
2021 SoLGF

# STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT

## As at 30 June 2021

Audit Outcomes of the 2020/21 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 |
| **BEPP** | Built Environment Performance Plans |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **CEDMF** | City Economic Development Managers' Forum |
| **CSIP** | City Support Implementation Plan |
| **CSP** | Cities Support Programme |
| **DPSA** | Department of Public Service and Administration |
| **DoRA** | Division of Revenue 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 |
| **LGSETA** | Local Government Sector and Education Training Authority |
| **LP** | Limpopo |
| **Metro** | Metropolitan municipality |
| **MFIP** | Municipal Finance Improvement Programm |
| **MFMA** | Municipal Finance Management Act |
| **MM** | Municipal Manager |

# ABBREVIATIONS | CONT.

| | |
|---|---|
| **MP** | Mpumalanga |
| **MSA** | Municipal Structures Act |
| **mSCOA** | Municipal Standard Chart of Accounts |
| **MSEP** | Municipal Socio-Economic Profiles |
| **MTREF** | Medium Term Revenue and Expenditure Framework |
| **NC** | Northern Cape |
| **NW** | North West |
| **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 |
| **TCF** | Technical Committee on Finance |
| **VBS** | Venda Building Society |
| **WC** | Western Cape |

# EXECUTIVE SUMMARY

The 2021 State of Local Government Finances and Financial Management Report provides a quantitative analysis of the financial health of 257 municipalities using a set of predetermined financial ratios and audited financial information. This report also provides a five-year perspective of the fifth (5th) administration's term.

Local government has undergone a five-year journey that has been both smooth and challenging in various ways. The 2016 local government elections have ushered in a number of hung councils and as a result, the coalition government was formed in certain municipalities. Given the novelty of this coalition government, it was inevitable that municipal councils operating under this system of government would frequently face political and administrative challenges. These challenges included, amongst other things, achieving a quorum to approve strategic documents such as the integrated development plan (IDP), budget or key policies as well as implementing interventions initiated by the provincial government. The weak economic condition in South Africa and the outbreak of the COVID-19 pandemic in 2020 had also put severe pressure on the local government finances.

Despite significant capacity building efforts, local government financial management reforms that have been implemented, and increased intergovernmental transfers over the past five years, the financial situation of most municipalities has deteriorated. There are 165 municipalities in financial distress and 106 municipalities that have adopted unfunded budgets in 2020/21. The number of municipalities in financial distress grew from 97 in 2015/16 under the 4th administration to 165 in 2020/21 under the 5th administration.

According to the Auditor General's previous report, most municipalities are now in a dire position than at the beginning of the 5th administration's term, 46 improved their audit outcomes but 61 regressed. In 2020/21, 25 municipalities obtained disclaimed audit opinion while four (4) had adverse opinions. Municipalities with disclaimed opinions are in worse positions because they are unable to provide sufficient supporting documentation for the financial information disclosed in the financial statements. The amount of irregular expenditure remained high at R21.9 billion in 2020/21 and municipalities are failing to address this expenditure promptly in accordance with Section 32 of the MFMA. Two (2) metros namely, City of Tshwane and City of Johannesburg are among the highest contributors to irregular expenditure.

The 15 municipalities that had investments in the now collapsed VBS Mutual Bank lost significant sums of money. These municipalities are primarily rural in nature and are mostly located in the provinces of Limpopo, North West, and Gauteng. Vhembe district municipality had deposited the largest amount of R300 million with VBS, accounting for one-third of its revenue base. In 2021, the City of Tshwane, City of Johannesburg, City of Ekurhuleni, City of Cape Town and Nelson Mandela Bay metros were among those downgraded to below investment grade status by the Moody's credit rating agency. These downgrades were mostly caused by the uncertainty around revenue collection and the increased financial pressure.

The same year, the National Government was, for the first time, ordered by a division of the High Court to intervene in Lekwa Local Municipality (Mpumalanga). This intervention was a result of an ongoing financial and service delivery crisis in the municipality. His Excellency, President Cyril Ramaphosa, then directed the National Government to identify other municipalities that are in a similar position to that of the Lekwa Local Muncipality. As a result, the National Treasury together with the Department of Cooperative Governance and Traditional Affairs (CoGTA) identified 43 municipalities that are in financial and service delivery crisis. Weak institutional capacity, poor financial management, corruption, and political instability are the key contributors to the problems in these municipalities.

