICIPALITIES

15. The total debt owed to creditors increased from R51.1 billion in 2017/18 to R89.7 billion in 2021/22 financial year. Of this debt, 64.9 per cent or R58.2 billion is the debt that is overdue for more than 90 days.
16. Of concern is that municipalities are failing to pay creditors within the 30-day period, which is due to the cash flow challenges. This is evident in the ESKOM debt that is spiraling out of control from R19.4 billion in 2017/18 to R39.8 billion in 2021/22. Similarly, the upward trend on the electricity tariff increases by Eskom have also impacted on consumer's ability to pay for services giving rise to low collection rates. This has resulted in ESKOM taking municipalities to court to enforce payment resulting in the attachment of municipalities' assets which further exacerbate the debt.
17. The municipalities are also not paying the water boards within the prescribed period and as at 30 June 2022, the total debt was R15.1 billion of which R12.6 billion was for the debt that was more than 90 days overdue. The non-payment of water boards debt is threatening the consistent and provision of quality water services to communities. In addition, due to the lack of adequate maintenance and upgrading of water infrastructure, most municipalities suffer major water losses which are mostly not accounted for. All these challenges ultimately force the water boards to consistently enforce water restrictions on non-paying municipalities, including legal processes to attach municipal bank accounts where necessary and the installation of bulk prepaid meters in municipalities with a poor payment record.

UNDERLYING ISSUES IN THE LOCAL GOVERNMENT SYSTEM AND VIABLE SOLUTIONS

18. While municipalities are struggling to pay its creditors, there are some creditors who take an opportunity to defraud municipalities by submitting invalid invoices, impose unjust litigations and therefore municipalities are unable to defend the immediate attachment of their assets and bank accounts.

CONSUMER DEBT OWED TO MUNICIPALITIES

19. Outstanding consumer debt was R255.4 billion as at 30 June 2022 which is an increase of 99.5 per cent compared to the R128 billion at 30 June 2021. The trend between the 2017/18 and 2021/22 financial years reflects that total debt increased by 78.4 per cent and mostly driven by non-payment of municipal services, VAT receivables and monthly billing inaccuracies. While households continue to be the largest contributor to municipal debt comprising 71.2 per cent of the total, non-payment is widespread across all consumer groups with the government debt at 6.7 per cent and businesses at 20 per cent.
20. Although it is understood that there has been an economic decline, municipalities seems reluctant to fully implement their approved credit control and debt collection, more especially the enforcement of Section 118(1) of the Municipal System Act (Act No. 32 of 2000) which compel the Registrar of Deeds not to register the transfer of immovable property without the production of a rates clearance certificate, confirming that all amounts due to the municipality in respect of that property for service fees, levies, rates and taxes for the two years preceding are paid. In addition, consumers' dissatisfaction with service delivery, and poor municipal billing are all possible causes of increased municipal debt. Therefore, paying customers want to see visible delivery of services before paying for accounts.
21. Included in the outstanding debt is an amount of R219.3 billion, which is debt older than 90 days (historic debt that has accumulated over an extended period), interest on arrears and other recoveries which may not be realistically collectable by municipalities.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

INDICATORS OF MUNICIPAL FINANCIAL HEALTH

22. This report evaluates the state of municipal finances using 13 key indicators identified in the Funding Compliance Methodology¹ and MFMA Circular No. 42 (Funding a Municipal Budget) as outlined by figure 2 below. These indicators give a broader perspective of the financial health of municipalities and are only used for the purposes of this report.

Figure 2: Indicators of municipal financial health

Indicators	Method
Cash/cash equivalent position	Cash + Short Term Investments - Bank Overdraft
Cash Coverage	$(\text{Cash} + \text{Short Term Investments} - \text{Bank Overdraft}) / (\text{Employee related costs} + \text{Remuneration of councillors} + \text{Finance charges} + \text{Bulk purchases} + \text{Contracted services} + \text{Repayment of borrowing} + \text{Other materials} + \text{Other expenditure} + \text{Cash transfers \& grants}) / 12)$
Cash plus investments less applications	Cash + Short Term Investments + Long Term Investments - Bank Overdraft Less Application of Cash
Repairs and maintenance expenditure level	Repairs & Maintenance as a % of Property Plant and Equipment (carrying (value)
Asset renew all rehabilitation expenditure level	$(\text{Total Renewal of Existing Assets} + \text{Total Upgrading of Existing Assets}) / \text{Total Capital Expenditure}$
Asset renew al/ Depreciation level	$(\text{Total Renewal of Existing Assets} + \text{Total Upgrading of Existing Assets}) / \text{Depreciation \& asset impairment}$
Total CAPEX as Percentage of Total Expenditure	$(\text{Total capital expenditure} / (\text{Total operating expenditure} + \text{Total capital expenditure})) \times 100$
Liquidity Ratio	$(\text{Cash} + \text{Short Term Investments}) / \text{Total Current Liabilities}$
Debtors Days	$(\text{Total consumer debtors} / (\text{Property Rates} + \text{Service charges electricity revenue} + \text{Service charges water revenue} + \text{Service charges sanitation (revenue} + \text{Service charges refuse revenue})) \times 365$
Creditors Days	$(\text{Trade payables} / (\text{Bulk purchases} + \text{Other materials} + \text{Contracted services} + \text{Other expenditure} + \text{Total Capital Expenditure})) \times 365$
Debt (Total Borrowing) vs Total Operating Revenue	$(\text{Bank overdraft} + \text{Current Liabilities borrowings} + \text{Non Current Liabilities borrowings}) / \text{Total operating revenue}$
Current Ratio	Current Assets / Current Liabilities
Solvency Ratio	Total Assets / Total Liabilities

1. The origin of the funding compliance methodology is derived from Section 18 of the MFMA. Section 18 of the MFMA requires that a municipality's annual budget must be 'funded' from either (a) realistically anticipated revenues to be collected, (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes, or (c) borrowed funds (but only for the capital budget). The regulations require the presentation of all the information needed to evaluate whether a municipality's operating and capital budgets are 'funded' or not. The 'funding compliance' process is described in MFMA Circular No. 42 and the Funding Compliance Guideline.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

ASSESSING THE LIQUIDITY LEVELS OF MUNICIPALITIES (CASH/CASH EQUIVALENTS, CASH COVERAGE AND LIQUIDITY POSITION)

23. Assessing liquidity levels is essential to determine whether municipalities have adequate cash and investments to meet their financial commitments or sustain their operations. A municipality is likely to experience serious financial problems that escalate into a crisis and inevitably lead to dysfunctionality if it is without good cash flow management and a solid liquidity risk management strategy.
24. In addition, a municipality must always maintain a positive cash position throughout the financial year and efficiently manage its cash resources to avoid an overdraft position. Section 45 of the MFMA prohibits municipalities from closing their financial year with any short-term borrowing or overdraft. Three sub-indicators are used to provide a more holistic view of municipalities' cash position:
 - A positive or negative cash balance at the end of the financial year;
 - Persistent or temporary negative cash balances; and
 - The cash coverage ratio of the municipality – the ability to continue funding monthly operational expenditure from available cash.

INDICATOR 1: NEGATIVE CASH BALANCES

25. In some instances, most municipalities may have temporary cash flow problems as a result of poor collection rates and slow economic growth. Some of these municipalities can, however, recover and offset any cash shortfalls before the end of the financial year through effective cash flow management. It is prudent for a municipality that experiences persistent cash problems to constantly examine its revenue and expenditure and cash flow projections to avoid a shortfall.
26. Table 1 below shows municipalities with negative cash balances for the periods 2020/21 to 2021/22. Though a single instance of negative cash flow is seldom a crisis, this financial irregularity may not be sustainable if it is not controlled and properly managed. Municipalities that persistently end their financial year with a negative cash balance are more likely to be in serious financial problems.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

Table 1: Municipalities' negative cash balances, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No.of municipalities with negative cash balances	1	1
Secondary Cities (19)		
No.of municipalities with negative cash balances	3	0
Other Local Municipalities (Towns) 186		
No.of municipalities with negative cash balances	16	12
District Municipalities (44)		
No.of municipalities with negative cash balances	1	2
All municipalities (257)		
No.of municipalities with negative cash balances	21	15

Source: National Treasury - Local Government Database

27. At the end of 2021/22, a total of 15 municipalities had negative cash balances compared to 21 municipalities in the previous year (2020/21). Three (3) of these 15 municipalities had recurring negative cash balances from the previous 2020/21 financial year. In relation to Table 1 above, the following observation can be made:
- The City of Tshwane improved in 2021/22 and closed the year with a positive cash balance after reporting a negative position for two consecutive financial years. Notably, eThekweni was the only metro that closed the 2021/22 financial year with a negative cash balance;
 - Free State province had six (6) municipalities that reported negative cash balances for 2021/22, which is the highest compared to other provinces; and
 - Two (2) district municipalities namely, Umzinyathi in KwaZulu-Natal and Overberg in the Western Cape Province, reported negative cash balances in 2021/22.

INDICATOR 2: CASH COVERAGE RATIO

28. The cash coverage ratio is crucial to measure whether a municipality has adequate cash to meet its monthly fixed operational costs. If a municipality has a ratio below one month, it signals potential financial problems and that its ability to meet its obligations to provide basic services or meet its financial commitments is compromised. The trend of the cash coverage ratio over time is important to determine the change in a municipality's financial position. It is generally accepted that a prudent level of cash coverage should be between one and three months of operational expenditure. Table 2 below shows the number of municipalities that had negative cash coverage at the end of June 2022.
29. Metros and secondary cities make up the majority of the municipalities with strong financial position and positive cash coverage ratios.

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Table 2: Municipalities' cash coverage, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	2	2
between 1 and 3 months of operational expenditure	2	2
Less than one month of operational expenditure	4	4
Secondary Cities (19)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	1	3
between 1 and 3 months of operational expenditure	6	9
Less than one month of operational expenditure	12	7
Other Local Municipalities (Towns) 186		
No. whose cash coverage is:		
more than 3 months of operational expenditure	63	61
between 1 and 3 months of operational expenditure	41	30
Less than one month of operational expenditure	82	95
District Municipalities (44)		
No. whose cash coverage is:		
more than 3 months of operational expenditure	22	22
between 1 and 3 months of operational expenditure	10	9
Less than one month of operational expenditure	12	13
All Municipalities (257)		-
No. whose cash coverage is:		
more than 3 months of operational expenditure	88	88
between 1 and 3 months of operational expenditure	59	50
Less than one month of operational expenditure	110	119

Source: National Treasury - Local Government Database

30. At the end of 2021/22, 119 municipalities (46.3 per cent) had a cash coverage ratio of less than one month, indicating that they lacked adequate funds to cover one month's worth of operating expenses. A total of 88 municipalities (34.2 per cent) had cash coverage ratios that were greater than three months of operational expenditure in 2021/22. Further analysis demonstrates that:
- Four (4) metros (eThekweni, City of Tshwane, City of Johannesburg and City of Ekurhuleni) had cash coverage ratios of less than one month of operational expenditure and eight (8) secondary cities had cash coverage of less than a month of operational expenditure;

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- The Nelson Mandela Bay metro has maintained positive cash coverage of more than three (3) months of operational expenditure for the past three financial years, and together with the City of Cape Town, they are the only metros that managed to record the cash coverage of more than three (3) months; and
 - Only three (3) secondary cities namely, George, Stellenbosch and JB Marks, had adequate cash to cover its operational expenditure for more than three months, while the other local municipalities with cash coverage of more than three months slightly decreased from 63 in 2020/21 to 61 in 2021/22.
31. Amongst the factors that contribute to this poor cash flow management in municipalities, the most common are:
- *Overspending of operational budgets* – many municipalities are spending beyond their budgets and resulting in them accessing bank overdraft facilities to cover this overspending. This has led to most municipalities being under severe financial pressure to meet their financial commitments;
 - *High monthly fixed costs* – a number of municipalities are struggling with high fixed costs such as salaries and wages, remuneration of councilors, contracted services, interest and redemption on loans, which constitutes almost 50 per cent of their budgets;
 - *Poor financial planning* – municipalities fail to perform good cash flow forecasts during the budget process. Therefore, it is anticipated that these municipalities will experience cash shortages and eventually find themselves in an unstable financial situation; and
 - *Inadequate cash flow management* – the lack of a clear, comprehensive policy on cash flow management backed by a realistic cash management plan led to ineffective cash flow management. This also includes the lack of a well-defined investment or cash backed reserves strategy to ensure that cash surpluses are properly invested.
2. The municipalities are on many instances cautioned by the National Treasury about potential risks that might negatively impact on financial sustainability. The following scenarios could result in financial problems and adverse cash positions for a municipality with a low (vulnerable) cash coverage ratio:
- Declining economic environment might have a detrimental impact on municipalities' revenue collections and cash flows;
 - Alternative source of water and electricity which will affect the municipalities' revenue streams;
 - Changes in revenue levels as a result of changes in consumption patterns;
 - Escalating rates and tariffs will affect households' disposable income and affordability levels, and ultimately affect municipalities revenue streams;
 - Emergencies and natural disasters such as floods, drought and fire;
 - Major breakdown or service interruptions (particularly for water and electricity) will result in significant loss of revenue;
 - Illegal connection of electricity and water, including tampering of water and electricity meters;
 - Ineffective cash flow management on a monthly basis or inefficient internal controls required to support sound financial management;
 - Non-implementation of debt collection and credit control policies; and
 - Lack of discipline with regard to the implementation of cost containment measures.

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32. National and provincial treasuries have made concerted efforts to monitor cash flow positions of municipalities through the in-year monitoring system and annual strategic engagements i.e., budget and benchmark engagement and mid-year budget and performance engagement. These engagements have been institutionalised by the National Treasury to improve and strengthen the monitoring and oversight of municipal performance. Therefore, sound cash flow management practices should be enforced to ensure that a municipality is able to identify the early warning signs of financial distress and avoid them.

INDICATOR 3: CASH PLUS INVESTMENTS LESS APPLICATIONS OR COMMITMENTS

33. Municipalities must have adequate cash and investment to cover their financial obligations (current and future operations) and be able to accumulate cash reserves². This is to ensure that municipalities have a buffer against internal and external risks and adequate funding to achieve their strategic objectives.
34. Cash and investment management is one of the most important requirements for financial sustainability and must be closely monitored to ensure that a minimum amount of cash is set aside for capital replacement projects or defined purposes. Most metros and secondary cities invest their cash surpluses to maximise return on investment.
35. Table 3 below shows municipalities that still had a positive cash surplus after taking into consideration all their commitments for the period 2020/21 and 2021/22.

2. Cash reserves refer to the money a municipality set aside for short-term, emergency or future funding needs. Metro and secondary cities are expected to maintain substantial cash reserves to fund the capital budget and also to create an adequate buffer for above normal spending in-year, including underperformance on revenue.

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Table 3: Cash plus investments less applications, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	4	5
Shortfal (negative)	4	3
Secondary Cities (19)		
Surplus (positive)	6	10
Shortfal (negative)	13	9
Other Local Municipalities (Towns) 186		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	77	77
Shortfal (negative)	109	109
District Municipalities (44)		
No. municipalities with surplus/shortfall after commitments		
Surplus (positive)	23	23
Shortfal (negative)	21	21

Source: National Treasury - Local Government Database

36. The total number of municipalities with positive cash-backed accumulated surpluses after taking into account commitments have marginally increased from 110 in 2020/21 to 115 in 2021/22, while municipalities with cash shortfalls have decreased from 147 in 2020/21 to 142 in the same period. To comply with statutory requirements, municipalities must have adequate cash and investments to cover all commitments such as unspent conditional grants, working capital requirements, commitments resulting from employee benefits, or any other reserves required to be cash backed.
37. Further analysis demonstrates that:
- Five (5) metros, City of Cape Town, City of Tshwane, Mangaung, Buffalo City and Nelson Mandela Bay had a positive cash-backed accumulated surplus at the end of 2021/22. Only 10 secondary cities had positive cash-backed accumulated surpluses with an improvement observed at Madibeng, JB Marks, Drakenstein and George municipalities which reported negative balances at the end of 2020/21 financial year;
 - It is disturbing that, despite having budgeted for significant surpluses at the beginning of the year, only a few municipalities had adequate cash and investments at the end of the financial year to cover all of their financial obligations (current and future operations); and
 - Moreover, there is a concerning trend showing that municipalities projects significant cash surpluses at the beginning of the year, however, end up with deficits or financial shortfalls at the end of the audit year.

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INDICATOR 4: LIQUIDITY RATIO

38. The liquidity ratio is an important measure for assessing a municipality's ability to settle its debt obligations with cash and investments without acquiring external funding. Regardless of the probable economic challenges, municipalities with strong liquidity positions will have adequate cash to satisfy their current obligations. This ratio simply compares a municipality's cash and investments, which are its most liquid assets, to its current liabilities (amounts due to be paid within 12 months). It also shows how frequently the cash and investments are used to pay short-term debt obligations.
39. Table 4 below shows the liquidity positions of 257 municipalities between the 2020/21 and 2021/22 financial years. Overall, 69 municipalities demonstrated solid liquidity in 2021/22 compared to 78 municipalities in 2020/21 which is a deterioration.

Table 4: Liquidity ratio, 2020/21 – 2020/22

	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	7	7
More than current liabilities (more than 1)	1	1
Secondary Cities (19)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	17	19
More than current liabilities (more than 1)	2	0
Other Local Municipalities (Towns) 186		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	131	137
More than current liabilities (more than 1)	55	49
District Municipalities (44)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	24	25
More than current liabilities (more than 1)	20	19
All municipalities (257)		
No. of municipalities whose cash and investments is		
less than current liabilities (less than 1)	179	188
More than current liabilities (more than 1)	78	69

Source: National Treasury - Local Government Database

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40. Further analysis shows that:
- Seven (7) metros reported cash and investments that are insufficient to pay current liabilities while one (1) metro, City of Cape Town, reflected a strong liquidity position. This was the same position in the 2020/21 financial year;
 - All 19 secondary cities and 137 local municipalities (61 per cent of all municipalities) have inadequate cash and investments to settle current liabilities; and
 - 25 district municipalities have weak liquidity positions. The lower the liquidity ratio, the greater the probability of a municipality experiencing financial problems.

INDICATOR 5: CURRENT RATIO

41. The ratio is used to determine if the municipality has enough current assets to cover its current liabilities (debt and payables). The higher the current ratio, the greater the capability of the municipality to pay its current or short-term obligations and enable it to continue operating as a going concern. A ratio of less than 1 suggests that a municipality will be unable to pay all its current or short-term obligations if they fall due at any specific point.
42. If current liabilities are greater than current assets, it highlights serious financial challenges and most likely, liquidity issues.
43. Table 5 below shows current ratio between 2020/21 and 2021/22. Nearly half of the municipalities have current liabilities that are greater than current assets in 2021/22.

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Table 5: Current ratio, 2020/21 – 2021/22

	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	3	5
more than current liabilities (more than 1)	5	3
Secondary Cities (19)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	12	9
more than current liabilities (more than 1)	7	10
Other Local Municipalities (Towns) 186		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	92	94
more than current liabilities (more than 1)	94	92
District Municipalities (44)		
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	15	20
more than current liabilities (more than 1)	29	24
All municipalities (257)	-	-
No. of municipalities whose current assets are		
less than current liabilities (less than 1)	122	128
more than current liabilities (more than 1)	135	129

Source: National Treasury - Local Government Database

44. Further analysis shows that:
- At the end of 2021/22, three (5) metros namely, Mangaung, City of Johannesburg, City of Tshwane, City of Ekurhuleni and eThekweni have reported current ratios that are lower than the norm;
 - A total of 9 secondary cities reported negative current ratios in 2021/22 which is a marginal improvement compared to 12 in 2020/21;
 - A total of 94 local municipalities had insufficient current assets to pay current obligations. This is a decline compared to 92 municipalities in the 2020/21 financial year; and
 - 20 of the 44 districts have negative current ratios and it is also a decline compared to the 15 reported at the end of 2020/21 financial year.

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INDICATOR 6: REPAIRS AND MAINTENANCE AS A PERCENTAGE OF PROPERTY, PLANT AND EQUIPMENT

45. Repairs and maintenance of infrastructure is incredibly crucial to restore the economic benefits and service ability expected from the assets. Municipalities are therefore advised to spend a minimum of 8 per cent of their budget on repairs and maintenance for property, plant, and equipment (PPE). A ratio below this average indicates that inadequate repairs and maintenance provisions are being made, which could result in the early impairment of an asset.

Table 6: Repairs and maintenance as a percentage of property, plant and equipment, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. whose repairs and maintenance are		
less than 8% of PPE	6	7
more than 8% of PPE	2	1
Secondary Cities (19)		
No. whose repairs and maintenance are		
less than 8% of PPE	17	18
more than 8% of PPE	2	1
Other Local Municipalities (Towns) 186		
No. whose repairs and maintenance are		
less than 8% of PPE	170	172
more than 8% of PPE	16	14
District Municipalities (44)		
No. whose repairs and maintenance are		
less than 8% of PPE	32	35
more than 8% of PPE	12	9

Source: National Treasury - Local Government Database

46. Table 6 above shows that 90 per cent (232 of the 257) of municipalities in the country spent less than 8 per cent on repairs and maintenance. The underspending on repairs and maintenance is prevailing in all categories of municipalities which suggests that no determination is being made to safeguard infrastructure assets. An analysis further shows that:

- Seven (7) metros had underspent on repairs and maintenance as a percentage of PPE in 2021/22, only eThekweni metro managed to spend according to the norm;
- 18 secondary cities underspent on repairs and maintenance in 2021/22 while one (1) municipality spent more than 8 per cent of PPE;
- A total of 172 local municipalities underspent on repairs and maintenance; and

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- A similar trend was also observed among the district municipalities where 35 municipalities underspent on repairs and maintenance as a percentage of PPE.
47. Municipalities repeatedly prioritise other activities to the detriment of repairs and maintenance expenditure. This begins with the under provision/ allocation for repairs and maintenance in the adopted budgets. Prolonging asset maintenance, replacements, and renewal for an extended period of time might result in increased breakdowns, service interruptions, or inadequate services, which can ultimately lead to the collapse of service delivery. Therefore, regular maintenance helps to preserve the useful life of an asset.
 48. Many municipalities always perform corrective maintenance instead of preventative maintenance. Corrective maintenance refers to no or minimal maintenance being undertaken until the asset no longer functions to the required standard or has broken down whereas preventative maintenance is programmed maintenance undertaken to reduce the likelihood of failure and to keep the asset operating at an acceptable level.

INDICATOR 7: ASSET RENEWAL/REHABILITATION EXPENDITURE LEVEL

49. The renewal/ rehabilitation of existing assets refers to costs incurred in relation to refurbishment, rehabilitation or reconstruction of assets to return its desired service levels. It is important to ensure sustainability of service delivery beyond the initial or original useful life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed, or the asset life span must be improved before it reaches its useful life.
50. Municipalities must adequately set funds aside for asset renewal, especially if the asset is old or dilapidated. Most municipalities spend less than the National Treasury's recommended 40 per cent of total capital expenditure on renewal and upgrading of assets. To address the state of the current infrastructure in local government, an adequate budget is required for asset renewal or upgrading.

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Table 7: Asset renewal/rehabilitation expenditure level, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	3	3
More than 40% of their total capital expenditure	5	5
Secondary Cities (19)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	8	7
More than 40% of their total capital expenditure	11	12
Other Local Municipalities (Towns) 186		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	111	113
More than 40% of their total capital expenditure	75	73
District Municipalities (44)		
No. of municipalities whose asset renewal is		
less than 40% of their total capital expenditure	31	34
More than 40% of their total capital expenditure	13	10

Source: National Treasury - Local Government Database

51. As shown in table 7 above, 157 out of 257 municipalities inadequately spent (less than 40 per cent) on asset renewal at the end of 2021/22. A ratio less than 40 per cent can either indicate that a municipality is inadequately spending towards asset renewal to protect its infrastructure or that assets are in good condition thus do not require renewal.
52. An analysis further indicates the following:
- Similar to the two prior financial years, three (3) metros reported assets renewal of less than 40 per cent;
 - Seven (7) out of 19 secondary cities reported assets renewal of less than 40 per cent;
 - 113 local municipalities recorded assets renewal of less than 40 per cent; and
 - 34 district municipalities had spent less than 40 per cent of capital expenditure on asset renewal. It is important to note that not all districts, with the exception of those that are water service authority, have any assets that require to be renewed.

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INDICATOR 8: ASSET RENEWAL/DEPRECIATION LEVEL

53. Asset renewal as a percentage of depreciation is important to determine if the condition of the asset are likely to worsen or improve. The municipalities are encouraged to invest 100 per cent of the depreciation it accrues to replace or upgrade an asset whose value or useful life has been reduced. A ratio of less than 100 per cent is an indication that the municipality is not investing enough in asset renewal to improve its assets condition. The rate at which municipalities consume assets in service delivery should correspond to the rate at which they make provision for depreciation in order to replace or upgrade assets.

Table 8: Asset renewal/depreciation level, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. whose depreciation level is		
less than 100% of assets	6	6
More than 100% of assets	2	2
Secondary Cities (19)		
No. whose depreciation level is		
less than 100% of assets	15	15
More than 100% of assets	4	4
Other Local Municipalities (Towns) 186		
No. whose depreciation level is		
less than 100% of assets	130	138
More than 100% of assets	56	48
District Municipalities (44)		
No. whose depreciation level is		
less than 100% of assets	33	35
More than 100% of assets	11	9
All municipalities (257)		
No. whose depreciation level is		
less than 100% of assets	184	194
More than 100% of assets	73	63

Source: National Treasury - Local Government Database

54. Table 8 above shows that municipalities are insufficiently spending on asset renewal relative to depreciation costs. A total of 194 out of 257 municipalities have spent less than 100 per cent of depreciation on asset renewal.

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55. The National Treasury has constantly insisted that municipalities should factor depreciation costs into their tariff calculations. This inclusion will then result in a more cost reflective tariff for the municipality and ultimately, generate sufficient revenue to invest in the renewal or replacement of infrastructure. The regular use of an asset depreciates it and shortens its useful life, hence adequate funds will be needed in the future to replace that asset.
56. At the end of 2021/22, the audited outcomes revealed that:
- Six (6) metros spent less than 100 per cent on asset renewal against depreciation;
 - Similarly, to the previous year, fifteen (15) secondary cities spent less than 100 per cent on asset renewal against depreciation; and
 - 138 local municipalities inadequately spent on asset renewal against depreciation, and this is a deterioration compared to the 130 in 2020/21 and this is not sufficient to address the state of municipal infrastructure assets in local government.

INDICATOR 9: TOTAL CAPITAL EXPENDITURE AS A PERCENTAGE OF TOTAL EXPENDITURE

57. Total capital expenditure as a percentage of total expenditure is used to assess the level of capital investments made by municipalities in responding to historical service delivery backlogs and addressing growing needs. Although there was a reduction in intergovernmental transfers, some municipalities are still investing considerably on infrastructure spending.
58. Many municipalities have started to explore ways of leveraging external finance to expand their capital investments to augment the allocated funding by the national government. Furthermore, some municipalities are not in a position to even approach the private capital markets, Development Finance Institutions (DFI) for infrastructure funding due to their weak liquidity and therefore they will not have the required resources to invest in infrastructure.
59. To assess whether a municipality has adequately invested in capital infrastructure, the level of capital expenditure should be between 10 and 20 per cent of total expenditure. A ratio below 10 per cent reflects that a municipality has not sufficiently invested in infrastructure needed for delivering services and addressing the principal welfare issues of its residents. While spending more than 20 per cent on capital expenditure is seen as a good performance to accelerate service delivery, it can also present risks of financial sustainability. For instance, if a municipality substantially invests its own funding towards capital infrastructure, it might face a risk of eroding all its cash reserves.
60. Table 9 below shows the total capital expenditure as a percentage of total expenditure between the 2020/21 and 2021/22 financial years. There are 100 municipalities that have under invested in capital infrastructure in 2020/21. It has been noted that the more municipalities experience financial difficulties, the more they reduce their own contributions towards capital investments to achieve a balance.

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Table 9: Total capital expenditure as a percentage of total expenditure, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	4	6
between 10% and 20% of their total expenditure	3	1
more than 20% of their total expenditure	1	1
Secondary Cities (19)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	11	10
between 10% and 20% of their total expenditure	5	5
more than 20% of their total expenditure	3	4
Other Local Municipalities (Towns) 186		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	69	61
between 10% and 20% of their total expenditure	50	62
more than 20% of their total expenditure	67	63
District Municipalities (44)		
No. of municipalities whose Total Capital Expenditure is		
less than 10% of their total expenditure	24	23
between 10% and 20% of their total expenditure	6	3
more than 20% of their total expenditure	14	16

Source: National Treasury - Local Government Database

61. Between 2020/21 and 2021/22 financial years, the audited outcomes revealed that:
- Six (6) metros spent less than 10 per cent on capital expenditure as a percentage of total expenditure while only the Buffalo City metro had adequately invested in infrastructure within the acceptable norm of between 10 to 20 per cent. The Nelson Mandela Bay metro is the only metro that reported total capital expenditure that is more than the total expenditure;
 - 10 secondary cities spent less than 10 per cent on capital expenditure while five (5) were within the norm of 10 and 20 per cent; and
 - A total of 63 local municipalities have spent more than 20 per cent of their total expenditure. These are municipalities that are heavily reliant on conditional grants transfers to finance their capital infrastructure.

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INDICATOR 10: DEBTORS DAYS

62. Debtors days refers to the average number of days required for a municipality to receive payment from its consumers for bills/ invoices issued for services. This indicator provides information about consumer payment patterns and how well the municipality manages its debtors. A shorter payment period (less than 30 days) indicates that a municipality has and maintains an effective system of credit control and debt collection in respect of debtors' management. If the ratio is above the norm, it indicates that the municipality is experiencing challenges in the collection of outstanding amounts due to it. This exposes a municipality to significant cash flow risk.
63. Failure to fully implement municipal credit control and debt collection policy is in most cases resulting in late payment of municipal bills by consumer debtors.
64. Table 10 below shows the debtors days between the 2020/21 and 2021/22 financial years. A total of 216 municipalities took more than 30 days to collect outstanding debt whereas 41 municipalities collect debt within the prescribed 30 days.

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Table 10: Debtors days, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities who receive payment from debtors		
less than 30 days	2	2
More than 30 days	6	6
Secondary Cities (19)		
No. of municipalities who receive payment from debtors		
less than 30 days	3	2
More than 30 days	16	17
Other Local Municipalities (Towns) 186		
No. of municipalities who receive payment from debtors		
less than 30 days	18	16
More than 30 days	168	170
District Municipalities (44)		
No. of municipalities who receive payment from debtors		
less than 30 days	22	21
More than 30 days	22	23
All municipalities (257)		
No. of municipalities who receive payment from debtors		
less than 30 days	45	41
More than 30 days	212	216

Source: National Treasury - Local Government Database

65. Further analysis shows that:

- Six (6) metros take more than 30 days to collect debt while two (2) metros collect within the 30-day period, similar to the 2020/21 financial year;
- 17 of the 19 secondary cities takes more than 30 days to collect debt;
- 16 local municipalities collect debts within 30 days' period, this is a minor regression compared to 18 in 2020/21; and
- A similar trend is noted within the district category where there is a slight decline of municipalities that collected within the 30 days.

INDICATOR 11: CREDITORS DAYS

66. The creditors payment period provides information about the municipality's payments patterns and how well the cash flow is being managed. A shorter payment period (less than 30 days) indicates that payments are made promptly, and creditors are prioritised. This implies that a municipality has and maintains an effective system

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of expenditure control and internal control in respect of creditors and payments. A period longer than 30 days is an indication that the municipality may be experiencing cash flow problems, or the municipality might not have effective controls in place to ensure prompt payments. Therefore, timely payment of creditors is not only important for the liquidity of local economies and the survival of Small Medium and Micro Enterprises (SMMEs) but is also a real reflection of the extent of financial challenges facing a municipality.

67. Section 65(2)(e) of the MFMA prescribes that all monies owed by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. 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.
68. The following table shows creditors payment period for 257 municipalities between 2020/21 and 2021/22. This reflects the average number of days taken by municipalities to pay creditors.

Table 11: Creditors days, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	3	3
more than 30 days after receiving the invoice	5	5
Secondary Cities (19)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	3	2
more than 30 days after receiving the invoice	16	17
Other Local Municipalities (Towns) 186		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	31	22
more than 30 days after receiving the invoice	155	164
District Municipalities (44)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	5	6
more than 30 days after receiving the invoice	39	38
All municipalities (257)		
No. of municipalities who pay creditors		
within 30 days of receiving the invoice	42	33
more than 30 days after receiving the invoice	215	224

Source: National Treasury - Local Government Database

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69. A total of 224 municipalities took more than 30 days to pay creditors in 2021/22. Further analysis shows that:
- Five (5) metros and 17 secondary cities take more than 30 days to pay creditors; and
 - 164 local municipalities take more than 30 days to pay creditors.
70. The above indicates that municipalities are not complying with Section 65(2)(e) of the MFMA due to cash flow problems and failure to meet financial obligations because of insufficient cash which is one of the key indicators of a financial crisis.
71. Late or non-payment of creditors has serious consequences for both private and public sectors as businesses, particularly SMMEs, are most negatively affected because they depend on these payments to create jobs and maintain their financial viability.

INDICATOR 12: TOTAL BORROWING VS TOTAL OPERATING REVENUE

72. The objective of this indicator is to provide information on whether the municipality is generating revenue that is sufficient to repay long-term liabilities. Otherwise, the ratio assesses the affordability level of a municipality to service debt from own generated revenue. The threshold for total borrowing is 45 per cent of the total operating revenue. An outcome of less than 45 per cent indicates that the municipality has capacity to take up additional funding from borrowings.
73. Table 12 below indicates the total borrowing against the total operating revenue. A total of 255 out of 257 municipalities have less than 45 per cent borrowing relative to total operating revenue. This is an indication that municipalities have the ability to borrow more money. To determine the level of affordability, this indicator is evaluated alongside municipal liquidity ratios. Most importantly, municipalities can only borrow money for assets that will generate revenue.

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Table 12: Total borrowing vs total operating revenue, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities whose debt level is		
less than 45%	7	8
more than 45%	1	0
Secondary Cities (19)		
No. of municipalities whose debt level is		
less than 45%	18	18
more than 45%	1	1
Other Local Municipalities (Towns) 186		
No. of municipalities whose debt level is		
less than 45%	184	185
more than 45%	2	1
District Municipalities (44)		
No. of municipalities whose debt level is		
less than 45%	44	44
more than 45%	0	0
All municipalities (257)		
No. of municipalities whose debt level is		
less than 45%	253	255
more than 45%	4	2

Source: National Treasury - Local Government Database

74. Further analysis shows that:

- Eight (8) metros' total borrowing is less than 45 per cent of total operating revenue. This confirms the notion that metros are self-sustaining or self-sufficient and therefore can afford the repayment of borrowing from their own revenue generated;
- 18 secondary cities have adequate borrowing capacity and Drakenstein local municipality is the only secondary city that has limited capacity to increase its borrowing. It is critical that the ratio be assessed together with cash flow position of a municipality to accurately determine the affordability level of a municipality; and
- 185 of the 186 local municipalities have adequate borrowing capacity and only Mohokare local municipality was reported to have limited capacity to increase borrowing given their revenue limitations.

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

INDICATOR 13: SOLVENCY RATIO

75. The solvency ratio calculates a municipality's total liabilities as a percentage of its total assets. The objective of the ratio is to measure a municipality's capacity to pay off its long-term debt obligations with its assets. Though municipalities cannot sell or dispose of their infrastructure assets to repay total liabilities, it is prudent that revenue generating assets are well maintained and protected to ensure sustainability of services and revenue potential. This ratio is often used by potential investors when evaluating a municipality's creditworthiness or long-term financial health. A negative ratio indicates that a municipality is in the worst position to continue with its operations.
76. The higher the solvency ratio, the more capable the municipality will be to pay its total liabilities.
77. Table 13 below shows the solvency ratio of 257 municipalities between 2020/21 and 2021/22. A total of 25 municipalities have insufficient total assets to cover their total liabilities.

Table 13: Solvency ratio, 2020/21 – 2021/22

Municipalities	Audit Outcome	
	2020/21	2021/22
Metropolitan Municipalities (8)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	2	1
more than total liabilities (more than 1)	6	7
Secondary Cities (19)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	3	3
more than total liabilities (more than 1)	16	16
Other Local Municipalities (Towns) 186		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	12	13
more than total liabilities (more than 1)	174	173
District Municipalities (44)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	5	8
more than total liabilities (more than 1)	39	36
All municipalities (257)		
No. of municipalities whose total assets are		
less than total liabilities (less than 1)	22	25
more than total liabilities (more than 1)	235	232

Source: National Treasury - Local Government Database

ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

78. Further analysis shows that:

- The City of Tshwane and three (3) secondary cities (Matjhabeng, Mogale City and Govan Mbeki) have insufficient total assets to cover their total liabilities. These secondary cities were also in this position in 2020/21 financial year;
- Similarly, 13 local municipalities also reflected total liabilities that exceeds total assets; and
- Five (5) district municipalities have total liabilities that exceed total assets.

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AUDIT OUTCOMES: 2021/22 FINANCIAL YEAR

79. The audit outcomes are not necessarily the only indicator of financial health. A good audit outcome means that the financial statements fairly represent the financial condition of the municipality, therefore it is important to note that even a municipality that is financially sound can obtain negative audit outcomes. While a bad audit outcome can mean that the financial statements cannot be relied on due to lack of supporting documentation, or cannot be verified, even if the municipality is in good financial health.
80. Overall, the 2021/22 audit outcomes regressed compared to the previous financial year.
81. Table 14 below presents a summary of audit opinions for all municipalities between 2015/16 and 2021/22. In the financial year 2021/22, 38 municipalities obtained unqualified opinions with no findings, a decrease from 41 municipalities in 2020/21. For the past two years, a total of 36 municipalities were able to maintain their unqualified with no findings status, while 2 municipalities improved to this position. John Taolo Gaetsewe (NC), Steve Tshwete (MP) and Gert Sibande (MP) regressed to unqualified with findings position. A total of 21 municipalities that achieved unqualified audit opinions with no findings are from the Western Cape province.
82. The City of Ekurhuleni remains the only metro that received unqualified audit opinions with no findings in three consecutive financial years, while the City of Cape Town improved to unqualified with no findings in 2021/22. The same outcome was achieved by five (5) secondary cities, 16 local municipalities, and 12 districts.

Table 14: Summary of audit opinions for all municipalities, 2015/16 to 2021/22

Audit Opinion	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Adverse	4	1%	6	2%	12	5%	6	2%	7	3%	4	2%	6	2%
Disclaimer	25	9%	32	12%	35	14%	42	16%	34	13%	25	10%	15	6%
Qualified	63	23%	71	28%	86	33%	95	37%	87	34%	78	30%	78	30%
Unqualified - with findings	122	44%	114	44%	106	41%	94	37%	96	37%	100	39%	104	40%
Unqualified - no findings	49	18%	34	13%	18	7%	20	8%	32	12%	41	16%	38	15%
Audits Outstanding	15	5%	0	0%	0	0%	0	0%	1	0%	9	4%	16	6%
Total	278	100%	257	100%	257	100%	257	100%	257	100%	257	100%	257	100%

Consolidated general reports on the audit outcomes of local government MFMA

83. The number of unqualified audit opinions with findings increased to 104 in 2021/22, from 100 in 2020/21. Contrary to that, the qualified audit opinions remained the same as 2020/21 at 78 municipalities.
84. A total of 15 municipalities obtained disclaimer opinions while six (6) obtained adverse audit opinions. Although there is a decrease in disclaimer audit opinions from 25 in 2020/21 to 15 in 2021/22, it is still a huge concern that some municipalities are still unable to provide sufficient evidence to support their financial reporting.
85. Municipalities in the Eastern Cape province showed improvement in audit outcomes, one (1) municipality improved from disclaimer to qualified opinion while five (5) moved from qualified to unqualified with findings in

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2021/22 and one (1) improved to unqualified without findings. A total of 9 municipalities (Midvaal, Okhahlamba, Cape Winelands District, West Coast District, Bergrivier, Cape Agulhas, Hessequa, Overstrand, Witzenberg) have been obtaining unqualified opinion without findings for the past five consecutive years.

86. The provinces with the worst audit outcomes in 2021/22, based on the highest disclaimed opinions are North West (6) and Northern Cape (4). KwaZulu-Natal is the only province that did not have any disclaimer audit opinions for 2021/22. Although Free State recorded only one (1) disclaimer, it had eight (8) municipalities that failed to complete the audit at the legislated date, which is the highest.
87. The provinces with the exceptional audit outcomes in 2021/22, based on the highest unqualified with no findings, are Western Cape (21), Northern Cape (4) and KwaZulu-Natal (4).
88. The City of Tshwane is the only metro that recorded an adverse audit outcome for 2021/22.
89. The AG reported that the fruitless and wasteful expenditure increased and essentially more than doubled in 2021/22, from R2.1 billion in 2020/21 to R4.8 billion in 2021/22. In the main, it was identified that non-compliance and fraud through the material irregularity process, resulted in an estimated R5.1 billion in financial loss.
90. Other reasons cited are that poor payment practices when paying suppliers of goods and services, unfair or uncompetitive procurement practices when procuring goods and services, fraud committed by officials and ultimately there is limited or no value for money or limited benefit received for the money spent.
91. The top five contributors to fruitless and wasteful expenditure are City of Tshwane (R845.4 million), Emfuleni (R827.9 million), City of Johannesburg (R344.5 million), Emalahleni (MP) (R273.8 million) and Matjhabeng (R180.7 million).
92. Unauthorised expenditure increased from R20.4 billion in 2020/21 to R23.4 billion in 2021/22. Unauthorised expenditure is mainly the result of overspending of budgets and expenditure related to non-cash items which indicates a poor estimation of asset impairment and debt impairment.
93. Of concern is that municipalities are not investigating unauthorised, irregular, and fruitless and wasteful expenditure. This means that they did not take appropriate steps to recover, write-off, approve or condone such expenditure.
94. Most municipalities appoint consultants for financial reporting as their own finance employees lack the skills required to prepare financial statements. This over-reliance on consultants led to high financial consultancy costs, which increased from R1.3 billion in 2020/21 to R1.5 billion in 2021/22 financial year. For the metros, the City of Tshwane recorded the highest consultancy fees of R114.2 million amongst metros, while Inkosi Langalibalele recorded the highest of R32.2 million amongst the local municipalities and Chris Hani recorded the highest of R40.5 million amongst the district municipalities.

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GOVERNANCE: ACTING MUNICIPAL MANAGER AND CHIEF FINANCIAL OFFICER POSITIONS

95. Section 54A of the Municipal Systems Act, 2000 (Act No. 32 of 2000) obliges a municipal council to appoint a Municipal Manager (MM) with relevant skills and expertise to perform the relevant functions of the position. The MM is the accounting officer of a municipality and is responsible for all operations and holds overall accountability for the administration of the municipality. It is therefore important that the position of MM remains filled.
96. Similarly, the position of the Chief Financial Officer (CFO) is equally important. The CFO is responsible for managing the Budget and Treasury Office, overseeing the municipality's finances, and ensuring compliance with municipal finance management legislation and council policies. The establishment of the Budget and Treasury Office, which is headed by the CFO, is regulated by Section 80 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).
97. Therefore, the accountability, service delivery, and the execution of the audit action plan to improve the audit results are all impacted by the instability in senior municipal management positions. In most cases, acting officials find it complex to make basic managerial decisions, such as the appointment of service providers, and implement measures that will improve the overall financial sustainability of the municipality. In contrast, should a permanent MM be temporarily suspended, the MM's responsibilities are normally shared by senior managers, which results in lack of accountability.
98. It is noted with concern that the vacancy of the CFO position presents a risk to sound financial management. It presents opportunity for the circumvention/ flouting of internal controls, non-compliance to the legal framework and general mismanagement of public funds.
99. The financial management of municipalities is compromised by these vacancies as they contribute to poor controls or measures which further results in financial problems and more instability.
100. In order to encourage stability at municipalities, the National Treasury has embedded a compulsory requirement that the positions of both the MM and CFO should not be vacant for more than six months during the financial year that a roll-over is requested.
101. Table 15 below shows the number of acting MMs and CFOs as at 30 June 2021 and 2022.