# EXECUTIVE SUMMARY | CONT.

As of 30 June 2021, 38 municipalities were under intervention, either discretionary or mandatory, in terms of Section 139 of the Constitution. These interventions are in the North West (8 municipalities) followed by Eastern Cape (6 municipalities), Free State (6 municipalities), Mpumalanga (5 municipalities), Northern Cape (4 municipalities), Limpopo (3 municipalities) and Gauteng, Western Cape and KwaZulu Natal with 2 municipalities each.

The 2020/21 financial results revealed that the state of local government finances is not improving. Although the number of municipalities that are in financial distress decreased from 175 in 2019/20 to 165 in 2020/21, 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.

The most significant contributing factors to these financial problems in municipalities are:

- **Negative cash and cash equivalents balances at year end.** 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, is likely to result in serious cash flow problems. A total of 21 municipalities had negative cash balances at the end of 2020/21, comprising of one (1) metro, three (3) secondary cities, 16 locals and one (1) district;
- **Inadequate cash and investments to pay current obligations (liquidity ratio).** Most municipalities are unable to pay off current debt obligations from cash and investments. Seven (7) metros and 17 secondary cities indicated that their cash and investments were inadequate to cover current liabilities. Moreover, 131 local municipalities and 24 district municipalities also had inadequate cash and investments available to pay current liabilities;
- **Negative current ratios (current liabilities exceeds current assets).** Municipalities are unable to pay all current or short-term obligations when they fall due. This shows that the financial problems in these municipalities are significant. Three (3) of the eight (8) metros have indicated that their current assets are less than the current liabilities in 2020/21, this present a significant risk as metros are considered to be the drivers of economic growth;
- **Unfunded budgets remain high.** Municipalities continues to overestimate their revenue and plan excessive spending, which often results in a financial crisis. A total of 106 municipalities passed unfunded budgets in 2020/21, a decrease compared to 123 municipalities in 2019/20. Unfunded budgets contravene the provisions of S18 of the MFMA;
- **Underfunded mandates continue to be problematic.** Municipalities experience underfunded mandates when they perform a function on behalf of the provincial government but are not adequately compensated for it. e.g. provision of library and primary health services. These underfunded mandates place unnecessary strain on the finances of municipalities since they use their own funds to finance any shortfall;
- **Inadequate infrastructure investments.** Funding for capital infrastructure remains an ongoing challenge for many municipalities. Lack of infrastructure investment hinders the ability of municipalities to address service delivery backlogs and to support more rapid economic growth. A total of 108 municipalities spent less than 10 per cent of their total expenditure on capital infrastructure in 2020/21;
- **Persistent underspending on repairs and maintenance of existing infrastructure.** More than 90 per cent of municipalities spent below 8 per cent on repairs and maintenance of their assets. Asset maintenance is pivotal to prevent breakdowns of infrastructure assets and to avoid interruptions to service delivery. A total of 227 municipalities spent less than 8 per cent of repairs and maintenance on assets while only 30 municipalities have met the target of 8 per cent;
- **Similarly, spending on renewal and upgrading of existing assets remains substantially low.** Municipalities are not prioritising asset management to ensure sustainability of services beyond the initial or original useful life of the asset. On aggregate, 104 municipalities satisfactorily spent their capital budget on renewal or upgrading of existing assets in 2020/21 while 153 municipalities under invested in asset renewal (below the National Treasury's

# EXECUTIVE SUMMARY | CONT.

recommended 40 per cent of the capital budget). An additional worrying 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 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
- **High creditors payment periods and escalating amounts owed to creditors, especially Eskom and Water Boards.** 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. Only 47 municipalities settled their creditors within 30 days in 2020/21 while 210 took more than 30 days to pay creditors.

## NATIONAL TREASURY'S EFFORTS OVER THE PAST FIVE (5) YEARS TO ADDRESS THE FINANCIAL MANAGEMENT CHALLENGES IN LOCAL GOVERNMENT

National Treasury has institutionalised and facilitated the implementation of a number of financial management reforms that enabled municipalities to improve on financial management and reporting. The most recent reform to improve municipal financial reporting was the introduction of the Municipal Standard Chart of Accounts (*m*SCOA) for local government in 2017. The National Treasury has also extended support programmes such as the Municipal Finance Improvement Programme (MFIP), Cities Support Programme (CSP), Public Financial Management Capacity Development Programme for Improved Service Delivery (FMISD) and Procurement, Infrastructure and Knowledge Management Capacity Development Programme (PINK) that support the finance management reform agenda and address the consistent financial sustainability challenges and financial management capacity constraints within local government.

There has been considerable progress on the National Treasury's local government reporting system, municipal grant monitoring and management system, capacity building initiatives as well as strategies to address municipal performance failures. In the recent years, the National Treasury through the Government Technical Advisory Centre (GTAC) commissioned the Public Affairs Research Institute (PARI) to undertake a diagnostic review on capacity building system for local government. The findings of this review indicated that the current system of capacity building is no longer appropriate as some of the initiatives are not adequately addressing the problems that municipalities are facing.

Another study was commissioned to review the implementation of Section 139 of the Constitution and Chapter 13 of the MFMA regarding interventions in municipalities. This study concluded that interventions implemented in municipalities were considerably different from what the legislation intended. Simply put, its either the mode of intervention was not appropriate for a municipality, or the provincial government intervened late when the problem had already escalated.

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. This approach consists of three phases namely, Rescue Phase, Stabilisation Phase and Sustainability Phase, aimed at improving the financial sustainability of local government.

# INTRODUCTION

1. This is the tenth 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 2021. 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. Similar to the previous editions, this year's report also identifies municipalities that are in financial distress so that processes can be initiated to determine the full extent of their financial problems and establish whether:
    - A municipality requires support in terms of Section 154 of the Constitution and the extent of that support; or
    - An intervention is required due to the municipality's financial problems or crisis as stipulated in Section 139 of the Constitution read with Chapter 13 of the MFMA, and the appropriate mode of intervention required.

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 (*m*SCOA).

3. The *m*SCOA regulation requires municipalities to upload financial information in a data string format on the Local Government (LG) Upload portal using the six *m*SCOA regulated segments. The regulation additionally requires municipalities to budget, transact and report directly from their financial systems that are *m*SCOA compliant to ensure consistency of data. However, several municipalities are still not 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 of data. At the core of this problem is:
    - Incorrect use of the *m*SCOA 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 *m*SCOA.

4. The Auditor-General (AG) reported that a total of nine (9) audits were not finalised timeously as municipalities did not submit the financial statements by the legislated date. As per the National Treasury's LG Upload portal, 11 municipalities were unable to upload the 2020/21 audited *m*SCOA data strings successfully. Of these 11, two (2) submitted with technical errors and 9 had not submitted due to incomplete audit process. Municipalities that did not submit audited data strings are in the Free State (Kopanong, Mafube, Maluti-a-Phofung, Mantsopa, Masilonyana, Tokologo), Mpumalanga (Mkhondo) and Northern Cape (Phokwane and Renosterberg). In their case, pre-audited figures were utilised to compile the report.

# INTRODUCTION | CONT.

5. In spite of 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, treasuries, legislature and Parliament in making strategic decisions about municipalities.

6. Annexure A1 identifies municipalities in financial distress based on the assessment of their financial health. About 165 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 repeating disclaimed audit opinions and unfunded budgets.

7. Annexure A2 contains an analysis of municipalities in financial distress, audit outcomes and unfunded budgets for a ten-year period. The list in Annexure A2 shows that 14 of the 41 municipalities that obtained unqualified audit opinions without findings are in financial distress. As a result, it can be concluded that financial problems and audit results are not always related. For instance, clean audit does not always imply sound financial health. A total of 57 of the 100 municipalities that obtained unqualified audit opinions with findings are in financial distress.