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Table 15: Municipalities with acting Municipal Managers and CFOs at 30 June 2021 & 2022

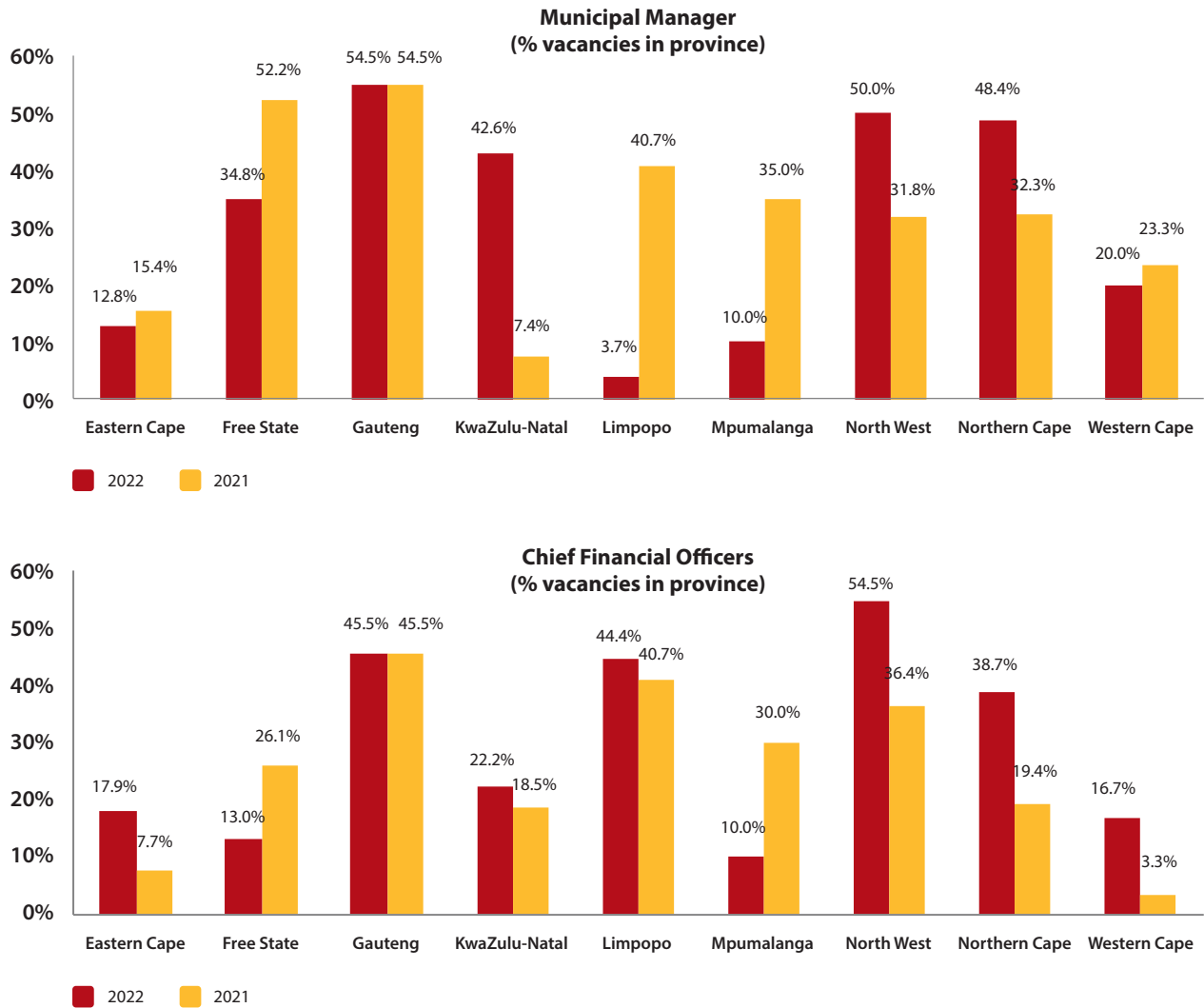
2022			Acting MM		Acting CFO		Both Acting	
Summary per Province			No.	%	No.	%	No.	%
Eastern Cape	39	EC	5	12,8%	7	17,9%	2	5,1%
Free State	23	FS	8	34,8%	3	13,0%	-	0,0%
Gauteng	11	GT	6	54,5%	5	45,5%	4	36,4%
Kwazulu-Natal	54	KZ	23	42,6%	12	22,2%	4	7,4%
Limpopo	27	LP	1	3,7%	12	44,4%	1	3,7%
Mpumalanga	20	MP	2	10,0%	2	10,0%	1	5,0%
North West	22	NW	11	50,0%	12	54,5%	9	40,9%
Northern Cape	31	NC	15	48,4%	12	38,7%	7	22,6%
Western Cape	30	WC	6	20,0%	5	16,7%	4	13,3%
Total	257		77	30%	70%	27%	32	12%

2021			Acting MM		Acting CFO		Both Acting	
Summary per Province			No.	%	No.	%	No.	%
Eastern Cape	39	EC	6	15,4%	3	7,7%	-	0,0%
Free State	23	FS	12	52,2%	6	26,1%	2	8,7%
Gauteng	11	GT	6	54,5%	5	45,5%	2	18,2%
Kwazulu-Natal	54	KZ	4	7,4%	10	18,5%	3	5,6%
Limpopo	27	LP	11	40,7%	11	40,7%	6	22,2%
Mpumalanga	20	MP	7	35,0%	6	30,0%	4	20,0%
North West	22	NW	7	31,8%	8	36,4%	6	27,3%
Northern Cape	31	NC	10	32,3%	6	19,4%	2	6,5%
Western Cape	30	WC	7	23,3%	1	3,3%	-	0,0%
Total	257		70	27%	56	22%	25	10%

102. The number of acting MMs increased from 70 in 2020/21 to 77 in 2021/22 and in particular, the highest increase was in Gauteng, Northern Cape and North West provinces. Similarly, the number of acting CFOs increased from 56 to 70 in 2021/22 with the following provinces recording the highest vacancy rate: North West (54.5 per cent), Gauteng (45.5 per cent), Limpopo (44.4 per cent) and Northern Cape (38.7 per cent). The number of municipalities who had both MM and CFO acting also increased from 25 to 32.
103. Table 15 above shows that the province with the largest percentage of both acting MMs and CFOs was North West (40.9 per cent) followed by Gauteng (36.4 per cent) and Northern Cape (22.6 per cent).
104. Figure 3 below depicts the comparison of acting Municipal Managers and Chief Financial Officers as at 30 June 2022. The acting MMs and acting CFOs were prevalent in Gauteng with 54.5 per cent and 45.5 per cent in 2021/22 and North West with 50 per cent and 54.5 per cent in the same period.

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Figure 3: Graphical representation of acting MMs and CFOs



- 105. The administrative instability in municipalities is a threat to financial sustainability. It is evident that vacancies and instability in key positions slowed down improvements in audit outcomes, financial management and service delivery. Local government requires stable administration with necessary skills, experience and capacity to execute responsibilities as assigned.
- 106. While these recurring vacancies are a concern, it is important to note that in some instances, municipalities find it difficult to recruit and attract qualified candidates for these positions due to their locations, particularly rural areas. However, in most instances, it is purely linked to the effects of political instabilities.

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107. Some of the challenges identified by DCoG is that the increase in vacancy rates for senior managers was due to lengthy turnaround time to fill positions as a result of the expiry of fixed term contracts of senior managers during this period and moreover, the invalidation of the Municipal Systems Amendment Act, 2011 that created legal uncertainty towards the filling of senior managers positions therefore resulting in some municipalities appointing incompetent senior managers.

NON-PAYMENT OF THIRD PARTIES BY MUNICIPALITIES

108. There is a growing trend from municipalities whereby the third-party creditors such as pension, retirement and medical aid contributions are not paid to the respective fund managers on a monthly basis as required by law.
109. This trend is mostly observed in municipalities where there are other underlying challenges of poor governance, institutional instability and weak financial management and position. This then led to the delay of officials due for pension exiting the system and not accessing their payouts due to historic debts to pension funds that have accumulated to the level of unaffordability for municipalities.
110. Municipalities are cautioned that this practice is a criminal offence, and both the municipal manager and chief financial officer can be criminally charged for deducting the funds from the employees' salaries and not paying them over to the fund managers.
111. The National Treasury has communicated the criteria for the release of the Equitable Share in its annual Budget Circulars and included in the criteria is the requirement to table a funded budget in terms of Section 18 of the MFMA as well as making adequate provision to repay all creditors in terms of Section 65(2)(f) of the MFMA. Non-compliance with these conditions by municipalities results in the municipality not receiving its equitable share as originally scheduled.
112. The pension funds administrators have started to write to the National Treasury to request assistance in getting the municipalities to pay the employees deductions to them and additionally, parliament has also shown interest in this matter and constantly ask the National Treasury to report on third party debts. Therefore, identified defaulting municipalities are then requested to submit proof of payment and failing which, the National Treasury send a letter to the respective municipalities requesting reasons as to why they have defaulted and often, no feedback is received.
113. Lately, individual employees and the labour unions have taken some municipalities to court as a last attempt following failed attempts to get the municipalities to pay their benefits.
114. As at 30 June 2022, the municipalities debt to pension funds administrators amounted to R421 million which was over 90 days.

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INADEQUATE BUDGETS FOR REPAIRS AND MAINTENANCE AND ASSET MANAGEMENT

115. Municipal infrastructure assets are a basis of local economic development therefore maintaining such assets in good condition is critical. Infrastructure wears out with time and use, and if neglected it will result in degradation of the assets with negative effects on the economy leading to greater costs of renewal over a period. In addition, the goal of maintenance is to preserve an asset, and this includes routine maintenance, improvements, and reconstruction in order to eliminate the cause of defects and to sustain the asset as close as possible to its original condition.
116. Insufficient asset maintenance remains a major challenge in South Africa in achieving its full economic growth potential and in the main, infrastructure in South Africa is collapsing and reaching the end of its useful lifespan due to the lack of appropriate maintenance and asset renewal. This has over the years impacted the economy, seeing large manufacturing commercial plants closing at some municipalities and citing poor municipal infrastructure (service delivery) and therefore having the domino effect on the economy. In addition, the neglected repairs and maintenance of municipal infrastructure resulted in recurring sewer leakages, load shedding, water cuts in some areas of the country and potholes.
117. The municipalities are continuing to incur significant losses on water and electricity due to the escalating backlog in the maintenance required to keep infrastructure operational therefore ending up in these assets being rundown. An aging water and electricity infrastructure that is not adequately maintained threatens revenue generation by municipalities and further causes service interruptions. Consumers also base their decision to pay for rates and service charges on the level of services delivery, which is strongly dependent on how municipalities invest in asset maintenance or capital renewal.
118. Some of the underlying issues leading to ongoing failure of many municipalities to clear maintenance backlogs, operationalise preventive maintenance programme and deliver a reliable, sustainable service are inadequate budgets and to a certain extent, lack of technical skills to implement inhouse repairs and maintenance programme.
119. Table 16 below shows the national aggregate spending patterns on repairs and maintenance as a percentage of expenditure on property, plant and equipment for the financial years 2019/20 to 2021/22. This indicator compares the amount spent on repairs and maintenance to the value of the municipal asset base. Between 2019/20 and 2021/22, most municipalities spent below the average norm of 8 per cent on repairs and maintenance.

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Table 16: National - Repairs and maintenance, 2019/20 - 2021/22

Description	2019/20	2020/21	2021/22
R thousands	Audited Outcome	Audited Outcome	Audited Outcome
Repairs and Maintenance by Asset Class	18 937 622	20 755 206	20 698 083
<i>Roads Infrastructure</i>	2 713 594	3 049 596	2 964 796
<i>Storm water Infrastructure</i>	356 240	373 085	390 803
<i>Electrical Infrastructure</i>	4 714 216	4 800 047	5 075 522
<i>Water Supply Infrastructure</i>	2 920 234	3 197 798	3 643 359
<i>Sanitation Infrastructure</i>	1 908 910	2 436 849	2 122 191
<i>Solid Waste Infrastructure</i>	335 633	390 749	453 358
<i>Rail Infrastructure</i>	9 799	57 136	56 123
<i>Coastal Infrastructure</i>	12 400	67 936	3 128
<i>Information and Communication Infrastructure</i>	102 111	139 726	98 369
Infrastructure	13 073 136	14 512 922	14 807 649
Community Assets	1 119 740	1 266 741	1 145 126
Heritage Assets	1 159	903	1 676
Investment properties	75 240	80 889	(71 398)
Other Assets	1 201 820	1 198 216	1 125 396
TOTAL EXPENDITURE OTHER ITEMS	52 990 102	56 233 542	54 042 457
<i>Renewal and upgrading of Existing Assets as % of total capex</i>	<i>52,6%</i>	<i>57,0%</i>	<i>55,7%</i>
<i>Renewal and upgrading of Existing Assets as % of deprecn</i>	<i>178,3%</i>	<i>223,5%</i>	<i>227,0%</i>
<i>R&M as a % of PPE & Investment Property</i>	<i>3,4%</i>	<i>3,5%</i>	<i>3,5%</i>
<i>Renewal and upgrading and R&M as a % of PPE and Investment Property</i>	<i>14,3%</i>	<i>17,0%</i>	<i>16,4%</i>

120. The table below depicts the spending of metropolitan municipalities on asset renewal as well as repairs and maintenance. Metros slightly decreased their spending on repairs and maintenance from 4.4 per cent in 2020/21 to 4.1 per cent in 2021/22, which is below the National Treasury recommendation of 8 per cent. While some metros are unable to provide sufficient budget for repairs and maintenance due to financial challenges, some indicated that the focus is on the replacement and renewal of their assets to expand their useful lives, leading to minimal need for asset maintenance. The investment in asset renewal has marginally increased from 76.9 per cent in 2020/21 to 79.6 per cent in 2021/22. In addition, in the last three financial years, the renewal of existing assets as a percentage of depreciation increased from 208.8 per cent in 2019/20 to 249.8 per cent in 2021/22 which is significantly higher than the guideline of 100 per cent. Therefore, this indicates that the metros are mostly investing in the renewal of their assets instead of routine maintenance.

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Table 17: Metropolitan Municipalities - Repairs and maintenance, 2019/20 - 2021/22

Description	2019/20	2020/21	2021/22
R thousands	Audited Outcome	Audited Outcome	Audited Outcome
Depreciation	17 576 104	17 614 366	15 842 940
Repairs and Maintenance by Asset Class	11 552 008	11 380 035	10 131 562
<i>Roads Infrastructure</i>	1 652 778	1 505 556	1 085 647
<i>Storm water Infrastructure</i>	259 675	254 938	243 517
<i>Electrical Infrastructure</i>	3 463 518	3 381 296	3 171 045
<i>Water Supply Infrastructure</i>	1 195 960	1 266 634	1 251 000
<i>Sanitation Infrastructure</i>	1 006 095	1 089 264	1 096 247
<i>Solid Waste Infrastructure</i>	80 332	70 482	98 031
<i>Rail Infrastructure</i>	8 292	6 662	1 541
<i>Coastal Infrastructure</i>	1 227	21 290	708
<i>Information and Communication Infrastructure</i>	75 376	105 179	57 463
Infrastructure	7 743 253	7 701 302	7 005 198
Community Assets	683 511	784 523	613 590
Heritage Assets	986	728	1 577
Investment properties	66 969	72 506	(80 537)
Other Assets	887 190	689 974	619 364
TOTAL EXPENDITURE OTHER ITEMS	29 128 112	28 994 401	25 974 501
<i>Renewal and upgrading as % of total capex</i>	<i>78,0%</i>	<i>76,9%</i>	<i>79,6%</i>
<i>Renewal and upgrading as % of depreciation</i>	<i>208,8%</i>	<i>228,0%</i>	<i>249,8%</i>
<i>R&M as a % of PPE & Investment Property</i>	<i>4,6%</i>	<i>4,4%</i>	<i>4,1%</i>
<i>Renewal and upgrading and R&M as a % of PPE</i>	<i>19,5%</i>	<i>20,3%</i>	<i>20,3%</i>

Source: National Treasury Local Government Database

121. Table 18 below depicts spending of secondary cities on asset management from 2019/20 to 2020/21. In general, there has been a reduction in asset renewal. The capital expenditure for asset renewal has reduced from 35.1 per cent in 2019/20 to 30.8 per cent in 2021/22 which is also below the NT guideline of 40 per cent. While the expenditure on repairs and maintenance has been under 5 per cent over the past three financial years, the renewal and upgrading as a percentage of depreciation recorded 129.4 per cent, which is higher than the guideline of 100 per cent. Therefore, this indicates that the secondary cities, similar to the trend in metros, are also investing in the renewal of their assets instead of routine maintenance.

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Table 18: Secondary Cities - Repairs and maintenance, 2019/20 - 2021/22

Description	2019/20	2020/21	2021/22
R thousands	Audited Outcome	Audited Outcome	Audited Outcome
Repairs and Maintenance by Asset Class	2 563 942	4 156 062	4 136 118
Roads Infrastructure	257 978	556 094	711 614
Storm water Infrastructure	28 869	42 328	53 802
Electrical Infrastructure	593 113	722 126	848 053
Water Supply Infrastructure	432 138	764 279	809 190
Sanitation Infrastructure	432 482	889 585	403 287
Solid Waste Infrastructure	149 775	197 541	222 197
Rail Infrastructure	1 188	49 960	53 146
Coastal Infrastructure	1 013		
Information and Communication Infrastructure	252	9 871	5 515
<i>Infrastructure</i>	1 896 808	3 231 784	3 106 805
Community Assets	242 762	287 113	274 423
Heritage Assets	173	163	99
Investment properties	6 528	7 217	7 375
Other Assets	83 875	229 555	178 169
TOTAL EXPENDITURE OTHER ITEMS	8 356 866	10 327 910	9 982 428
<i>Renewal and upgrading o as % of total capex</i>	<i>35,9%</i>	<i>41,3%</i>	<i>30,8%</i>
<i>Renewal and upgrading as % of depreciation</i>	<i>150,2%</i>	<i>190,5%</i>	<i>129,4%</i>
<i>R&M as a % of PPE & Investment Property</i>	<i>2,4%</i>	<i>3,8%</i>	<i>3,7%</i>
<i>Renewal and upgrading and R&M as a % of PPE</i>	<i>10,4%</i>	<i>14,6%</i>	<i>10,7%</i>

Source: National Treasury Local Government Database

SIGNIFICANT ELECTRICITY AND WATER LOSSES

122. It is critical that the municipality continually repair and refurbish its infrastructure assets in line with the norms and standards pertaining to renewal, repairs, and maintenance. This will assist the municipality in managing the significant distribution losses for water and electricity as poor maintenance of existing infrastructure assets is the main contributor.
123. Annually, municipalities suffer significant revenue shortfalls owing to these losses and it is therefore imperative that they eradicate the maintenance and refurbishment backlogs as an important solution to address this problem.
124. In most cases, a substantial portion of these losses are because of illegal connections, leaks, and pipe bursts but not technical or commercial in nature. In addition, technical losses from unmetered water connections also had a massive contribution to these losses. The water and electricity losses for metros as of 30 June 2022 is shown in table 19 below.

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Table 19: Electricity and Water Losses as at 30 June 2022

Municipality	Code	Water Losses		Electricity Losses	
		R'000	%	R'000	%
Buffalo City	BUF	139 272	37,5%	413 427	20,5%
Nelson Mandela Bay	NMA	219 442	39,3%	867 591	23,9%
Mangaung	MAN	406 667	45,0%	241 915	11,0%
City of Ekurhuleni	EKU	115 148	32,0%	2 400 497	16,8%
City of Johannesburg	JHB	2 089 400	32,0%	4 168 819	30,0%
City of Tshwane	TSH	1 083 402	32,6%	2 136 889	19,4%
eThekweni	ETH	1 989 060	56,2%	1 359 300	11,3%
City of Cape Town	CPT	146 786	6,5%	431 445	10,2%
Total		6 189 178		12 019 883	

Source: National Treasury and Local Government Database

125. At the end of 30 June 2022, metros reported water and electricity losses of R6.2 and R12 billion respectively. Electricity losses significantly increased by R2.2 billion from R9.8 billion in 2020/21 to R12 billion in 2021/22, while the water losses marginally decreased with R136.1 million from R6.4 million in 2020/21 to R6.2 million in the 2021/22 financial year.
126. The City of Johannesburg reported the highest losses on both water and electricity for the 2021/22 financial year. The electricity losses recorded R4.2 billion while water losses recorded R2.1 billion. The City of Cape Town recorded the lowest losses for both water and electricity.