The report is structured as follows:

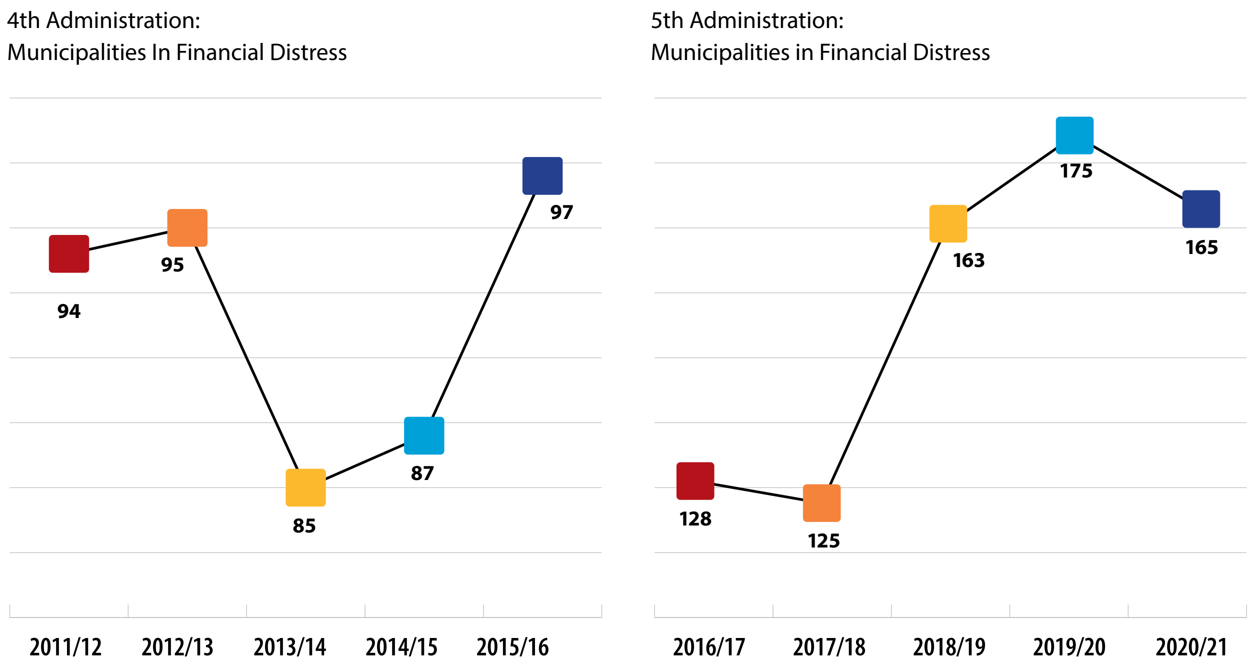
- Local government finances at a glance: a five-year perspective;
- The future of local government in South Africa post COVID19 pandemic
- Assessment of municipal financial health;
- Factors impacting on financial health;
    - 2020/21 Audited outcomes
    - Administrative challenges: Acting Municipal Managers and Chief Financial Officer positions
    - Electricity and water losses
    - Asset management practices
    - Conditional grants performance
    - Municipal budgets
- Support provided by National Treasury to improve financial management and reporting;
    - Implementation of Minimum Competency Levels
    - Municipal Standard Chart of Accounts (*m*SCOA)
    - Municipal Finance Improvement Programme (MFIP phase IIIx)
    - Cities Support Programme (CSP)
    - Revenue management
    - MFMA Circular No. 88
    - Municipal socio-economic profiles
    - System of capacity building for local government
- Interventions in municipalities to address municipal failures; and
- Concluding remarks.

# LOCAL GOVERNMENT FINANCES AT A GLANCE: A FIVE-YEAR PERSPECTIVE

8. The state of municipalities finances has continued to deteriorate over the past five years. Despite the fact that this deterioration in municipal financial health has been extensively documented in many papers over the years, the extent of the deterioration remains concerning. In essence, the challenges in local government finances primarily emanated from poor budgeting and revenue management practices, non-payment of municipal debtors and ineffective cash flow management. These widespread weaknesses left many municipalities vulnerable to financial mismanagement which subsequently turned out into a crisis where there were no remedial actions put in place.

9. The number of municipalities in financial distress has increased significantly since the start of the 5th administration, from 128 in 2016/17 to 165 in 2020/21, as shown in Figure 1 below. Notably, some municipalities' financial problems have become so serious that they are unable to fulfil their constitutional mandate. Moreover, the COVID-19 pandemic has compounded the already precarious position of local government finance.

**Figure 1: Municipal Financial Distress**



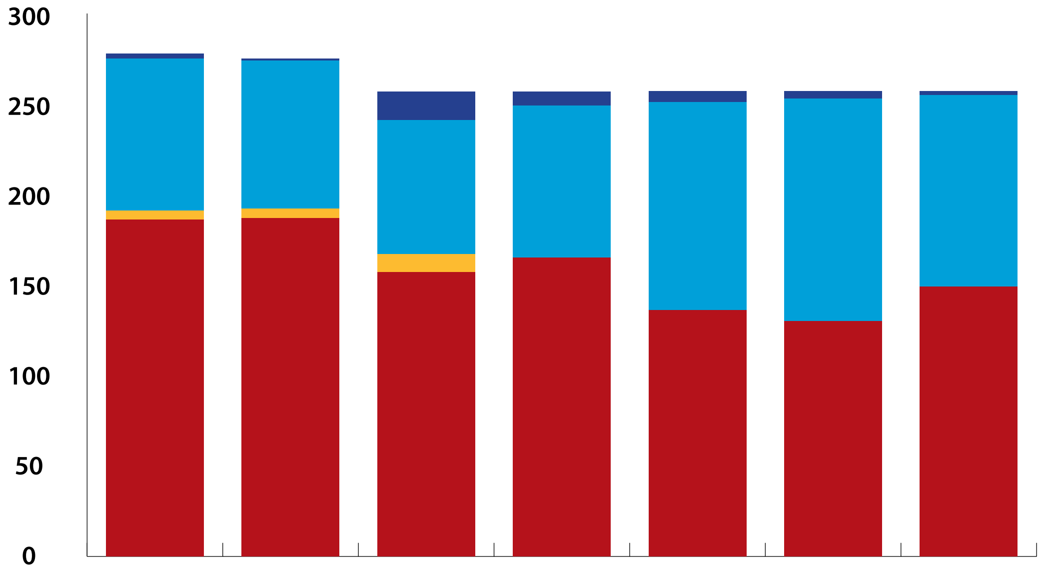

10. Almost a quarter of these municipalities are displaying indicators of financial problems or crisis in terms of Section 138 and 140 of the MFMA. S138 indicators signals serious financial problems while S140 indicators point to a financial crisis which warrants mandatory intervention.

11. Unfunded budgets have significantly increased over the last five years, rising from 74 in 2016/17 to 106 in 2020/21 as shown in Figure 2 below. Municipalities that adopt unfunded budgets fail to contain their expenditure within the expected income levels. Irrespective of declining revenue collections and escalating debtors, these municipalities continue to spend against initially overstated revenue projections.

12. The National Treasury's investigation has determined that the one of the triggers of financial distress in a municipality is an unfunded budget. Therefore, most municipalities that have been adopting unfunded budgets are now in varying degrees of financial problems.

# LOCAL GOVERNMENT FINANCES AT A GLANCE: A FIVE-YEAR PERSPECTIVE | CONT.

**Figure 2: Municipal Unfunded Budgets**




| | 2014/15 Adopted Budget | 2015/16 Adopted Budget | 2016/17 Adopted Budget | 2017/18 Adopted Budget | 2018/19 Adopted Budget | 2019/20 Adopted Budget | 2020/21 Adopted Budget |
|---|---|---|---|---|---|---|---|
| Undetermined | 3 | 1 | 16 | 8 | 6 | 4 | 2 |
| Unfunded | 84 | 82 | 74 | 84 | 115 | 123 | 106 |
| Funded With Risk | 5 | 5 | 10 | 0 | 0 | 0 | 0 |
| Funded | 186 | 187 | 157 | 165 | 136 | 130 | 149 |

13. Despite numerous engagements with municipalities, recommendations by both national and provincial treasuries, municipalities continue to adopt unrealistic and unsustainable budgets. These unfunded budgets are notably prevalent in small or rural municipalities, where there are internal capacity constraints, poor governance, and significant levels of institutional and operational inefficiency.

14. Municipalities that failed to adopt funded budgets in 2020/21 for whatever reasons prepared funding plans outlining measures to address the budget deficit.

## DEBT OWED BY MUNICIPALITIES

15. The spiraling of municipal debt is concerning; the Eskom debt alone has grown from R4 billion in 2014/15 to R45 billion in 2020/21. This shows that many municipalities experience cash flow problems, thus making it difficult for them to pay creditors within the prescribed 30-day period. Equally, the high electricity tariff increases by Eskom also impacts on consumer's ability to pay for services giving rise to low collection rates and ultimately, a depletion of the cash flow. Although the debt owed to Eskom and Water Boards received the most attention, there have been many

# LOCAL GOVERNMENT FINANCES AT A GLANCE: A FIVE-YEAR PERSPECTIVE | CONT.

cases of non-payment of other municipal creditors and suppliers which have resulted in the attachment and sale-in-execution of municipal assets by the courts. Some municipalities do not transfer pension contributions to the pension funds schemes of their employees despite being cautioned that this act is a criminal offence.