SPENDING OF CONDITIONAL GRANTS

127. In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its functions. The local government equitable share is an unconditional transfer that supplements the revenues that municipalities raise themselves (including revenue raised through property rates and service charges).
128. The Division of Revenue Act (DoRA) sets out the equitable allocation of funds amongst the three spheres of government: national, provincial, and local. The funding to the local government sphere is funded through the local government equitable share and conditional grants, which are classified as direct (schedules 4B, 5B and 7B) and indirect (schedule 6B).
129. In terms of section 22 of the DoRA (Act No. 9 of 2021), the National Treasury is required to ensure that transfers to municipalities are made in accordance with the approved payment schedule and these allocated funds must be transferred to all the municipalities during the municipal financial year. However, DoRA also provides for indirect conditional grants that are equally meant to benefit the local government sphere, but these grants are not directly transferred to municipalities, instead the transferring officers are responsible for administering the conditional grants and implementing projects on behalf of municipalities, unless there is a service level agreement wherein a municipality is appointed as an implementing agent.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

130. During the 2021/22 financial year, the local government sphere had its conditional grants reduced by 1.4 per cent against direct conditional grants over the Medium-Term Expenditure Framework (MTEF). The reduction to the local government equitable share in 2021/22 was only R3.2 billion, or 4.2 per cent of the R77.8 billion. The regression in the allocation of funds to local government is part of the fiscal consolidation measures aimed at dealing with the increasing debt service costs that have been crowding out government expenditure. By cutting back on spending, the government aims to create a sustainable fiscal path for the country.
131. The table 20 below reflects the changes to allocations in the 2021 Division of Revenue Amendment Act (Act No. 17 of 2021) (DoRAA) of indirect conditional grants for infrastructure grants:

Table 20: 2021 DoRAA allocations

R million	2021/22 Main Allocation	Adjustment	2021/22 Adjusted Allocation
Direct transfers	43 143	(508)	42 636
Municipal infrastructure	15 593		15 593
Integrated urban development	1 009		1 009
Urban settlements development	7 405		7 405
Informal settlements upgrading partnership	3 945		3 945
Public transport network	6 515	(1 340)	5 175
Neighbourhood development	567	751	1 318
Integrated national electrification programme	2 003		2 003
Rural roads asset management systems	110		110
Regional bulk infrastructure	2 156	81	2 237
Water services infrastructure	3 620		3 620
Municipal disaster recovery	-		0
Energy efficiency and demand-side	221		221
Indirect transfers	6 920	672	7 592
Integrated national electrification programme	2 824		2 824
Neighbourhood development	91	90	181
Water services infrastructure	730		730
Regional bulk infrastructure	3 275	582	3 857
Total	50 063	165	50 228

Source: National Treasury DoRAA

132. R582 million was rolled over in the indirect regional bulk infrastructure grant for operational payments for the Vaal River pollution remediation project at Emfuleni local municipality.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

Table 21: 2021/22 Local Government Conditional Grants Performance per Grant

2021/22 Conditional Grants to Local Government (R'000)	Original allocation	Adjustment	Revised allocation	Amounts received or transferred	Actual Expenditure	Exp as a % of allocation
Infrastructure Conditional Grants	43 501 885	(441 183)	43 060 702	43 031 462	38 128 903	88,5%
Municipal Infrastructure Grant	15 592 748	-	15 592 748	15 592 748	14 401 401	92,4%
Urban Settlements Development Grant	7 404 711	-	7 404 711	7 404 711	7 029 306	94,9%
Public Transport Network Grant	6 514 533	(1 340 000)	5 174 533	5 174 533	4 180 151	80,8%
Neighbourhood Development Partnership Grant	566 611	751 000	1 317 611	1 317 611	734 700	55,8%
Municipal Disaster Grant	-	330 271	330 271	330 271	194 919	59,0%
Integrated National Electrification Programme (Municipal) Grant	2 003 157	-	2 003 157	2 002 157	1 791 460	89,4%
Energy Efficiency and Demand Side Management Grant	220 874	-	220 874	220 874	205 064	92,8%
Rural Roads Asset Management Systems Grant	109 873	-	109 873	109 873	88 489	80,5%
Regional Bulk Infrastructure Grant (Direct)	2 156 025	81 345	2 237 370	2 237 370	1 744 971	78,0%
Water Services Infrastructure Grant (Direct)	3 620 327	-	3 620 327	3 620 327	3 065 934	84,7%
Municipal Emergency Housing Grant	-	66 472	66 472	66 472	27 089	40,8%
Integrated Urban Development Grant	1 009 068	-	1 009 068	1 009 068	996 703	98,8%
Metro Informal Settlements Upgrading Partnership Grant	3 945 447	-	3 945 447	3 945 447	3 668 716	93,0%
Unallocated Disaster Relief Funding	358 511	(330 271)	28 240	-	-	0,0%
Capacity conditional grants	1 807 283	-	1 807 283	1 807 283	1 687 490	93,4%
Infrastructure Skills Development Grant	155 217	-	155 217	155 217	137 005	88,3%
Expanded Public Works Programme Grant	758 693	-	758 693	758 693	758 693	100,0%
Programme and Project Preparation Support Grant	341 312	-	341 312	341 312	250 491	73,4%
Local Government Financial Management Grant	552 061	-	552 061	552 061	541 301	98,1%
Total Direct Conditional Grants	45 309 168	(441 183)	44 867 985	44 838 745	39 816 393	88,7%

Source: National Treasury Local Government Database

133. The performance in the 2021/22 financial year against direct conditional grants reflects 88.7 per cent against the revised allocation of R44.9 billion. This is a decrease in performance from the previous financial year where the performance was 93 per cent. While the unprecedented scourge of COVID-19 was massive at the time, the analysis recognises that this reduction in performance has been observed equally in the past few years. The table above separates the performance of infrastructure grants from the capacity conditional grants.
134. The integrated urban development grant is the highest performing grant reflecting 98.8 percent during the financial year. This grant is allocated to secondary cities to provide funding for public investment in infrastructure for the poor and to promote increased access to municipal own sources of capital finance to increase funding for public investment in economic infrastructure.
135. In general, the municipal infrastructure grant remains a consistent performing grant reflecting a performance of 92.4 per cent against the allocation of R15 billion. The municipal infrastructure grant has consistently recorded an average of 93 per cent for the past few years and it remains the highest performing infrastructure grant.

OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

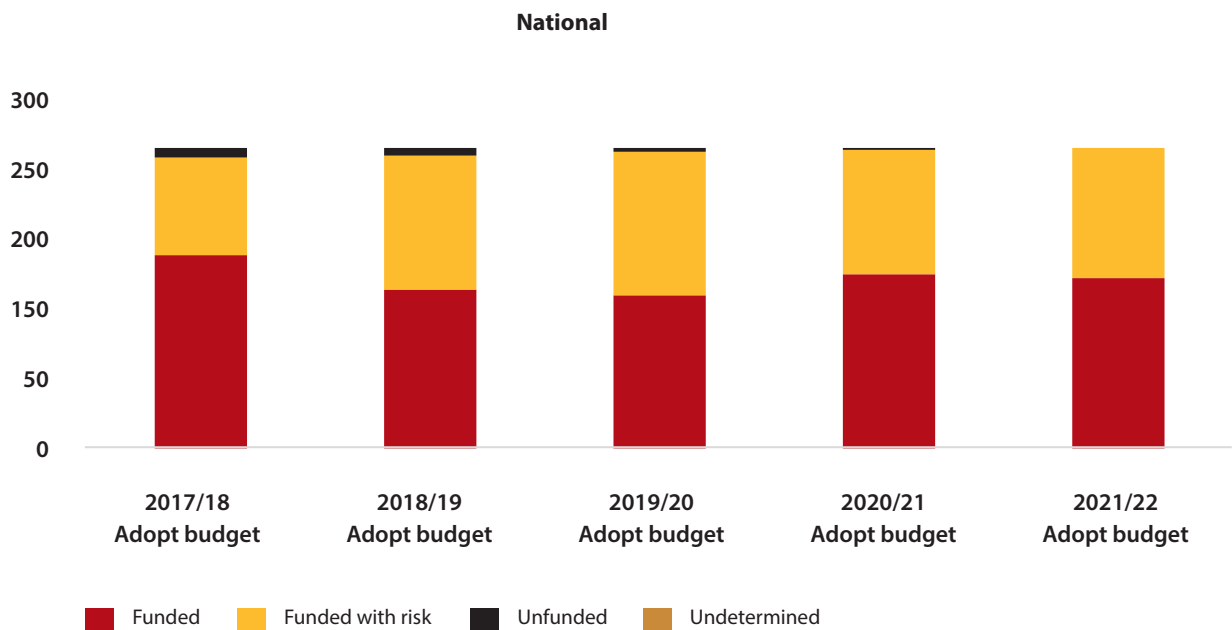
136. The performance of the two-disaster funding, namely the municipal emergency housing and municipal disaster and relief grants was 40.8 per cent and 59 per cent respectively. This underperformance is concerning given the inherent need to address disasters as they occur. It may be argued that these funds generally are released during the year, or sometimes late in the municipal financial year, and it takes some time for municipalities to get things going and spend the funds. The understanding has always been that immediate relief requires immediate attention and municipalities are required to implement emergency procurement, hence it is inconceivable that the disaster funding is not spent by the affected municipalities.

137. In accordance with section 21 of DoRA, the National Treasury has recalled an amount of R3.8 billion during the 2021/22 financial year in unspent conditional grants that were either not requested for rollover or not approved for rollover. This is an increase in the amount offset against the equitable share in relation to unspent conditional grants with R3.8 billion offset in 2021/22 relative to R3.2 billion in the 2020/21 financial year.

FUNDED/UNFUNDED BUDGETS FOR 2021/22

138. Figure 4 below shows funded and unfunded budgets information between 2017/18 and 2021/22. Over a five-year budget period, unfunded budgets have significantly increased, from 84 in 2017/18 to 112 in 2021/22. The unfunded budgets suggest that municipalities are still experiencing challenges with aligning expenditure with anticipated revenue and are living beyond their means.

Figure 4: Funded/ Unfunded Budgets



139. These unfunded budgets are predominantly in smaller or rural municipalities who are confronted with internal capacity challenges, weak governance and high levels of institutional and operational inefficiencies. All the metros adopted funded budgets in the 2021/22 financial year while ten out of 19 secondary cities adopted unfunded budgets. This is despite numerous engagements with municipalities, recommendations by both national and provincial treasuries to address unfunded budgets these municipalities continue to adopt unrealistic and unsustainable budgets.

140. The National Treasury also compelled the municipalities with unfunded budget to have a realistic and sound budget funding plan that outlines the actions to be taken to produce a funded budget in the medium term. In addition, the funding plans must be adopted by the council with a resolution indicating commitment to address the unfunded budget position. The implementation of the funding plans are monitored by the national and provincial treasuries.

141. It is also expected that any budget funding plan must be aligned to the framework issued to ensure alignment to the rescue phase of the new approach to the FRP.

MUNICIPALITIES IN FINANCIAL DISTRESS

142. Municipalities are responsible for their own fiscal sustainability. Section 135 of the MFMA assigns municipalities the primary responsibility to avoid, identify and resolve any financial problems they may experience. Section 154(1) of the Constitution requires the national and provincial governments, by legislative and other measures, to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions. It is only once these measures have failed to resolve challenges facing a municipality that other spheres of government are empowered to intervene.
143. The National Treasury, in exercising its oversight role in relation to municipalities, monitors the fiscal health and sustainability of the local government sphere and individual municipalities. This includes evaluating and assisting municipalities that are currently, or likely to, experience financial distress.
144. Financial distress in this context is defined as a municipality's ongoing failure to control finances necessary to fulfill its constitutional obligations to deliver basic services as well as providing other needs to communities. This has significant implications for the political, social and economic state of affairs in a municipality.
145. The most common indication of financial distress in a municipality is liquidity challenges. Municipalities with liquidity challenges fail to collect the money owed and lack the resources to pay their short-term obligations. As a result, their outstanding debtors' book are increasing, and because of lack of resources, the creditors are also rising. These municipalities are consequently unable to maintain positive cash flows to pay creditors within the legislated time frame of 30-days.
146. However, some causes of financial distress are beyond the municipality's control but are within the power of national government to resolve. For example, unfunded/ underfunded mandates. The weak institutional arrangements and undefined roles and responsibilities between local and districts municipalities present another challenge. For instance, the unclear institutional arrangements and absence of a service level agreement between the district and local municipalities for the provision of water services result in disputes over the Equitable Share allocations.
147. There are also structural changes in the economy that impacts on a sustainable municipality, such as slow economic growth and social unrest. Therefore, in order to address these challenges, a municipality is required to review its priorities to align spending objectives with revenue levels.
148. The provision of effective and dependable services is one of the serious challenges South Africa faces. This is largely due to municipalities' inability to manage the resources required to provide reliable and sustainable services to the communities.

IDENTIFYING MUNICIPAL FINANCIAL PROBLEMS OR CRISIS

149. The National Treasury employs a variety of tools to identify municipalities that are having financial problems. These tools include, among others, budget assessments in terms of Section 18 of the MFMA, early warning tools in terms of Sections 41 and 71 of the MFMA, key financial ratios identified for the State of Local Government Finance and Financial Management Report, and criteria outlined in Section 138 and 140 of the MFMA.

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150. These early warning tools identifies potential financial problems before they become more serious or verifies the existing financial distress. Although these systems are useful for identifying issues for municipalities, it is the responsibility of municipal council to take steps to prevent the occurrence or lessen the impact of the financial distress.
151. National Treasury publishes all in-year monitoring reports, including the sections 138 and 140 of the MFMA that indicates municipalities that meet the requirements for serious financial problems or financial crisis. This is to assist national and provincial government in making informed decisions when addressing municipal failures.
152. According to the key financial indicators used for this report, 157 municipalities were identified as being in financial distress in 2021/22 and their names are listed in Annexure A2. Additionally, the list also provides audit outcomes for all 257 municipalities as well as their financial status over a five-year period (2017/18 to 2021/22) and the type of interventions implemented in those municipalities. From the list, the following observations are made:
- 10 of the 38 municipalities that received unqualified audit opinion with no findings are classified as financially distressed;
 - Financial distress was considered to be present in 50 of the 104 municipalities that received unqualified audit reports with findings. This demonstrates that a positive audit outcome may not always translate into a positive financial position for the municipality;
 - Of the 78 municipalities with qualified audit opinions, 61 are in financial distress; and
 - 13 of the 15 municipalities that received disclaimers are financially distressed.
153. Moreover, this may indicates that the municipalities that are identified to be in financial and service delivery crisis are mostly characterised by political infighting, weak council oversight, serious financial problems and service delivery failures.

RESPONSE TO THE 43 MUNICIPALITIES IN FINANCIAL AND SERVICE DELIVERY CRISIS

154. The National Treasury, in consultation with DCoG finalised the process of identifying municipalities that are in a crisis using four pillars of sustainability i.e., governance, institutional arrangements, financial health and service delivery. This came following an order by a division of the High Court to intervene in Lekwa Local Municipality (Mpumalanga). In addition, the National Treasury was then directed by His Excellency, President Cyril Ramaphosa, to identify municipalities that are in a similar situation to Lekwa in order to have a holistic approach in dealing with those municipalities.
155. Subsequent to the discussions between the treasuries and CoGTAs to determine the most appropriate mode of intervention in the 43 municipalities and Section 139(5) of the Constitution was recommended in most of the 43 municipalities as the most appropriate approach to address the current crisis. The Minister of Finance then issued directives to the respective Provincial Premiers outlining the mode of intervention that will be invoked in each of the 43 municipalities.

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156. The National Treasury in collaboration with the National DCoG undertook councilors induction training of the most of the 43 municipalities to assist the new municipal council to better understand the Section 139(5) intervention and how it will benefit the municipality. This was meant to prepare the municipalities and more specifically the new municipal councils. Moreover, provincial roadshows were also embarked for the provincial treasuries and provincial CoGTAs in order to capacitate them to act as per intentions of the legislations.
157. A municipality that is part of the 43 but currently subject to any discretionary interventions under S139(1) of the Constitution should transition to mandatory intervention in terms of S139(5) of the Constitution read together with Chapter 13 of the MFMA, upon the approval of the Provincial Executive Committee (EXCO). Mandatory interventions require the preparation of a financial recovery plan by the National Treasury MFRS, which the Provincial Executive then imposes on the municipality. The North West Provincial Executive responded immediately with Section 139 interventions in 8 municipalities, while the response from the remaining provinces is awaited.

INTERVENTIONS IN MUNICIPALITIES

158. The powers of other spheres of government to intervene in the affairs of a municipality is regulated by the Constitution and the MFMA. Section 139 of the Constitution provides for provincial (and national) interventions in municipalities as a last resort in response to serious problems. It envisages three kinds of failures in local government, with responses to address each of these problems, set out in the different sub-sections.
159. Any mandatory intervention invoked in a municipality must be referred to the MFRS unit within the National Treasury for the development of a financial recovery plan. Section 139(7) of the Constitution also provides that if the province fails to intervene when the conditions for a mandatory intervention exist, the national executive must do so. Therefore during 2021/22 the MFRS supported the first national intervention invoked in terms of section 139(7) at the Lekwa Local Municipality, Mangaung Metropolitan Municipality and Enough Mgijima Local Municipality.
160. The MFRS is continuously advocating for a synergised approach to dealing with municipal performance failures. While the National Treasury can advise and contribute to processes of S139 intervention, the Constitution places significant responsibility for such interventions in the hands of the Provincial Executives. The National Treasury will continue to enable provinces to build their internal capacity to support the preparation and implementation of the Financial Recovery Plans (FRP).
161. It will be important for the Provincial Treasuries and the Provincial Local Government Departments to agree on the approach to strengthen their support on municipal interventions and agree on an integrated framework which outlines the type of intervention to be invoked, responsibilities of each provincial department and the collaborative approach to be followed in line with the guidance from national.

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162. During 2021/22 five (5) FRPs have been prepared or revised in line with the new phased strategic approach that guides the development of financial recovery plans in municipalities, namely for Lekwa local municipality (national mandatory), Beaufort West local municipality (mandatory), Makana local municipality (mandatory), Amathole district municipality (mandatory) and the City of Tshwane (voluntary). This approach consists of three phases namely, rescue, stabilisation and sustainability.
163. Under this revised approach, there are 38 interventions (12 discretionary and 26 mandatory) in terms of Section 139 of the Constitution that the MFRS unit has supported in 2021/22. These interventions were in North West (8 municipalities) followed by Free State (7), Eastern Cape (6 municipalities), Mpumalanga (5 municipalities), Northern Cape (4 municipalities), Limpopo (3 municipalities), Gauteng (3 municipalities), and Western Cape and KwaZulu-Natal (1 municipality each). In addition, the unit has also supported 9 municipalities with voluntary FRPs.

SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY

164. South Africa's local government financial management system has undergone a number of reforms that have seen considerable progress. The challenges in local government have heightened the urgency for much needed reforms, which provided an opportunity to drive local government agenda in a way that seem impossible.
165. National government has been vigorous in dealing with municipalities that are in financial and service delivery crisis to bring stability and sustainability into the local fiscal system. However, there is still a long way to go before all 257 municipalities are fully functional and sustainable. To maintain sound fiscal discipline over the long term, a multi-pronged strategy that addresses operational inefficiencies, incompetence, and governance failures is necessary.
166. The financial management reform agenda for local government is an evolutionary process and needs to be nurtured to maturity. Government has initiated a number of capacity building initiatives and reforms to support municipalities in achieving this, including:

THE MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA)

167. *m*SCOA is one of many financial management reforms that was introduced by the National Treasury through the promulgation of the *m*SCOA Regulations on 22 April 2014. The reform is a key game changer to address municipal performance failures. However, the institutionalisation of *m*SCOA remains a concern as the reform is still seen largely as a finance reform and not an organisation and business reform.
168. A key objective of the *m*SCOA Regulations is to enable the alignment of budget information with information captured during the implementation of the budget. It is not limited to a standardised financial classification, but incorporates the:
- Modernisation of the local government business processes (regulation of minimum business processes and system specifications);
 - Application of basic processes and procedures for the daily operation of the municipality; and
 - Improvement of the municipal information, technology and communication and control environment.

MUNICIPALITIES IN FINANCIAL DISTRESS

169. Municipalities and municipal entities had to comply with the Regulations on *m*SCOA by 01 July 2017. Although all municipalities have implemented *m*SCOA, the level of implementation differs. Municipalities are required to submit a roadmap to the National and respective provincial treasuries indicating how they will become compliant if the minimum level of *m*SCOA implementation has not yet been achieved.
170. The *m*SCOA compliance audits were conducted at 17 municipalities across all financial systems to determine the level of implementation at these municipalities. The national *m*SCOA strategy was reviewed based on the audit findings and lessons learnt since 2017, and the key focus areas of the national *m*SCOA strategy for the period 2023 to 2025 are:
- Following a targeted approach to improve the credibility of *m*SCOA data strings;
 - Ongoing technical training;
 - Issue regulations on Minimum *m*SCOA Requirements and Specimen Annual Financial Statements (AFS);
 - Monitor and respond to system related challenges; and
 - Deal with persistent non-complying municipalities.
171. Extensive support on *m*SCOA implementation was provided to municipalities (to improve implementation) and provincial treasuries (to improve oversight). These support initiatives included the issuing of circulars and provision of training. An eLearning *m*SCOA course was developed and is hosted by the National School of Governance (NSG), while monthly master classes on relevant technical topics are hosted by Chartered Institute of Government Finance Audit and Risk Officers (CIGFARO).
172. The National Treasury also designed, developed and issued an illustrative *m*SCOA Specimen Annual Financial Statements for 2022/23 for municipalities with the support of the Office of the Accountant-General (OAG) to facilitate seamless alignment of municipal budget and the AFS data strings. This was the fourth issue of the specimen AFS which now includes the Parent and Consolidated Specimen and is aligned to version 6.6 of the chart.
173. Once the local government reporting reforms are fully implemented, the following benefits will be achieved:
- Accurate recording of transactions, therefore reducing material misstatements – more accurate and timely financial management impact positively on audit opinions and management decision making;
 - Improved oversight function by council as the required information will be accurate;
 - Standardise municipal- and the whole-of-government reporting enable better policy decisions, higher levels of cooperative government and pro-active and preventative support because of the availability of credible, reliable and timely municipal information;
 - The cornerstone of *m*SCOA is proper planning and budgeting, which improves transparency and accountability leading to a high level of service delivery;
 - Alignment in the accountability cycle of municipalities;
 - Better implementation of the integrated development plan (IDP) as all expenditure, both capital and operating, are driven from a project perspective;
 - Improved measurement of the impact on service delivery in the community through the regional segment;
 - Relieves reporting fatigue and the cost of reporting;
 - Modernised financial management through updated systems and technology; and
 - Provides for evidence-based financial management in municipalities. This means improved municipal benchmarking, policy making and interventions.

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LOCAL GOVERNMENT DATABASE AND REPORTING SYSTEM (LGDRS) AND GOMUNI

174. The Local Government Database and Reporting System (LGDRS) with its landing page called GoMuni was created to facilitate the collection and storage of financial and non-financial data to establish a culture of monthly reporting in terms of Section 71 of the MFMA by all 257 municipalities. Also, for the routine publication of budget and in-year financial performance information for local government, escalating the performance of local government into the public domain.
175. A sound reporting system facilitates transparency, better in-year management and oversight of budgets and better policy decisions on funding allocations at a national and provincial level.
176. The reports available on GoMuni portal are management tools and early warning mechanisms for municipal management and councils to improve municipal performance. The aim of an early warning system is to provide government with timely information on the state of municipalities' finances that highlights possible areas of risk so that such risks can be investigated and mitigated before they give rise to serious problems.
177. There is a need for information on municipal performance by various stakeholders such as South African Reserve Bank (SARB), Statistics South Africa, Department of Water and Sanitation (DWS), National Energy Regulator of South Africa (NERSA), DCoG, AGSA and universities. This central reporting system eliminates duplication of effort where various departments request the same information from the same municipality. In addition, the GoMuni portal provides information on municipal performance to the public as well.
178. The Municipal Money portal on GoMuni 'demystification' information about municipal spending, thereby promoting transparency and enabling citizens to hold their municipalities accountable. Municipal Money is designed to present key municipal financial information to a general audience, who do not necessarily have any financial background or knowledge. In addition, a range of municipal documentation is available for downloading on GoMuni, such as the Integrated Development Plans, budgets, in-year performance reports, annual financial statements and annual reports. Information on municipalities that are placed under intervention; the socio-economic profiles of municipalities are also available on GoMuni.
179. GoMuni also offers a host of training materials, tool kits and training session recordings on municipal finance, urban reforms and the *m*SCOA.

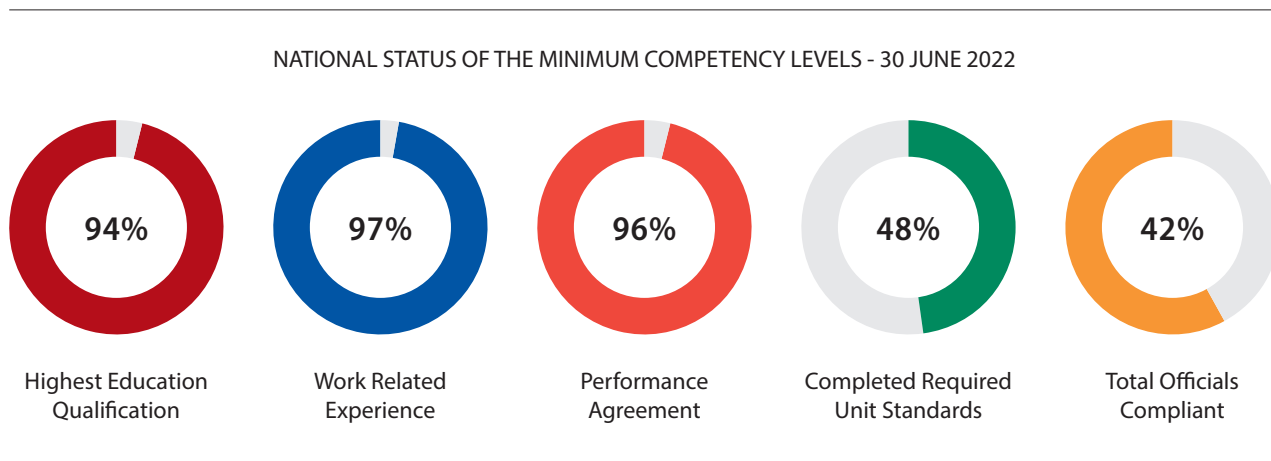
MINIMUM COMPETENCY LEVELS

180. The National Treasury has through several regulatory reforms, introduced capacity building and training initiatives to improve the budget and financial management reform agenda across municipalities and their entities where they exist. Paired with these training and development reporting initiative, the Capacity Building Chief Directorate supported by the respective provinces and the planned forums led by different teams within the National Treasury, is now undertaking a rigorous verification process to ensure that the training and development data submitted through the reporting database is also credible and thus provides a true picture of the status quo in any given reporting period.

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181. The institutionalisation of minimum competency levels across municipal human resource processes of recruitment, training, development, and retention, has been a sixteen-year journey supported through the issued MFMA Circulars 9, 17, 24, 47 and 60 to ensure a smooth interpretation of the said reforms. In addition, the planned half-yearly MFMA joint meetings, CFO forums and other stakeholder meetings and engagements have done their fair share in ensuring that the advocacy role in this regard is strengthened for ease of implementation and compliance. Most municipalities have now factored this reform as a must have or subject to the conditions as set out in the amendments, through Gazette 41996 before appointments are concluded. National Treasury continues to monitor and report on compliance in this regard through the support of the respective provincial treasuries. The legislated reporting timelines on minimum competency levels are January and July of each year. Figure 5 below depicts high level status on the minimum competency levels at the reporting period ending 30 June 2022.

Figure 5: High level status on the minimum competency levels as at 30 June 2022



182. It is also worth noting that the dynamics within the Higher Education and Training landscape through the introduction of the Quality Council on Trade and Occupations (QCTO) Occupational Qualifications will have an impact on the continuity of this reform in its current form. This change is necessitated by the developments and amendments in the National Qualifications Framework since 2010 and the broader mandate of the QCTO to transition legacy qualifications quality assured by the respective 21 Sector Education and Training Authorities into occupational qualifications.

183. The National Treasury has since 2017 embarked on a process to rewrite the qualifications aligned to the regulations on minimum competency levels, i.e., Certificate in Municipal Financial Management, South African Qualifications Authority (SAQA) ID 48965 and the ND: Public Finance Management Act, SAQA ID 49554, as occupational qualifications leading to the approval by the SAQA in January 2023. While these are welcomed developments that aim to transform the training and development landscape within the sector, there will be a need for the National Treasury to embark on the amendments of these regulations to include the approved occupational qualifications in due course.

184. Therefore, it becomes paramount that municipalities do their best to ensure that their officials comply speedily under this current reform. Furthermore, there are several funding avenues that municipalities may consider for

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fast-tracking compliance with this reform and these cover but not limited to: using own funding through the MTREF budget for this purpose; accessing the Skills Levies through the Local Government Sector Education and Training (LGSETA) by including this programme in the required work skills plans due for submission by the end of April of every year; supporting accredited training providers in their applications for the discretionary grants from the LGSETA and using the financial management grant allocation for this purpose while being mindful of the other conditions set therein.

185. In terms of the Professionalisation Framework, the Minister for Public Service and Administration, through the support of the National School of Government, has taken lead to draft the regulations on the national frameworks towards the implementation of the professionalisation of the public service. These regulations were approved by Cabinet for publication in 2021 and thus solicited public inputs in this regard.
186. Municipal Finance Management Internship Programme is a flagship programme implemented at municipal levels and funded from the DORA financial management grant allocations to municipalities. Municipalities are encouraged to source unemployed graduates in Accounting, Economics, Finance, Risk Management, and other financial management disciplines for structured training within the municipal budget and treasury offices. At the end of the three-year training programme, municipalities are encouraged to retain these interns or refer them to neighbouring municipalities with the support of the respective provincial treasuries to help close the identified skills gaps within budget and treasury office structures.
187. It is important that municipalities start to also budget for this reform from own resources to enable even more unemployed graduates to participate in this programme. Since the programme inception in 2004, the programme has ensured that municipalities have a substantial pool of officials trained under the MFMA reforms. The retention figures to date are at just close to 60 per cent since programme inception.

MUNICIPAL FINANCE IMPROVEMENT PROGRAMME (MFIP IIIx)

188. To sustain the momentum generated during MFIP III, which ended on 31 March 2020, and given the enduring municipal financial sustainability difficulties, approval was granted for the extension of the MFIP III for an additional two years from 1 April 2020 to 31 March 2022 (MFIP IIIx).
189. During the 2021/22 period, the MFIP IIIx underwent an extensive evaluation conducted by the National Treasury Strategic Planning, Monitoring and Evaluation (NTSPME) unit on behalf of the Director-General. The evaluation sought to establish the extent of the impact achieved through MFIP. The evaluation further sought to determine the effectiveness, efficiency, and relevance of the programme. The results of the evaluation will contribute to the following:
 - Inform decision-making on the future of the programme;
 - Improving accountability for where public spending is going and the difference it is making; and
 - Increase learnings to inform what has worked and has not with regards to the programme.

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190. Some of the recommendations made included:
- Continuation of the programme with a proviso that it be redesigned to increase its relevance, effectiveness, efficiency, impact and sustainability;
 - Make impactful resource deployment and placement decisions for the greatest resource to beneficiary ratio;
 - Place resources in strategic locations to assist alleviate gap filling by Technical Advisors (TAs);
 - Deployment of TAs to beneficiary institutions based on predetermined objectives and output indicators to ensure that the programme enhances learning and growth in the beneficiary institutions; and
 - Advertisement of a new tender for the appointment of TAs for another 2 years with an option of a 1-year extension if required to allow for the development of the new programme design and machinery as well as a managed transition into implementation.
191. On 28 February 2022, the Director-General approved the recommendations of the evaluation conducted by the NTSPME.
192. During the 2021/22 financial year, the project was implemented under the budget and functional authority of the National Treasury's Office of the Accountant-General (OAG), in partnership with the Intergovernmental Relations (IGR) division, Office of the Chief Procurement Officer (OCPO), with administrative management support provided by GTAC. As at 31 March 2022, the MFIP procured and deployed 74 technical advisors (TAs) at the following institutions and work streams:
- Direct capacity support to municipal budget and treasury offices in general financial management: 22 municipal TAs were deployed supporting 43 municipalities across the nine provinces;
 - Direct capacity support to the municipal finance units of provincial treasuries: 32 Provincial Treasury TAs were placed. Specialist support was offered in the following areas: supply chain management, mSCOA, accounting and audit support, asset management, budget and revenue management; and
 - Direct capacity support to National Treasury Chief Directorates – Local Government Budget Analysis, MFMA implementation unit and the OCPO: 20 National Treasury TAs were placed, providing specialist support in the following areas: accounting and audit support, budget and financial management, budget and revenue management, MFRS, mSCOA, and supply chain management.
193. The MFIP capacity building and skills transfer initiatives support various institutional and technical areas in financial management in terms of the MFMA and the local government reform agenda of the National Treasury. While these interventions are mostly informal and non-accredited, they assist in enhancing the practical, on-the-job skills of officials involved in municipal financial management. During the 2021/22 financial year, 2 494 capacity building sessions were held, involving 16 723 officials. The municipal advisors conducted 1 062 capacity building sessions, reaching 2 634 officials across 43 municipalities. The National and Provincial advisors conducted 1 432 capacity building sessions with 14 089 officials on topics such as accounting and audit (A&A), supply chain management (SCM), budget and revenue management (B&RM), budget and financial management (B&FM), asset management (AM), mSCOA and the MFRS.

MUNICIPALITIES IN FINANCIAL DISTRESS

194. The programme has made substantial progress with the implementation of MFIP. Various measures have been implemented to improve the overall effectiveness and efficiency of the programme. These include strengthening the institutionalisation of the modified business model, undertaking ongoing advocacy of the revised governance and management arrangements with programme stakeholders and implementing MFIP knowledge and information management initiatives to improve the efficiency of programme administration and enhance knowledge sharing and collaborative learning across the project work streams.

CITIES SUPPORT PROGRAMME (CSP)

195. CSP is a programme aimed at supporting metros to drive an effective spatial transformation agenda whilst contributing to inclusive economic growth. In collaboration with relevant key national departments the programme also contributes to creating an enabling fiscal and policy environment for the metros. The programme is implemented through five components, namely Governance and Fiscal, Public Transport, Human Settlements, Economic Development and Climate Resilience that facilitate and provide technical support to eight (8) metros.
196. A significant milestone during the 2021/22 year was the outcome of the mid-year budget and performance review and its recommendations gave the urban reform agenda a fueling advantage and in particular the finding that the programme is relevant and necessary for the competitive edge of the metropolitan spaces.
197. The Director-General (DG) of the National Treasury approved the recommendations of the CSP/ National Treasury steering committee on the value that the Urban Reform agenda through the CSP is contributing to the National Treasury and the need to continue with a third phase of the programme. In his approval, the DG instructed that the programme must include the secondary cities and ensure that the tools that the Programme has developed over time are extended to these secondary cities.
198. The programme and project preparation support grant were established in the 2021/22 financial year, further engagements and support was provided to the metros in the reporting period to strengthen the use of the grant in developing a credible pipeline of projects. This grant is being administered by the neighbourhood development partnership programme, with support from the CSP. Several bilateral engagements were also held with the Infrastructure Fund at the Development Bank of Southern Africa (DBSA) and individual metros to assist in supporting the cities preparation of projects and programmes for submission to the Budget Facility for Infrastructure. In many of the cities projects and programmes that are catalytic, income generating and that can attract investment from the private sector continue to be a challenge.
199. The technical support on the Cities Infrastructure and Delivery Management System (CIDMS) continued to be rolled out during the reporting period. Overall, there was good progress made in providing technical support on asset management policies, plans and processes in eThekweni, City of Johannesburg, Buffalo City and City of Cape Town with significant focus on CIDMS awareness and institutional arrangements especially in City of Tshwane and Nelson Mandela Bay. Noting the administrative challenges in Mangaung, CIDMS implementation support could not be implemented.

MUNICIPALITIES IN FINANCIAL DISTRESS

200. In May 2021, the National Treasury was able to launch eight metro economic activity reports as outputs of this process. Based on the success of this pilot, the South African Revenue Service (SARS) gave permission for the tax data to be made available to all municipalities in the form of prepared and data set panels.
201. To ensure the sustainability of this initiative, the CSP entered into a Memorandum of Agreement with the Human Sciences Research Council (HSRC) in July 2021 with the purpose of ensuring ongoing access to the tax data for city officials by curating, aggregating and sharing transformed databases from the administrative tax sources within the Secure Data Lab. This agreement provides a front-end capability to provide open access to the data and promote integration and uptake as well as training for metros officials.

LONG TERM FINANCIAL MODEL (LTFM)

202. Over the past several years the National Treasury has been supporting municipalities to develop and implement long-term financial models, plans, and/ or strategies that would support the developmental agenda of the municipalities. Although some municipalities have long-term financial models, they are not always integrated with municipal plans, or based on actual cash flow analysis and investment programmes, or able to consider alternative financial scenarios and outcomes in relation to the ability to borrow and the structuring of market transactions. On the other hand, some municipalities consider long-term financial models, plans, and strategies necessary, but do not have these instruments in place or have working financial models and spatial plans but have not necessarily followed through into the development of financial strategies. This reform seeks to develop over the longer term more sustainable and integrated infrastructure development programmes, informed by strategic plans, and financed in the most effective and efficient manner.
203. Municipalities need to develop long-term financial models (LTFM) that support decisions on investment selection and assess the financial impact of policy choices by forecasting future financial performance and the impact of infrastructure projects on borrowing capacity. The LTFM needs to inform the municipalities' long-term financial strategy, which must articulate a sustainable, efficient, and effective borrowing strategy and practices for the municipality and provide a clear statement of intent for lenders and other stakeholders.
204. The National Treasury has initiated this reform in the six metropolitan municipalities (City of Tshwane, eThekweni, Nelson Mandela Bay, Buffalo City, City of Ekurhuleni, and Mangaung) and some of the intermediate Cities are for Phase I are (Polokwane, UMhlathuze, Sol Plaatjie, Midvaal, Steve Tshwete, KwaDukuza) and in Phase II, NT supported the following municipalities (Mogale City, City of Matlosana, City of Mbombela, Msunduzi and Ray Nkonyeni). This reform will continue in the next financial years, depending on the availability of funding.
205. The success of the support on long-term financial plans in the intermediary cities and long-term financial models and strategies (in the metros) has been varied. The ongoing utilisation of the models and strategies developed especially in the pilot metropolitan municipalities have been hindered by the limited capacity in the city and governance challenges, as well as the limited buy in at a senior management level in the cities. However, in instances where there were extensive and intentional senior management engagement and a more structured approach to training and institutionalisation e.g., Council approval of the strategy, the utilisation of the model and strategy for decision making seems more likely.

MUNICIPALITIES IN FINANCIAL DISTRESS

WATER RESILIENCE

206. The CSP Water Team has been supporting turnarounds in metro water businesses through delivery of technical assistance in response to metro requests and advancing a series of policy reforms to strengthen the efficiency of metro water businesses.
207. Buffalo City, the City of Cape Town, eThekweni, Mangaung, Johannesburg, Nelson Mandela Bay, and most recently City of Tshwane are the metros receiving technical assistance whereby each city is in the process of receiving support to develop a Water Business Turnaround Strategy.
208. Water Business Turnaround Strategies were finalised with and for eThekweni and Buffalo City. Both cities took their strategy to the council for approval. The CSP has been providing technical support on request to eThekweni to support the implementation of priority non-revenue water projects. Technical support has also been provided on request to Nelson Mandela Bay to support the city's response to their water crisis, in partnership with the national Department of Water and Sanitation's Section 63 intervention under the Water Services Act. In addition, the City of Cape Town is receiving ongoing strategic advisory implementation support, delivered in partnership with the AFD, for their Water Strategy.
209. The CSP has been advancing the development of a long-term urban water reform agenda. This is a programme that will utilize finance and financial incentives together with technical assistance to support the turnaround of urban water businesses. The CSP has in support of this agenda, advanced efforts to strengthen financial transparency and a single point of management accountability for urban water services. The CSP and Operation Vulindlela are collaborating on this agenda.

REVENUE MANAGEMENT SUPPORT

210. The National Treasury has extended its support to enhance local government revenue management and at the core of sustainable service delivery is a funded budget, which is underpinned by credible budget assumptions, based on realistically anticipated revenue, optimisation of existing revenue sources and limiting expenditure to what is affordable. As part of revenue support initiatives, the existing budget funding methodology and related dashboard reporting are continuously being strengthened to improve the assessment and understanding of local government funding of the budget and assessment feedback to municipalities.
211. As part of strengthening budget assumptions various tools have been developed to assist and support municipalities and improve budget funding oversight. These include a socio-economic profiling template model, a tariff tool, a budget funding plan template, a revenue value chain assessment tool, a reconciliation tool to assist and guide municipalities to monthly reconcile the general valuation roll (GVR) (including any supplementary(s)) approved by council with the financial billing system. This includes reconciling the alignment of property values and prescribed municipal property rates categories set out in the GVR. All the tools are available to municipalities as part of the budget funding assessment tools. Additionally, the National Treasury is developing a transversal smart meter tender towards facilitating a gradual shift from a system of revenue collection in local government post service delivery to instead collect upfront for services.

MUNICIPALITIES IN FINANCIAL DISTRESS

212. The revenue management support to local government also includes the deployment of specialists nationally and across nine (9) provinces to drive and support the National Treasury revenue enhancement initiatives and to build capacity in provincial treasuries to enhance their revenue related oversight. These specialists have been placed strategically to assist the provincial treasuries as well as to support the 43 municipalities in service delivery and financial crisis.
213. Through this specialist support five (5) critical areas are targeted: the setting of cost reflective tariffs, facilitating completeness of the revenue through the reconciliation of the billing system and valuation roll, assisting municipalities to develop water tight credit control- and debt management policies, developing and strengthening standard operating procedures (SOP's) and ensuring municipalities adopt the optimal indigent management approach conducive to their specific local environment. This support includes extending training on the tools to provincial treasuries and municipalities to facilitate embrace and implement the tools. The focus through this approach is to rebuild and restore revenue management practices which over time have been eroded.

MFMA CIRCULAR NO. 88

214. The implementation of MFMA Circular No. 88 has further advanced since the reform has been institutionalised. As the only MFMA Circular with the distinction of being jointly issued by the National Treasury, DCoG and the Department of Planning, Monitoring and Evaluation (DPME), it is unique in the coherence it has brought to the suite of planning, budgeting and reporting reforms. Metropolitan municipalities have steadily incorporated these indicators into their plans and reported against them over the 2020/21 financial year. This has included the first set of annual and quarterly data for Local Economic Development indicators, among others. Performance analysis of this data is now undertaken by sector departments, including the Department of Human Settlements, which has rationalised its requests for data in relation to the urban settlements development grant and now relies on MFMA Circular No. 88 data for performance monitoring.
215. The institutionalisation of the joint planning, budgeting, and reporting reforms outlined in the MFMA Circular No. 88 continued to progress throughout the 2021/22 financial year. This period marked a shift for the National Treasury to emphasize on Circular 88 data quality and performance analysis as opposed to compliance matters in metropolitan municipalities. Additionally, the Department of Cooperative Governance (DCoG) introduced Circular 88 to the rest of the local government (non-metros) as a supplementary to the existing statutory planning and reporting. This implied that the Circular 88 indicators were not integrated into non-metros plans and reports but were instead reported separately.
216. Metros, on the other hand, incorporated these indicators in their statutory plans for reporting to the National Treasury. Despite progress, there are still some inconsistencies between municipal statutory planning and reporting documents and reported data submitted to the National Treasury. These inconsistencies were also identified by the AGSA through the annual audit process, which continues to form the basis for ongoing engagement and resolution with municipalities.

MUNICIPALITIES IN FINANCIAL DISTRESS

217. Almost 50 per cent of non-metros (intermediary cities, districts, and local municipalities) reporting to DCoG had reporting challenges such as data inconsistencies and delayed submissions at the end of each reporting period of 2021/22. As a result, the National DCoG resolved to place more emphasis on better planning and capacity support to provincial CoGTAs to ensure that this reform is appropriately integrated in their respective mandates.
218. As an additional measure to improve the implementation of the reform, DCoG has taken steps to integrate data collected through Circular 88 into the municipal performance assessment tool (MPAT) that will be implemented in the 2023/24 financial year. The developments related to this MPAT instrument will form part of the incremental codification of the reform prior to its regularisation through the municipal planning and performance management regulations of 2001, issued in accordance with the Municipal Systems Act.
219. The National Treasury continued to convene the sector-based technical working groups (TWGs) engagements that have now become the platform for periodic intergovernmental technical review and discussion on indicators formulation and interpretation, data quality and performance analysis for metros. These TWGs comprised of national sector departments, the three central government departments (i.e. the National Treasury, DCoG and the Department of Planning, Monitoring and Evaluation (DPME)), provincial CoGTAs as well as representatives from municipalities. The set of indicators discussed at the TWGs covered the following sectors:
- Water and sanitation;
 - Electricity and energy;
 - Housing and community facilities;
 - Roads and transport;
 - Environment and waste management;
 - Fire and disaster services;
 - Governance;
 - Local economic development; and
 - Financial Management.
220. The fourth amendment to MFMA Circular No. 88, issued in 2022, has advanced the institutionalisation of the reform by providing more detailed guidance to municipalities with assistance in resolving identified challenges relating to the reform. This guidance relates to, amongst others, the effective incorporation of outcome indicators and targets, the use of official statistical products, as well as data system limitations.
221. The reform is now reflecting a massive improvement in institutionalising a differentially applied set of indicators for all local government. Since metros have progressed to uniform reporting for most indicators in 2021/22 and have demonstrated the potential value of this reform, their data have now been disseminated to other stakeholders for wider performance analysis, review and utilisation.

MUNICIPALITIES IN FINANCIAL DISTRESS

REVIEW OF THE LOCAL GOVERNMENT CAPACITY BUILDING SYSTEM

222. It has been reported in several publications that many municipalities have proven to have insufficient capacity to fulfil their financial responsibilities. This is evident in overreliance on external financial consultants for preparation of annual financial statements, even though financial reporting is a core responsibility of the budget and treasury office. As reported by the AGSA, municipalities spent over R1.5 billion on financial reporting consultants in 2021/22 which has increased from the R1.3 billion spent in 2020/21 financial year.
223. Following the publication of the Diagnostic Review of the Capacity Building System for Local Government in February 2022, the National Treasury, the Department of Cooperative Governance, the South Africa Local Government Association, and the Financial and Fiscal Commission (FFC) will continue their collaborative efforts to implement the reforms outlined in the review. These efforts include, but are not limited to:
- Following a change management approach to tackling systems within the broader local government capacity-building system, starting with an in-ward approach within the National Treasury;
 - Building on existing National Treasury work and seeking improvements in capacity building in parallel with new capability development initiatives;
 - Following a new framework for sustainable capability development that emphasises collaboration, a problem-led approach and a whole-municipality (fully integrated) approach; and
 - Improving the administration of capacity-building grants and programmes, including rationalising them.
224. In terms of the in-ward approach within the National Treasury, two guiding frameworks will establish a common foundation for integrated capability development and capacity building for local government:
- A Capability Development Programme (CDP): This programme draws from lessons learned in past capacity-building and capability development initiatives within the National Treasury. Its goal is to not only enhance external support to local governments in the future but also to strengthen the National Treasury's internal capabilities. This includes strategy development, coordination and collaboration, governance, leadership, change management orientation, program planning, accountability, and learning. The CDP outlines the "HOW" of the National Treasury's envisaged execution of capability development; and
 - A Capability Development Strategy (CDS): Complementing the CDP, the CDS explicitly defines the "WHAT" that the CDP aims to achieve for local governments. Changes built upon a Theory of Change and encompasses various activities.
225. In addition to this inward-looking approach, the National Treasury is currently in the process of redesigning the MFIP and reviewing the conditional grants system as part of the remaining phases of the review. Progress on these initiatives will be shared in the 2024 Budget Review.

CONCLUDING REMARKS

226. Assessing the status of local government requires more than an analysis of the financial health of a municipality. In order to effectively assess the situation, the National Treasury uses an approach based on the four pillars of sustainability, these being governance, institutional arrangements, financial health and service delivery. The weak institutional arrangements are at the center of municipalities that are in distress, seeing the provinces having a total average of 30 per cent vacancy rate for municipal managers and 29 per cent for chief financial officers. Therefore, there is a risk of instability whereby there will be poor decisions made as in most cases, acting officials rotate in those positions and there is limited accountability and unwillingness to take hard decisions.
227. The number of municipalities assessed to meet the financial distress decreased from 165 in 2020/21 to 157 in 2021/22, whilst the overall audit outcomes indicate regression. This displays a lack of commitment by municipal leadership and weak control environment to improve audit outcomes. Although there are pockets of improvements, it can be concluded that the general state of municipal finances is still fragile and continues to worsen in other aspects. This is evident in a large number of municipalities with unqualified audit opinions without/ with findings still meeting the criteria for section 138 and 140 of the MFMA and therefore found to be in distress. This means that municipalities have not yet found the balance between prudent financial management, service delivery, institutional arrangements and good governance.
228. Therefore, there is still a substantial number of municipalities that continue to perform poorly with no sign of improvement. It is concerning that there are municipalities that are continuing to have recurring negative cash and cash equivalents for more than two consecutive years and therefore having insufficient cash coverage to fund fixed operations. The adoption of unfunded budgets is also adding to the financial management challenges as it is evident that most municipalities are unable to afford their operations but continue to budget for unrealistic expenditures and not effectively implementing their credit control policies in order to improve the collection rate from consumer debtors in line with the acceptable norms.
229. The non-payment of creditors is another challenge manifesting from poor collection rate and to a certain extent, absolute poor financial management and total disregard of the MFMA. In addition, another “ticking time bomb” is the gradual increase of municipalities not paying the third parties and this comes with negative implications for the beneficiaries. Therefore, it is now crucial that affected parties and related stakeholder should lay criminal charges against the responsible accounting officers as it is a criminal offence to make deductions from people’s salaries but not paying it to the fund administrators.
230. The decline in the number of municipalities with an acceptable current ratio is also problematic, a concern is that those with more liabilities have increased, are nearly half of total municipalities. This indicates that most municipalities are unable to pay their current or short-term obligations and provide risk cover to enable them to continue operations at desired levels.
231. In terms of municipal solvency, this ratio is often used by potential investors when evaluating a municipality’s creditworthiness or long-term financial health. A negative ratio indicates that a municipality is in the worst position to continue with its operations. Although the highest number of municipalities recorded an acceptable solvency ratio, it is critical to note that the municipal assets cannot be sold in order to generate cash to pay creditors.

CONCLUDING REMARKS

232. Municipalities are not spending adequately on repairs and maintenance of infrastructure, and this leads to perpetual deterioration of the municipal assets and quality of service delivery. However, it is observed that municipalities invest more in new assets rather than taking care of the existing ones. In addition, the effect of this under investment on repairs and maintenance is seen on the amount of water and electricity losses that municipalities incur yearly. Even though there are other external factors such as criminality adding to these losses, in the main, the service delivery infrastructure deteriorates due to lack of maintenance.
233. Of concern is, the recurring underspending on the allocated conditional grants and in the main, the municipalities are poorly capacitated in project management skills and fail to transition efficiently between planning for procurement, budgeting and execution of infrastructure projects.
234. These incapacities and incapacibilities at municipalities are concerning given the capacity building support provided through many programmes and reforms by the National Treasury such as the CSP, MFIP, mSCOA, revenue management and training on the minimum competency levels.
235. Local government requires urgent solutions to deal with distractions that come as a result of municipalities governed by the coalitions as it has been evident that such governance arrangements is not deriving positive results, rather becomes a platform for political infighting which destabilises municipalities. Therefore, all the stakeholders must play their equal part and implement appropriate solutions to the local government system by not expecting financial management solutions to politically induced challenges.

Municipalities in financial distress as at 30 June 2022 (municipalities identified as being in financial distress are highlighted). The National Treasury used 13 key indicators to determine municipalities that are in financial distress. The scoring of these indicators is indicated as follows:

1 = Good

0 = Poor

ANNEXURE A1

A municipality shows signs of financial distress when it receives a score of less than 7 from the 13 indicators. Also note that when the municipality's current assets/ current liabilities are less than 1 or when the total assets/ total liabilities are less than 1, it is an indication of financial distress, irrespective of the total score.

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Eastern Cape	A	Buffalo City	BUF	Metro	7 233 627 266	-	Permanent	Permanent
Eastern Cape	A	Nelson Mandela Bay	NMA	Metro	12 552 963 376	-	Permanent	Permanent
Eastern Cape	B	Blue Crane Route	EC102	Sarah Baartman	224 266 657	Financial Distress	Acting	Permanent
Eastern Cape	B	Dr Beyers Naude	EC101	Sarah Baartman	366 186 481	Financial Distress	Permanent	Acting
Eastern Cape	B	Kou-Kamma	EC109	Sarah Baartman	125 801 984	-	Permanent	Permanent
Eastern Cape	B	Kouga	EC108	Sarah Baartman	892 085 734	Financial Distress	Permanent	Permanent
Eastern Cape	B	Makana	EC104	Sarah Baartman	435 124 407	Financial Distress	Permanent	Permanent
Eastern Cape	B	Ndlambe	EC105	Sarah Baartman	410 875 496	-	Permanent	Permanent
Eastern Cape	B	Sundays River Valley	EC106	Sarah Baartman	180 722 757	Financial Distress	Permanent	Permanent
Eastern Cape	C	Sarah Baartman	DC10	Sarah Baartman	95 544 988	-	Permanent	Permanent
Eastern Cape	B	Amahlathi	EC124	Amathole	200 755 041	Financial Distress	Permanent	Permanent
Eastern Cape	B	Great Kei	EC123	Amathole	77 739 743	Financial Distress	Permanent	Permanent
Eastern Cape	B	Mbhashe	EC121	Amathole	215 761 878	Financial Distress	Permanent	Permanent
Eastern Cape	B	Mnquma	EC122	Amathole	282 000 552	-	Permanent	Permanent
Eastern Cape	B	Ngqushwa	EC126	Amathole	111 270 020	-	Permanent	Permanent
Eastern Cape	B	Raymond Mhlaba	EC129	Amathole	401 036 150	Financial Distress	Permanent	Acting
Eastern Cape	C	Amathole	DC12	Amathole	1 188 756 572	Financial Distress	Permanent	Permanent
Eastern Cape	B	Dr. A.B. Xuma	EC137	Chris Hani	153 169 696	-	Acting	Permanent
Eastern Cape	B	Emalaheni (EC)	EC136	Chris Hani	159 559 136	-	Permanent	Permanent
Eastern Cape	B	Enoch Mjijima	EC139	Chris Hani	825 447 668	Financial Distress	Permanent	Permanent
Eastern Cape	B	Intsika Yethu	EC135	Chris Hani	192 509 041	-	Permanent	Permanent
Eastern Cape	B	Inxuba Yethemba	EC131	Chris Hani	267 177 180	Financial Distress	Permanent	Permanent
Eastern Cape	B	Sakhisizwe	EC138	Chris Hani	87 991 881	Financial Distress	Permanent	Permanent
Eastern Cape	C	Chris Hani	DC13	Chris Hani	781 152 854	Financial Distress	Permanent	Permanent
Eastern Cape	B	Elundini	EC141	Joe Gqabi	243 461 646	-	Permanent	Acting
Eastern Cape	B	Senqu	EC142	Joe Gqabi	228 395 994	-	Permanent	Acting
Eastern Cape	B	Walter Sisulu	EC145	Joe Gqabi	315 380 456	Financial Distress	Permanent	Permanent
Eastern Cape	C	Joe Gqabi	DC14	Joe Gqabi	493 529 623	Financial Distress	Acting	Permanent
Eastern Cape	B	King Sabata Dalindyebo	EC157	O .R. Tambo	1 635 456 855	Financial Distress	Permanent	Permanent
Eastern Cape	B	Mhlontlo	EC156	O .R. Tambo	187 087 068	-	Acting	Permanent
Eastern Cape	B	Ngquza Hills	EC153	O .R. Tambo	293 999 344	-	Permanent	Acting
Eastern Cape	B	Nyandeni	EC155	O .R. Tambo	236 397 081	Financial Distress	Permanent	Permanent
Eastern Cape	B	Port St Johns	EC154	O .R. Tambo	165 152 093	-	Permanent	Acting
Eastern Cape	C	O R Tambo	DC15	O .R. Tambo	1 121 351 561	Financial Distress	Acting	Acting
Eastern Cape	B	Matatiele	EC441	Alfred Nzo	330 405 848	Financial Distress	Permanent	Permanent

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Eastern Cape	B	Ntabankulu	EC444	Alfred Nzo	138 406 081	Financial Distress	Permanent	Permanent
Eastern Cape	B	Umzimvubu	EC442	Alfred Nzo	226 575 775	-	Permanent	Permanent
Eastern Cape	B	Winnie Madikizela-Mandela	EC443	Alfred Nzo	264 808 321	-	Permanent	Permanent
Eastern Cape	C	Alfred Nzo	DC44	Alfred Nzo	521 163 544	-	Permanent	Permanent
Free State	A	Mangaung	MAN	Metro	7 826 713 968	Financial Distress	Acting	Permanent
Free State	B	Kopanong	FS162	Xharies	0	Financial Distress	Acting	Permanent
Free State	B	Letsemeng	FS161	Xharies	168 232 237	Financial Distress	Permanent	Permanent
Free State	B	Mohokare	FS163	Xharies	175 784 034	Financial Distress	Permanent	Permanent
Free State	C	Xharies	DC16	Xharies	57 032 683	Financial Distress	Permanent	Permanent
Free State	B	Masilonyana	FS181	Lejweleputswa	0	Financial Distress	Acting	Permanent
Free State	B	Matjhabeng	FS184	Lejweleputswa	2 429 224 255	Financial Distress	Permanent	Permanent
Free State	B	Nala	FS185	Lejweleputswa	467 821 220	Financial Distress	Acting	Permanent
Free State	B	Tokologo	FS182	Lejweleputswa	160 314 039	Financial Distress	Permanent	Permanent
Free State	B	Tswelopele	FS183	Lejweleputswa	189 261 632	Financial Distress	Permanent	Permanent
Free State	C	Lejweleputswa	DC18	Lejweleputswa	143 280 954	-	Permanent	Permanent
Free State	B	Dihlabeng	FS192	Thabo Mofutsanyana	759 618 936	Financial Distress	Acting	Permanent
Free State	B	Maluti-a-Phofung	FS194	Thabo Mofutsanyana	2 031 961 187	Financial Distress	Acting	Permanent
Free State	B	Mantsopa	FS196	Thabo Mofutsanyana	215 863 013	Financial Distress	Acting	Permanent
Free State	B	Nketoana	FS193	Thabo Mofutsanyana	341 611 300	Financial Distress	Permanent	Permanent
Free State	B	Phumelela	FS195	Thabo Mofutsanyana	156 008 363	Financial Distress	Permanent	Permanent
Free State	B	Setsoto	FS191	Thabo Mofutsanyana	398 345 276	-	Permanent	Permanent
Free State	C	Thabo Mofutsanyana	DC19	Thabo Mofutsanyana	128 837 164	Financial Distress	Permanent	Permanent
Free State	B	Mafube	FS205	Fezile Dabi	239 692 486	Financial Distress	Permanent	Acting
Free State	B	Metsimaholo	FS204	Fezile Dabi	1 315 408 551	Financial Distress	Permanent	Acting
Free State	B	Moghaka	FS201	Fezile Dabi	929 480 211	Financial Distress	Acting	Acting
Free State	B	Ngwathe	FS203	Fezile Dabi	711 376 186	Financial Distress	Permanent	Permanent
Free State	C	Fezile Dabi	DC20	Fezile Dabi	162 883 218	-	Permanent	Permanent
Gauteng	A	City of Ekurhuleni	EKU	Metro	34 426 235 936	Financial Distress	Permanent	Permanent
Gauteng	A	City of Johannesburg	JHB	Metro	47 053 716 926	Financial Distress	Acting	Permanent
Gauteng	A	City of Tshwane	TSH	Metro	0	Financial Distress	Acting	Permanent
Gauteng	B	Emfuleni	GT421	Sedibeng	7 106 827 185	Financial Distress	Permanent	Permanent
Gauteng	B	Lesedi	GT423	Sedibeng	745 072 811	Financial Distress	Acting	Acting
Gauteng	B	Midvaal	GT422	Sedibeng	1 113 843 145	-	Acting	Permanent
Gauteng	C	Sedibeng	DC42	Sedibeng	354 933 769	Financial Distress	Permanent	Acting
Gauteng	B	Merafong City	GT484	West Rand	135 395	Financial Distress	Acting	Acting
Gauteng	B	Mogale City	GT481	West Rand	2 569 242	Financial Distress	Permanent	Permanent
Gauteng	B	Rand West City	GT485	West Rand	1 799 147 333	Financial Distress	Acting	Acting
Gauteng	C	West Rand	DC48	West Rand	238 045 011	Financial Distress	Permanent	Permanent

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Kwazulu-Natal	A	eThekweni	ETH	Metro	36 175 737 836	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Ray Nkonyeni	KZN216	Ugu	955 964 336	-	Permanent	Permanent
Kwazulu-Natal	B	Umdoni	KZN212	Ugu	249 791 920	-	Permanent	Acting
Kwazulu-Natal	B	Umzumbe	KZN213	Ugu	124 410 409	-	Permanent	Acting
Kwazulu-Natal	B	uMuziwabantu	KZN214	Ugu	175 036 740	-	Permanent	Acting
Kwazulu-Natal	C	Ugu	DC21	Ugu	848 362 639	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Impendle	KZN224	uMgungundlovu	53 003 261	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Mkhambathini	KZN226	uMgungundlovu	115 569 276	-	Permanent	Permanent
Kwazulu-Natal	B	Mpofana	KZN223	uMgungundlovu	208 462 788	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Msunduzi	KZN225	uMgungundlovu	6 340 530 266	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Richmond	KZN227	uMgungundlovu	107 950 437	-	Permanent	Permanent
Kwazulu-Natal	B	uMngeni	KZN222	uMgungundlovu	426 114 743	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	uMshwathi	KZN221	uMgungundlovu	161 751 591	-	Permanent	Permanent
Kwazulu-Natal	C	uMgungundlovu	DC22	uMgungundlovu	332 040 579	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Alfred Duma	KZN238	Uthukela	903 626 455	Financial Distress	Permanent	Acting
Kwazulu-Natal	B	Inkosi Langalibalele	KZN237	Uthukela	543 242 520	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Okhahlamba	KZN235	Uthukela	164 274 393	Financial Distress	Permanent	Permanent
Kwazulu-Natal	C	Uthukela	DC23	Uthukela	809 261 444	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Endumeni	KZN241	Umzinyathi	316 665 842	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Msinga	KZN244	Umzinyathi	194 228 641	-	Permanent	Acting
Kwazulu-Natal	B	Nquthu	KZN242	Umzinyathi	216 704 639	-	Permanent	Permanent
Kwazulu-Natal	B	Umvoti	KZN245	Umzinyathi	312 956 446	-	Acting	Permanent
Kwazulu-Natal	C	Umzinyathi	DC24	Umzinyathi	514 623 121	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Dannhauser	KZN254	Amajuba	129 302 706	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Emadlangeni	KZN253	Amajuba	82 900 812	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Newcastle	KZN252	Amajuba	1 572 426 384	Financial Distress	Acting	Permanent
Kwazulu-Natal	C	Amajuba	DC25	Amajuba	196 796 158	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Abaqulusi	KZN263	Zululand	587 595 582	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Nongoma	KZN265	Zululand	199 296 939	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Ulundi	KZN266	Zululand	395 037 220	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	eDumbe	KZN261	Zululand	153 962 025	Financial Distress	Acting	Acting
Kwazulu-Natal	B	uPhongolo	KZN262	Zululand	245 615 564	Financial Distress	Acting	Acting
Kwazulu-Natal	C	Zululand	DC26	Zululand	671 681 342	Financial Distress	Acting	Permanent
Kwazulu-Natal	B	Hlabisa Big Five	KZN276	Umkhanyakude	133 942 164	-	Permanent	Permanent
Kwazulu-Natal	B	Jozini	KZN272	Umkhanyakude	200 022 008	Financial Distress	Acting	Acting
Kwazulu-Natal	B	Mtubatuba	KZN275	Umkhanyakude	258 132 430	Financial Distress	Permanent	Acting
Kwazulu-Natal	B	Umhlabuyalingana	KZN271	Umkhanyakude	159 723 403	-	Permanent	Acting
Kwazulu-Natal	C	Umkhanyakude	DC27	Umkhanyakude	410 131 955	-	Acting	Acting
Kwazulu-Natal	B	Mfolozi	KZN281	King Cetshwayo	167 409 375	-	Acting	Permanent

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Kwazulu-Natal	B	Mthonjaneni	KZN285	King Cetshwayo	140 348 342	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Nkandla	KZN286	King Cetshwayo	186 100 985	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	uMhlathuze	KZN282	King Cetshwayo	3 268 927 295	-	Acting	Permanent
Kwazulu-Natal	B	uMlalazi	KZN284	King Cetshwayo	374 474 552	-	Permanent	Acting
Kwazulu-Natal	C	King Cetshwayo	DC28	King Cetshwayo	671 263 962	-	Acting	Permanent
Kwazulu-Natal	B	KwaDukuza	KZN292	iLembe	1 814 835 510	-	Permanent	Permanent
Kwazulu-Natal	B	Mandeni	KZN291	iLembe	224 721 773	-	Permanent	Permanent
Kwazulu-Natal	B	Maphumulo	KZN294	iLembe	104 339 856	Financial Distress	Permanent	Permanent
Kwazulu-Natal	B	Ndwedwe	KZN293	iLembe	140 999 437	-	Permanent	Permanent
Kwazulu-Natal	C	iLembe	DC29	iLembe	877 847 327	-	Permanent	Permanent
Kwazulu-Natal	B	Dr Nkosazana Dlamini Zuma	KZN436	Harry Gwala	146 111 897	-	Permanent	Permanent
Kwazulu-Natal	B	Greater Kokstad	KZN433	Harry Gwala	340 436 118	-	Permanent	Permanent
Kwazulu-Natal	B	Ubuhlebezwe	KZN434	Harry Gwala	125 669 438	-	Permanent	Permanent
Kwazulu-Natal	B	Umzimkhulu	KZN435	Harry Gwala	195 374 863	-	Acting	Permanent
Kwazulu-Natal	C	Harry Gwala	DC43	Harry Gwala	484 786 672	Financial Distress	Acting	Permanent
Limpopo	B	Ba-Phalaborwa	LIM334	Mopani	422 545 879	Financial Distress	Permanent	Permanent
Limpopo	B	Greater Giyani	LIM331	Mopani	297 183 827	Financial Distress	Permanent	Permanent
Limpopo	B	Greater Letaba	LIM332	Mopani	327 151 305	Financial Distress	Permanent	Acting
Limpopo	B	Greater Tzaneen	LIM333	Mopani	1 219 863 445	-	Permanent	Acting
Limpopo	B	Maruleng	LIM335	Mopani	143 857 527	-	Permanent	Permanent
Limpopo	C	Mopani	DC33	Mopani	995 082 926	Financial Distress	Permanent	Permanent
Limpopo	B	Collins Chabane	LIM345	Vhembe	296 601 718	-		
Limpopo	B	Makhado	LIM344	Vhembe	912 744 635	-	Permanent	Permanent
Limpopo	B	Musina	LIM341	Vhembe	350 518 565	Financial Distress	Permanent	Acting
Limpopo	B	Thulamela	LIM343	Vhembe	302 698 235	-	Permanent	Permanent
Limpopo	C	Vhembe	DC34	Vhembe	1 673 322 327	Financial Distress	Permanent	Permanent
Limpopo	B	Blouberg	LIM351	Capricorn	266 027 122	Financial Distress	Permanent	Acting
Limpopo	B	Lepelle-Nkumpi	LIM355	Capricorn	184 844 581	-	Permanent	Acting
Limpopo	B	Molemole	LIM353	Capricorn	173 755 973	-	Permanent	Acting
Limpopo	B	Polokwane	LIM354	Capricorn	3 333 627 297	-	Permanent	Acting
Limpopo	C	Capricorn	DC35	Capricorn	680 210 369	-	Permanent	Acting
Limpopo	B	Bela Bela	LIM366	Waterberg	388 471 594	Financial Distress	Permanent	Permanent
Limpopo	B	Lephalale	LIM362	Waterberg	477 690 663	-	Permanent	Permanent
Limpopo	B	Modimolle-Mookgopong	LIM368	Waterberg	713 458 846	Financial Distress	Permanent	Permanent
Limpopo	B	Mogalakwena	LIM367	Waterberg	1 032 497 734	Financial Distress	Permanent	Permanent
Limpopo	B	Thabazimbi	LIM361	Waterberg	402 648 787	Financial Distress	Permanent	Acting
Limpopo	C	Waterberg	DC36	Waterberg	150 133 805	-	Permanent	Permanent
Limpopo	B	Elias Motsoaledi	LIM472	Sekhukhune	429 460 730	Financial Distress	Acting	Acting

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Limpopo	B	Ephraim Mogale	LIM471	Sekhukhune	221 687 988	-	Permanent	Permanent
Limpopo	B	Makhuduthamaga	LIM473	Sekhukhune	360 108 245	-	Permanent	Acting
Limpopo	B	Tubatse Fetakgomo	LIM476	Sekhukhune	534 260 441	-	Permanent	Permanent
Limpopo	C	Sekhukhune	DC47	Sekhukhune	761 673 019	Financial Distress	Permanent	Permanent
Mpumalanga	B	Albert Luthuli	MP301	Gert Sibande	600 881 325	Financial Distress	Permanent	Permanent
Mpumalanga	B	Dipaleseng	MP306	Gert Sibande	247 431 539	Financial Distress	Permanent	Permanent
Mpumalanga	B	Govan Mbeki	MP307	Gert Sibande	2 000 815 316	Financial Distress	Permanent	Permanent
Mpumalanga	B	Lekwa	MP305	Gert Sibande	1 165 525 910	Financial Distress	Permanent	Permanent
Mpumalanga	B	Mkhondo	MP303	Gert Sibande	649 791 181	Financial Distress	Acting	Acting
Mpumalanga	B	Msukaligwa	MP302	Gert Sibande	903 163 594	Financial Distress	Permanent	Permanent
Mpumalanga	B	Pixley Ka Seme (MP)	MP304	Gert Sibande	373 843 440	Financial Distress	Permanent	Permanent
Mpumalanga	C	Gert Sibande	DC30	Gert Sibande	285 511 097	-	Permanent	Permanent
Mpumalanga	B	Dr J.S. Moroka	MP316	Nkangala	454 750 324	-	Permanent	Permanent
Mpumalanga	B	Emakhazeni	MP314	Nkangala	326 379 625	Financial Distress	Permanent	Permanent
Mpumalanga	B	Emalahleni (MP)	MP312	Nkangala	3 948 560 427	Financial Distress	Permanent	Acting
Mpumalanga	B	Steve Tshwete	MP313	Nkangala	1 849 766 996	-	Permanent	Permanent
Mpumalanga	B	Thembisile Hani	MP315	Nkangala	380 607 907	Financial Distress	Permanent	Permanent
Mpumalanga	B	Victor Khanye	MP311	Nkangala	633 347 007	Financial Distress	Permanent	Permanent
Mpumalanga	C	Nkangala	DC31	Nkangala	265 243 969	-	Permanent	Permanent
Mpumalanga	B	Bushbuckridge	MP325	Ehlanzeni	1 159 100 430	-	Permanent	Permanent
Mpumalanga	B	City of Mbombela	MP326	Ehlanzeni	3 232 313 628	Financial Distress	Permanent	Permanent
Mpumalanga	B	Nkomazi	MP324	Ehlanzeni	981 237 158	-	Permanent	Permanent
Mpumalanga	B	Thaba Chweu	MP321	Ehlanzeni	721 000 120	Financial Distress	Acting	Permanent
Mpumalanga	C	Ehlanzeni	DC32	Ehlanzeni	255 656 243	-	Permanent	Permanent
North West	B	Kgetlengrivier	NW374	Bojanala Platinum	234 915 558	Financial Distress	Permanent	Permanent
North West	B	Madibeng	NW372	Bojanala Platinum	1 808 251 855	Financial Distress	Acting	Acting
North West	B	Moretele	NW371	Bojanala Platinum	500 269 074	-	Permanent	Permanent
North West	B	Moses Kotane	NW375	Bojanala Platinum	535 052 391	Financial Distress	Permanent	Acting
North West	B	Rustenburg	NW373	Bojanala Platinum	4 719 162 275	Financial Distress	Acting	Acting
North West	C	Bojanala Platinum	DC37	Bojanala Platinum	259 002 338	-	Acting	Acting
North West	B	Ditsobotla	NW384	Ngaka Modiri Molema	0	Financial Distress	Acting	Acting
North West	B	Mafikeng	NW383	Ngaka Modiri Molema	791 464 731	Financial Distress	Permanent	Permanent
North West	B	Ramotshere Moiloa	NW385	Ngaka Modiri Molema	355 895 499	Financial Distress	Permanent	Permanent
North West	B	Ratlou	NW381	Ngaka Modiri Molema	125 857 383	-	Permanent	Permanent
North West	B	Tswaing	NW382	Ngaka Modiri Molema	160 358 748	Financial Distress	Acting	Acting
North West	C	Ngaka Modiri Molema	DC38	Ngaka Modiri Molema	738 630 200	-	Permanent	Permanent
North West	B	Greater Taung	NW394	Dr Ruth Segomotsi Mompati	248 549 172	-	Acting	Permanent
North West	B	Kagisano-Molopo	NW397	Dr Ruth Segomotsi Mompati	127 233 347	Financial Distress	Permanent	Permanent
North West	B	Lekwa-Teemane	NW396	Dr Ruth Segomotsi Mompati	217 326 390	Financial Distress	Permanent	Permanent

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STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
North West	B	Mamusa	NW393	Dr Ruth Segomotsi Mompati	183 485 131	Financial Distress	Acting	Acting
North West	B	Naledi (NW)	NW392	Dr Ruth Segomotsi Mompati	453 422 037	Financial Distress	Permanent	Acting
North West	C	Dr Ruth Segomotsi Mompati	DC39	Dr Ruth Segomotsi Mompati	544 538 050	Financial Distress	Acting	Acting
North West	B	City of Matlosana	NW403	Dr Kenneth Kaunda	2 352 948 716	Financial Distress	Acting	Acting
North West	B	J B Marks	NW405	Dr Kenneth Kaunda	1 564 968 311	Financial Distress	Acting	Acting
North West	B	Maquassi Hills	NW404	Dr Kenneth Kaunda	297 283 202	Financial Distress	Permanent	Acting
North West	C	Dr Kenneth Kaunda	DC40	Dr Kenneth Kaunda	178 063 810	-	Acting	Permanent
Northern Cape	B	Ga-Segonyana	NC452	John Taolo Gaetsewe	422 900 437	-	Permanent	Permanent
Northern Cape	B	Gamagara	NC453	John Taolo Gaetsewe	488 465 870	Financial Distress	Permanent	Permanent
Northern Cape	B	Joe Morolong	NC451	John Taolo Gaetsewe	148 528 302	Financial Distress	Acting	Permanent
Northern Cape	C	John Taolo Gaetsewe	DC45	John Taolo Gaetsewe	109 683 253	-	Permanent	Acting
Northern Cape	B	Hantam	NC065	Namakwa	99 048 851	Financial Distress	Acting	Permanent
Northern Cape	B	Kamiesberg	NC064	Namakwa	79 184 589	Financial Distress	Permanent	Acting
Northern Cape	B	Karoo Hoogland	NC066	Namakwa	52 858 898	Financial Distress	Acting	Permanent
Northern Cape	B	Khai-Ma	NC067	Namakwa	68 792 259	Financial Distress	Acting	Permanent
Northern Cape	B	Nama Khoi	NC062	Namakwa	262 509 309	Financial Distress	Permanent	Permanent
Northern Cape	B	Richtersveld	NC061	Namakwa	82 767 811	Financial Distress	Permanent	Permanent
Northern Cape	C	Namakwa	DC6	Namakwa	57 684 936	Financial Distress	Permanent	Permanent
Northern Cape	B	Emthanjeni	NC073	Pixley ka Seme (NC)	241 059 959	Financial Distress	Permanent	Permanent
Northern Cape	B	Kareeberg	NC074	Pixley ka Seme (NC)	55 038 040	Financial Distress	Acting	Permanent
Northern Cape	B	Renosterberg	NC075	Pixley ka Seme (NC)	46 458 348	Financial Distress	Acting	Acting
Northern Cape	B	Siyancuma	NC078	Pixley ka Seme (NC)	192 878 934	Financial Distress	Permanent	Acting
Northern Cape	B	Siyathemba	NC077	Pixley ka Seme (NC)	125 860 175	Financial Distress	Acting	Acting
Northern Cape	B	Thembelihle	NC076	Pixley ka Seme (NC)	71 583 074	Financial Distress	Acting	Acting
Northern Cape	B	Ubuntu	NC071	Pixley ka Seme (NC)	82 965 040	Financial Distress	Permanent	Acting
Northern Cape	B	Umsobomvu	NC072	Pixley ka Seme (NC)	127 593 762	-	Permanent	Acting
Northern Cape	C	Pixley Ka Seme (NC)	DC7	Pixley ka Seme (NC)	59 322 126	Financial Distress	Permanent	Permanent
Northern Cape	B	!Kai! Garib	NC082	Z F Mgcawu	0	Financial Distress	Acting	Permanent
Northern Cape	B	!Kheis	NC084	Z F Mgcawu	40 494 038	Financial Distress	Acting	Permanent
Northern Cape	B	Dawid Kruiper	NC087	Z F Mgcawu	704 983 246	Financial Distress	Permanent	Permanent
Northern Cape	B	Kgatelopele	NC086	Z F Mgcawu	91 980 413	Financial Distress	Permanent	Permanent
Northern Cape	B	Tsantsabane	NC085	Z F Mgcawu	209 440 243	Financial Distress	Permanent	Permanent
Northern Cape	C	Z F Mgcawu	DC8	Z F Mgcawu	73 677 173	Financial Distress	Acting	Permanent
Northern Cape	B	Dikgatlong	NC092	Frances Baard	163 557 609	Financial Distress	Acting	Acting
Northern Cape	B	Magareng	NC093	Frances Baard	100 387 660	Financial Distress	Acting	Acting
Northern Cape	B	Phokwane	NC094	Frances Baard	284 948 855	Financial Distress	Acting	Acting
Northern Cape	B	Sol Plaatje	NC091	Frances Baard	1 711 630 687	-	Acting	Permanent
Northern Cape	C	Frances Baard	DC9	Frances Baard	100 452 962	-	Permanent	Acting

ANNEXURE A1

STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2021/22					DISTRESS INDICATOR		ACTING POSITION	
Province	Cat	Demarcation Description	Demarc Code	District	FIXED_OPEX	FINANCIAL DISTRESS	MM Vacancy	CFO Vacancy
Western Cape	A	Cape Town	CPT	Metro	41 901 246 547	-	Permanent	Permanent
Western Cape	B	Bergrivier	WC013	West Coast	361 841 465	-	Permanent	Permanent
Western Cape	B	Cederberg	WC012	West Coast	337 978 610	Financial Distress	Permanent	Permanent
Western Cape	B	Matzikama	WC011	West Coast	389 553 379	Financial Distress	Permanent	Permanent
Western Cape	B	Saldanha Bay	WC014	West Coast	991 853 220	-	Permanent	Permanent
Western Cape	B	Swartland	WC015	West Coast	748 524 444	-	Permanent	Permanent
Western Cape	C	West Coast	DC1	West Coast	377 747 529	-	Permanent	Permanent
Western Cape	B	Breede Valley	WC025	Cape Winelands	981 423 416	-	Permanent	Permanent
Western Cape	B	Drakenstein	WC023	Cape Winelands	2 258 372 969	Financial Distress	Permanent	Permanent
Western Cape	B	Langeberg	WC026	Cape Winelands	746 744 066	-	Permanent	Permanent
Western Cape	B	Stellenbosch	WC024	Cape Winelands	1 503 892 243	-	Permanent	Permanent
Western Cape	B	Witzenberg	WC022	Cape Winelands	601 323 664	-	Permanent	Permanent
Western Cape	C	Cape Winelands DM	DC2	Cape Winelands	310 755 201	-	Permanent	Permanent
Western Cape	B	Cape Agulhas	WC033	Overberg	329 762 347	-	Permanent	Permanent
Western Cape	B	Overstrand	WC032	Overberg	1 220 330 402	Financial Distress	Permanent	Permanent
Western Cape	B	Swellendam	WC034	Overberg	272 330 083	Financial Distress	Permanent	Permanent
Western Cape	B	Theewaterskloof	WC031	Overberg	523 903 697	-	Acting	Acting
Western Cape	C	Overberg	DC3	Overberg	189 013 251	Financial Distress	Permanent	Permanent
Western Cape	B	Bitou	WC047	Garden Route	624 544 349	Financial Distress	Permanent	Acting
Western Cape	B	George	WC044	Garden Route	2 092 810 225	-	Permanent	Permanent
Western Cape	B	Hessequa	WC042	Garden Route	433 910 607	-	Permanent	Permanent
Western Cape	B	Kannaland	WC041	Garden Route	137 375 930	Financial Distress	Acting	Acting
Western Cape	B	Knysna	WC048	Garden Route	789 371 692	-	Acting	Acting
Western Cape	B	Mossel Bay	WC043	Garden Route	1 122 355 456	-	Permanent	Permanent
Western Cape	B	Oudtshoorn	WC045	Garden Route	552 757 648	-	Acting	Permanent
Western Cape	C	Garden Route	DC4	Garden Route	354 972 219	-	Permanent	Permanent
Western Cape	B	Beaufort West	WC053	Central Karoo	277 033 535	Financial Distress	Acting	Acting
Western Cape	B	Laingsburg	WC051	Central Karoo	54 458 180	Financial Distress	Permanent	Permanent
Western Cape	B	Prince Albert	WC052	Central Karoo	57 042 832	-	Acting	Permanent
Western Cape	C	Central Karoo	DC5	Central Karoo	78 380 777	-	Permanent	Permanent

Analysis of municipalities in financial distress in municipalities (*municipalities identified as being in financial distress in 2021/22 are also highlighted*).

This section indicates analysis of financial distress in 257 municipalities for the period 2017/18 to 2021/22.

ANNEXURE A2

Period: 2017/18 to 2021/22

Province	Cat	Code	Name						2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets	S139 Intervention (current)		Financial Recovery Plan
				2017/18	2018/19	2019/20	2020/21	2021/22		S140	S138		2021/22 adopted	S139 (1)	
Eastern Cape															
EC	A	BUF	Buffalo City		1			Qualified		1	Funded				
EC	A	NMA	Nelson Mandela Bay					Qualified	1	1	Funded				
EC	B	EC101	Dr Beyers Naude	1	1	1	1	Qualified	1	1	1				
EC	B	EC102	Blue Crane Route	1	1	1	1	Unqualified - With findings	1	1	Funded				
EC	B	EC104	Makana		1	1	1	Disclaimer of opinion	1	1	Funded		S139(5) (a)	Mandatory	
EC	B	EC105	Ndlambe			1	1	Qualified		1	Funded				
EC	B	EC106	Sundays River Valley	1	1	1	1	Disclaimer of opinion	1	1	Funded				
EC	B	EC108	Kouga	1		1	1	Unqualified - With findings		1	Unfunded				
EC	B	EC109	Kou-Kamma	1		1	1	Unqualified - With findings	1	1	Funded				
EC	C	DC10	Sarah Baartman					Unqualified - With findings			Funded				
EC	B	EC121	Mbhashe	1				Unqualified - With findings			Funded				
EC	B	EC122	Mnquma	1	1	1		Unqualified - With findings		1	Funded				
EC	B	EC123	Great Kei	1	1	1	1	Unqualified - With findings	1	1	Funded				
EC	B	EC124	Amahlathi	1	1	1	1	Unqualified - With findings	1	1	1				
EC	B	EC126	Ngqushwa		1	1		Qualified		1	Funded				
EC	B	EC129	Raymond Mhlaba	1	1	1	1	Qualified	1	1	1				
EC	C	DC12	Amathole		1	1	1	Adverse opinion	1	1	1		S139(5) (a)	Mandatory	
EC	B	EC131	Inxuba Yethemba		1	1	1	Unqualified - With findings	1	1	1				
EC	B	EC135	Intsika Yethu		1			Qualified		1	Funded				
EC	B	EC136	Emalahleni (EC)	1	1	1		Qualified	1	1	Funded				
EC	B	EC137	Engcobo					Qualified			Funded				
EC	B	EC138	Sakhisizwe		1	1	1	Qualified		1	1				
EC	B	EC139	Enoch Mgijima		1	1	1	Qualified	1	1	1		S139(7)	Mandatory	
EC	C	DC13	Chris Hani	1	1	1	1	Disclaimer of opinion		1	Funded		S139(5) (a)	In Process	
EC	B	EC141	Elundini	1				Unqualified - Without findings		1	1				
EC	B	EC142	Senqu	1				Unqualified - Without findings			Funded				
EC	B	EC145	Walter Sisulu	1	1	1	1	Disclaimer of opinion	1	1	1		S139(5) (a)	In Process	
EC	C	DC14	Joe Gqabi	1	1	1		Unqualified - Without findings	1	1	Funded				
EC	B	EC153	Ngquza Hills					Qualified		1	Funded				
EC	B	EC154	Port St Johns	1				Unqualified - With findings		1	Funded				
EC	B	EC155	Nyandeni				1	Unqualified - With findings			Funded				
EC	B	EC156	Mhlontlo			1		Unqualified - With findings		1	Funded				
EC	B	EC157	King Sabata Dalindyebo	1	1	1	1	Qualified	1	1	Funded				
EC	C	DC15	O R Tambo	1	1	1	1	Qualified	1	1	Funded		S139(5) (a)	In Process	

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets	S139 Intervention (current)		Financial Recovery Plan
										S140	S138		2021/22 adopted	S139 (1)	
EC	B	EC441	Matatiele	1		1	1		Unqualified - With findings			Funded			
EC	B	EC442	Umzimvubu						Unqualified - With findings		1	Funded			
EC	B	EC443	Winnie Madikizela Mandela						Unqualified - Without findings			Funded			
EC	B	EC444	Ntabankulu	1	1		1		Unqualified - With findings		1	Funded			
EC	C	DC44	Alfred Nzo						Unqualified - With findings		1	Funded			
Total EC			39	21	22	24	21			17	32	9	0	6	

Free State															
Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S140	S138	Unfunded Budgets	S139 (1)	S139 (5) or (7)	Financial Recovery Plan
FS	A	MAN	Mangaung	1	1	1	1		Unqualified - With findings	1	1	Funded		S139(7)	Mandatory
FS	B	FS161	Letsemeng	1	1	1	1		Qualified	1	1	1			
FS	B	FS162	Kopanong	1	1	1	1		Outstanding	1	1	1			
FS	B	FS163	Mohokare		1	1	1		Qualified		1	1			
FS	C	DC16	Xhariep		1	1	1		Unqualified - With findings	1	1	Funded			
FS	B	FS181	Masilonyana	1	1	1	1		Outstanding	1	1	1	S139(1)(b)		Discretionary
FS	B	FS182	Tokologo		1	1	1		Outstanding	1	1	1		S139(5) (a) & (c)	Mandatory
FS	B	FS183	Tswelopele	1	1	1	1		Unqualified - With findings	1	1	1			
FS	B	FS184	Matjhabeng		1	1	1		Qualified	1	1	1			
FS	B	FS185	Nala	1	1	1	1		Qualified	1	1	1			
FS	C	DC18	Lejweleputswa	1		1			Unqualified - With findings		1	Funded			
FS	B	FS191	Setsoto	1	1	1	1		Qualified	1	1	1			
FS	B	FS192	Dihlabeng		1	1	1		Qualified	1	1	1			
FS	B	FS193	Nketoana	1	1	1	1		Outstanding	1	1	1	S139(1)(b)		Discretionary
FS	B	FS194	Maluti-a-Phofung	1	1	1	1		Outstanding	1	1	1	S139(1)(b)		Discretionary
FS	B	FS195	Phumelela	1	1	1	1		Unqualified - With findings	1	1	1	S139(1)(b)		Discretionary
FS	B	FS196	Mantsopa	1	1	1	1		Outstanding	1	1	1			Voluntary
FS	C	DC19	Thabo Mofutsanyana	1	1				Unqualified - With findings		1	Funded			
FS	B	FS201	Moghaka	1	1	1	1		Qualified	1	1	1			
FS	B	FS203	Ngwathe		1	1	1		Qualified	1	1	1			
FS	B	FS204	Metsimaholo	1	1	1	1		Qualified	1	1	1			
FS	B	FS205	Mafube	1	1	1	1		Outstanding	1	1	1		S139(5) (a) & (c)	Mandatory
FS	C	DC20	Fezile Dabi						Qualified		1				
Total FS			23	16	21	21	20			19	23	18	4	3	

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets 2021/22 adopted	S139 Intervention (current)		Financial Recovery Plan	
										S140	S138		S139 (1)	S139 (5) or (7)		
Gauteng																
GT	A	EKU	City of Ekurhuleni		1	1	1		Unqualified - Without findings							
GT	A	JHB	City of Johannesburg	1		1	1		Unqualified - With findings		1					
GT	A	TSH	City of Tshwane	1	1	1	1		Unqualified - With findings		1					Voluntary
GT	B	GT421	Emfuleni	1	1	1	1		Unqualified - With findings	1	1	1		S139(5)		Mandatory
GT	B	GT422	Midvaal						Unqualified - Without findings							
GT	B	GT423	Lesedi	1	1	1	1		Unqualified - With findings			1				
GT	C	DC42	Sedibeng	1	1	1	1		Unqualified - With findings	1	1	1				
GT	B	GT481	Mogale City	1	1	1	1		Unqualified - With findings		1	1				
GT	B	GT484	Merafong City	1	1	1	1		Adverse opinion	1	1	1		S139(5) (a)		In Process
GT	B	GT485	Rand West City	1	1	1	1		Qualified	1	1	1				
GT	C	DC48	West Rand	1	1	1	1		Unqualified - With findings	1	1	1		S139(5) (a)		Mandatory
Total GP			11	9	9	10				5	8	7	0	3		

KwaZulu-Natal																
KZN	A	ETH	eThekweni	1		1	1		Unqualified - With findings	1	1					
KZN	B	KZN212	Umdoni						Unqualified - With findings							
KZN	B	KZN213	Umzumbe						Unqualified - With findings							
KZN	B	KZN214	uMuziwabantu	1					Unqualified - With findings							
KZN	B	KZN216	Ray Nkonyeni		1	1	1		Unqualified - With findings							
KZN	C	DC21	Ugu	1	1	1	1		Unqualified - Without findings	1	1	1				
KZN	B	KZN221	uMshwathi	1					Unqualified - With findings		1					
KZN	B	KZN222	uMngeni		1	1	1		Unqualified - With findings		1					
KZN	B	KZN223	Mpofana		1	1	1		Unqualified - With findings	1	1	1				
KZN	B	KZN224	Impendle			1	1		Unqualified - With findings		1					
KZN	B	KZN225	Msunduzi	1	1	1	1		Unqualified - With findings		1	1		S139 (1) (b)		Discretionary
KZN	B	KZN226	Mkhambathini						Unqualified - With findings							
KZN	B	KZN227	Richmond			1			Unqualified - With findings	1	1	1				
KZN	C	DC22	uMgungundlovu		1	1	1		Unqualified - With findings		1	1				
KZN	B	KZN235	Okhahlamba		1		1		Unqualified - Without findings							
KZN	B	KZN237	Inkosi Langalibalele	1	1	1	1		Unqualified - With findings	1	1					
KZN	B	KZN238	Alfred Duma				1		Unqualified - With findings							
KZN	C	DC23	Uthukela	1	1	1	1		Unqualified - Without findings	1	1	1				
KZN	B	KZN241	Endumeni			1	1		Unqualified - With findings			1				

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Province	Cat	Code	Name						2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets	S139 Intervention (current)		Financial Recovery Plan
										S140	S138		2021/22 adopted	S139 (1)	
				2017/18	2018/19	2019/20	2020/21	2021/22							
KZN	B	KZN242	Nquthu			1	1		Unqualified - With findings						
KZN	B	KZN244	Msinga						Unqualified - With findings						
KZN	B	KZN245	Umvoti	1	1	1			Unqualified - With findings	1	1				
KZN	C	DC24	Umzinyathi	1	1	1	1		Unqualified - With findings	1	1	1			
KZN	B	KZN252	Newcastle		1	1	1		Unqualified - With findings	1	1	1			
KZN	B	KZN253	Emadlangeni			1	1		Unqualified - With findings						
KZN	B	KZN254	Dannhauser		1	1	1		Unqualified - With findings		1				
KZN	C	DC25	Amajuba	1	1	1	1		Unqualified - With findings	1	1	1			
KZN	B	KZN261	eDumbe	1	1		1		Unqualified - With findings		1	1			
KZN	B	KZN262	uPhongolo	1	1	1	1		Unqualified - With findings		1				
KZN	B	KZN263	Abaqulusi	1	1	1	1		Unqualified - With findings	1	1	1			
KZN	B	KZN265	Nongoma	1	1	1	1		Unqualified - With findings	1	1				
KZN	B	KZN266	Ulundi	1	1	1	1		Unqualified - With findings	1	1	1			
KZN	C	DC26	Zululand	1	1	1	1		Unqualified - With findings	1	1	1			
KZN	B	KZN271	Umhlabuyalingana						Unqualified - With findings		1				
KZN	B	KZN272	Jozini	1		1	1		Qualified		1				
KZN	B	KZN275	Mtubatuba	1	1	1	1		Qualified	1	1				
KZN	B	KZN276	Hlabisa Big Five	1	1				Qualified		1				
KZN	C	DC27	Umkhanyakude	1	1	1			Unqualified - With findings	1	1	1			
KZN	B	KZN281	Mfolozi	1	1	1			Qualified	1	1	1			
KZN	B	KZN282	uMhlathuze			1			Qualified	1	1				
KZN	B	KZN284	uMlalazi			1			Qualified		1	1			
KZN	B	KZN285	Mthonjaneni	1	1		1		Qualified	1	1	Unfunded			
KZN	B	KZN286	Nkandla		1				Qualified		1	1			
KZN	C	DC28	King Cetshwayo						Unqualified - With findings	1	1				
KZN	B	KZN291	Mandeni						Qualified						
KZN	B	KZN292	KwaDukuza						Qualified						
KZN	B	KZN293	Ndwedwe						Qualified						
KZN	B	KZN294	Maphumulo		1	1	1		Qualified						
KZN	C	DC29	iLembe	1	1	1			Unqualified - With findings		1				
KZN	B	KZN433	Greater Kokstad			1	1		Qualified						
KZN	B	KZN434	Ubuhlebezwe						Disclaimer of opinion	1	1				
KZN	B	KZN435	Umzimkhulu						Disclaimer of opinion		1				
KZN	B	KZN436	Dr Nkosazana Dlamini Zuma	1					Disclaimer of opinion		1				
KZN	C	DC43	Harry Gwala	1	1	1	1		Unqualified - With findings		1	1			
Total KZN			54	25	29	34	31			21	27	19	1	0	

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets 2021/22 adopted	S139 Intervention (current)		Financial Recovery Plan	
										S140	S138		S139 (1)	S139 (5) or (7)		
Limpopo																
LP	B	LIM331	Greater Giyani	1		1	1		Qualified		1					
LP	B	LIM332	Greater Letaba			1	1		Unqualified - With findings		1					
LP	B	LIM333	Greater Tzaneen	1	1				Unqualified - With findings	1	1					
LP	B	LIM334	Ba-Phalaborwa		1	1	1		Qualified	1	1	1	S139 (1) (b)		Discretionary	
LP	B	LIM335	Maruleng					1	Unqualified - With findings							
LP	C	DC33	Mopani	1	1	1	1		Disclaimer of opinion	1	1	1				
LP	B	LIM341	Musina	1	1	1	1		Unqualified - With findings	1	1	1				Voluntary
LP	B	LIM343	Thulamela						Unqualified - With findings		1					
LP	B	LIM344	Makhado	1				1	Unqualified - With findings	1	1					
LP	B	LIM345	Collins Chabane						Unqualified - With findings		1					
LP	C	DC34	Vhembe		1	1	1		Qualified	1	1					
LP	B	LIM351	Blouberg		1	1			Unqualified - With findings		1					
LP	B	LIM353	Molemole		1	1			Unqualified - With findings							
LP	B	LIM354	Polokwane	1	1			1	Qualified		1					
LP	B	LIM355	Lepelle-Nkumpi	1		1			Unqualified - With findings	1	1					
LP	C	DC35	Capricorn						Unqualified - With findings			1				
LP	B	LIM361	Thabazimbi	1	1	1	1		Qualified	1	1	1	S139 (1) (b)		Discretionary	
LP	B	LIM362	Lephalale	1	1	1	1		Unqualified - With findings	1	1					
LP	B	LIM366	Bela Bela		1	1	1		Disclaimer of opinion	1	1					
LP	B	LIM367	Mogalakwena		1	1	1		Qualified		1		S139 (1) (b)		Discretionary	
LP	B	LIM368	Modimolle-Mookgopong	1	1	1	1		Qualified	1	1	1			Voluntary	
LP	C	DC36	Waterberg						Unqualified - Without findings		1					
LP	B	LIM471	Ephraim Mogale						Unqualified - With findings		1					
LP	B	LIM472	Elias Motsoaledi	1	1			1	Unqualified - With findings		1					
LP	B	LIM473	Makhuduthamaga	1	1	1	1		Unqualified - With findings							
LP	B	LIM476	Tubatse Fetakgomo		1	1			Unqualified - With findings		1					
LP	C	DC47	Sekhukhune		1	1	1		Qualified	1	1					
Total LP			27	12	17	17	17			12	10	6	3	0		

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets 2021/22 adopted	S139 Intervention (current)		Financial Recovery Plan	
										S140	S138		S139 (1)	S139 (5) or (7)		Current
Mpumalanga																
MP	B	MP301	Albert Luthuli	1		1	1		Unqualified - With findings	1	1					
MP	B	MP302	Msuligwa	1	1	1	1		Qualified	1	1	1		S139(5)(a) & (c)	Mandatory	
MP	B	MP303	Mkhondo		1	1	1		Unqualified - With findings	1	1	1				
MP	B	MP304	Pixley Ka Seme (MP)			1			Qualified	1	1					
MP	B	MP305	Lekwa	1	1	1	1		Disclaimer of opinion	1	1	1		S139 (7)	Mandatory	
MP	B	MP306	Dipaleseng	1	1	1	1		Disclaimer of opinion	1	1	1			Voluntary	
MP	B	MP307	Govan Mbeki	1	1	1	1		Qualified	1	1	1		S139(5) (a) & (c)	Mandatory	
MP	C	DC30	Gert Sibande						Unqualified - Without findings		1					
MP	B	MP311	Victor Khanye	1	1	1	1		Qualified	1	1					
MP	B	MP312	Emalaheni (MP)		1	1	1		Qualified	1	1	1		S139(5) (a) & (c)	Mandatory	
MP	B	MP313	Steve Tshwete						Unqualified - Without findings		1					
MP	B	MP314	Emakhazeni	1	1				Adverse opinion	1	1					
MP	B	MP315	Thembisile Hani				1		Unqualified - With findings		1					
MP	B	MP316	Dr J.S. Moroka	1	1	1	1		Disclaimer of opinion		1					
MP	C	DC31	Nkangala						Unqualified - Without findings		1					
MP	B	MP321	Thaba Chweu	1	1	1	1		Unqualified - With findings	1	1	1		S139(5) (a) & (c)	Mandatory	
MP	B	MP324	Nkomazi			1			Unqualified - With findings		1					
MP	B	MP325	Bushbuckridge		1				Unqualified - With findings	1	1					
MP	B	MP326	City of Mbombela		1	1	1		Unqualified - With findings	1	1	1			Voluntary	
MP	C	DC32	Ehlanzeni			1			Unqualified - Without findings							
Total MP			20	9	12	14	12			13	19	8	0	5		

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets 2021/22 adopted	S139 Intervention (current)		Financial Recovery Plan	
										S140	S138		S139 (1)	S139 (5) or (7)		
Northern Cape																
NC	B	NC451	Joe Morolong	1	1	1			Disclaimer of opinion		1	1				
NC	B	NC452	Ga-Segonyana		1				Unqualified - With findings		1	1				
NC	B	NC453	Gamagara		1	1	1		Qualified	1	1	1				
NC	C	DC45	John Taolo Gaetsewe		1				Unqualified - Without findings		1					
NC	B	NC061	Richtersveld	1	1	1	1		Qualified	1	1	1				
NC	B	NC062	Nama Khoi	1	1	1	1		Qualified	1	1	1				
NC	B	NC064	Kamiesberg	1	1	1	1		Qualified	1	1	1				
NC	B	NC065	Hantam	1	1	1	1		Unqualified - Without findings	1	1					
NC	B	NC066	Karoo Hoogland	1	1	1	1		Unqualified - With findings	1	1					
NC	B	NC067	Khai-Ma	1	1	1	1		Qualified	1	1	1				
NC	C	DC6	Namakwa	1	1	1	1		Unqualified - Without findings		1					
NC	B	NC071	Ubuntu	1	1	1	1		Qualified	1	1	1	S139 (1) (b)			Discretionary
NC	B	NC072	Umsobomvu	1	1	1	1		Qualified		1					
NC	B	NC073	Emthanjeni		1	1	1		Qualified	1	1					
NC	B	NC074	Kareeberg						Unqualified - With findings							
NC	B	NC075	Renosterberg		1	1	1		Disclaimer of opinion	1	1	1	S139 (1) (b)			Discretionary
NC	B	NC076	Thembelihle	1	1	1	1		Qualified	1	1	1				
NC	B	NC077	Siyathemba		1	1	1		Qualified	1	1	1				
NC	B	NC078	Siyancuma	1	1	1	1		Qualified	1	1	1				
NC	C	DC7	Pixley Ka Seme (NC)		1		1		Unqualified - With findings							
NC	B	NC082	!Kai! Garib	1	1	1	1		Outstanding	1	1	1				Voluntary
NC	B	NC084	!Kheis	1	1	1	1		Disclaimer of opinion		1	1				Voluntary
NC	B	NC085	Tsantsabane		1	1	1		Qualified	1	1	1				
NC	B	NC086	Kgatelopele		1	1	1		Disclaimer of opinion	1	1					
NC	B	NC087	Dawid Kruiper		1	1	1		Unqualified - With findings		1					
NC	C	DC8	Z F Mgcawu		1	1	1		Unqualified - Without findings	1	1	1				
NC	B	NC091	Sol Plaatje	1					Qualified	1	1					
NC	B	NC092	Dikgatlong	1	1	1	1		Qualified	1	1	1	S139 (1) (b)			Discretionary
NC	B	NC093	Magareng	1	1	1	1		Qualified	1	1	1				
NC	B	NC094	Phokwane			1	1		Outstanding	1	1	1	S139 (1) (b)			Discretionary
NC	C	DC9	Frances Baard						Unqualified - Without findings							
Total NC			31	17	27	25	25			21	28	19	4	0		

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets	S139 Intervention (current)		Financial Recovery Plan	
										S140	S138		2021/22 adopted	S139 (1)		S139 (5) or (7)
North West																
NW	B	NW371	Moretele	1	1	1			Unqualified - With findings		1	1				
NW	B	NW372	Madibeng	1	1	1	1		Disclaimer of opinion	1	1	1		S139(5) (a) & (c)	In Process	
NW	B	NW373	Rustenburg		1	1	1		Qualified	1	1	1				
NW	B	NW374	Kgetlengrivier	1	1	1	1		Disclaimer of opinion	1	1	1		S139(5) (a) & (c)	In Process	
NW	B	NW375	Moses Kotane	1	1	1	1		Qualified	1	1	1				
NW	C	DC37	Bojanala Platinum		1	1			Qualified	1	1	1				
NW	B	NW381	Ratlou		1	1			Disclaimer of opinion		1					
NW	B	NW382	Tswaing	1	1	1	1		Qualified	1	1	1		S139(5) (a) & (c)	In Process	
NW	B	NW383	Mafikeng	1	1	1	1		Qualified	1	1	1		S139(5) (a) & (c)	In Process	
NW	B	NW384	Ditsobotla		1	1	1		Disclaimer of opinion	1	1	1		S139(5) (a) & (c)	In Process	
NW	B	NW385	Ramotshere Moiloa	1	1	1	1		Disclaimer of opinion	1	1	1		S139(5) (a) & (c)	In Process	
NW	C	DC38	Ngaka Modiri Molema			1	1		Adverse opinion	1	1	Funded			Voluntary	
NW	B	NW392	Naledi (NW)	1	1	1	1		Disclaimer of opinion	1	1	1		S139(5) (a) & (c)	In Process	
NW	B	NW393	Mamusa	1	1	1	1		Disclaimer of opinion	1	1	1				
NW	B	NW394	Greater Taung						Disclaimer of opinion		1					
NW	B	NW396	Lekwa-Teemane	1	1	1	1		Qualified	1	1	1				
NW	B	NW397	Kagisano-Molopo		1	1	1		Qualified		1	1				
NW	C	DC39	Dr Ruth Segomotsi Mompoti		1	1	1		Qualified		1	1		S139(5) (a) & (c)	In Process	
NW	B	NW403	City of Matlosana	1	1	1	1		Unqualified - With findings	1	1	1				
NW	B	NW404	Maquassi Hills		1	1	1		Disclaimer of opinion	1	1	1				
NW	B	NW405	JB Marks		1	1	1		Qualified	1	1	Funded				
NW	C	DC40	Dr Kenneth Kaunda	1					Unqualified - With findings		1					
Total NW			22	12	19	20	17			16	22	17	0	8		

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Province	Cat	Code	Name	2017/18	2018/19	2019/20	2020/21	2021/22	2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets 2021/22 adopted	S139 Intervention (current)		Financial Recovery Plan
										S140	S138		S139 (1)	S139 (5) or (7)	
Western Cape															
WC	A	CPT	Cape Town						Unqualified - With findings		1				
WC	B	WC011	Matzikama	1	1	1	1		Unqualified - Without findings		1				
WC	B	WC012	Cederberg	1	1	1	1		Unqualified - Without findings	1	1	1			
WC	B	WC013	Bergrivier						Unqualified - Without findings						
WC	B	WC014	Saldanha Bay						Unqualified - Without findings						
WC	B	WC015	Swartland						Unqualified - Without findings						
WC	C	DC1	West Coast				1		Unqualified - Without findings		1				
WC	B	WC022	Witzenberg			1	1		Unqualified - Without findings						
WC	B	WC023	Drakenstein	1	1	1			Unqualified - Without findings						
WC	B	WC024	Stellenbosch			1	1		Unqualified - Without findings						
WC	B	WC025	Breede Valley						Unqualified - Without findings						
WC	B	WC026	Langeberg						Unqualified - Without findings						
WC	C	DC2	Cape Winelands DM						Unqualified - Without findings						
WC	B	WC031	Theewaterskloof	1					Unqualified - Without findings		1				
WC	B	WC032	Overstrand				1		Unqualified - Without findings						
WC	B	WC033	Cape Agulhas						Unqualified - Without findings						
WC	B	WC034	Swellendam						Unqualified - Without findings						
WC	C	DC3	Overberg			1			Unqualified - Without findings		1				
WC	B	WC041	Kannaland		1		1		Qualified	1	1	1			
WC	B	WC042	Hessequa						Unqualified - Without findings		1				
WC	B	WC043	Mossel Bay						Unqualified - Without findings						
WC	B	WC044	George						Unqualified - Without findings						
WC	B	WC045	Oudtshoorn						Unqualified - With findings		1				

ANNEXURE A2

Province	Cat	Code	Name						2020/21 Audit Outcomes	S138 and S140 Triggers 2020/21		Unfunded Budgets	S139 Intervention (current)		Financial Recovery Plan
										S140	S138		2021/22 adopted	S139 (1)	
				2017/18	2018/19	2019/20	2020/21	2021/22							
WC	B	WC047	Bitou			1	1		Unqualified - With findings		1				
WC	B	WC048	Knysna			1	1		Unqualified - With findings		1	1			
WC	C	DC4	Garden Route						Unqualified - Without findings						
WC	B	WC051	Laingsburg	1	1	1	1		Qualified		1				
WC	B	WC052	Prince Albert						Unqualified - With findings						
WC	B	WC053	Beaufort West		1	1	1		Qualified		1			S139(5)(a)	Mandatory
WC	C	DC5	Central Karoo		1				Unqualified - Without findings		1				
Total WC			30	4	7	10	12			2	14	3	0	1	

2022 SoLGF

**STATE OF LOCAL
GOVERNMENT FINANCES
AND FINANCIAL MANAGEMENT**

As at 30 June 2022

Audit Outcomes of the 2021/22 financial year
Analysis Document

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