16. Municipalities that are continuously defaulting on payments do not only affect their residents but also negatively affect the small micro medium enterprises (SMMEs). The impact on small businesses is significant as they rely on these payments to sustain their operations and create jobs.

17. Municipal Debt to Eskom is a complex matter that is fueled by systemic challenges on both Eskom and municipalities. The introduction of wall-to-wall municipalities has left behind a legacy of mandate challenges, with the historic Eskom's mandate to distribute electricity often overlapping with municipal mandates in the same area(s). This for example, resulted in a disjuncture in electricity prices in the same area to neighbouring consumers.

18. The introduction of the Electricity Regulation Act, 2007 after the MFMA, unintendedly prevented a solid intergovernmental working relationship between Eskom and municipalities by preventing Eskom electricity cut-off/ blocking of pre-paid electricity where Eskom supplies electricity in the municipal area. Municipalities are therefore reluctant to assist Eskom with revenue collection by withholding property clearance certificates where Eskom consumers in the area are defaulting on their Eskom accounts. This directly impacted Eskom revenue collection/ cashflow and municipalities' ability to collect property rates and other service charges in these areas and consequently municipal ability to pay Eskom.

19. There is also no remedy provided in the existing legislative framework to revoke the license of a municipality or Eskom for persistent failures of electricity distribution in a municipal area and to re-assign such to Eskom, another municipality, or an alternative service provider. Many municipalities exceed the Notified Maximum Demand Limit (NMD) set for the electricity infrastructure. This necessitated additional repairs and maintenance by Eskom due to the over-and misuse of the related infrastructure. In addition, the related Eskom penalties and exceedance charges further strained municipal cashflows.

20. There are also instances where Eskom use municipalities' transmission assets without adequately compensating the transmission owner/ operator a wheeling charge for Eskom's use, despite the municipality having to maintain these assets. This often relates to municipal and/ or Eskom not being able to agree to the terms of the wheeling arrangement or NERSA failing to approve wheeling tariffs for municipalities or municipalities failing to apply for wheeling tariffs/ to support such applications adequately.

21. Weak budgeting practices, non-cost reflective tariffs, illegal connections by residents and significant technical losses are also among the key issues that negatively impacted on municipalities' ability to pay Eskom.

## DETERIORATING CREDIT RATINGS

22. In 2021, Moody's downgraded five municipalities to below investment grade status: City of Cape Town, City of Johannesburg, City of Ekurhuleni, Nelson Mandela Bay, City of Tshwane and Umhlathuze. The City of Tshwane was even further downgraded to junk status. The ratings agency highlighted significant decreases in revenue collections as well as ongoing liquidity challenges as reasons for the downgrade.

# LOCAL GOVERNMENT FINANCES AT A GLANCE: A FIVE-YEAR PERSPECTIVE | CONT.

23. These downgrades put pressure on some metros to raise capital expenditure funding, and they were forced to use liquidity reserves (sinking funds and other investments) from operational budgets to fund shortfalls. Although these liquidity reserves provided a short-term buffer, further withdrawals from them to offset revenue shortfalls reduced the municipalities' ability to deal with future crisis and to pay future debt obligations.

## DEBT OWED TO MUNICIPALITIES

24. Debt owed to municipalities was R128 billion as at 30 June 2021. This total grew by 93 per cent per cent between 2016/17 and 2020/21, mostly driven by non-payment of municipal services and VAT receivables. While households continue to be the largest contributor to municipal debt comprising 88 per cent of the total, nonpayment is widespread across all consumer groups. The economic downturn, unaffordability due to reduced or lost disposable income, consumers' dissatisfaction with service delivery, and poor municipal billing and credit control systems are all possible causes of increased municipal debt.

25. It must be emphasized that not all outstanding debts are realistically collectable as these amounts are inclusive of debt older than 90 days and interest on arrears.

# THE FUTURE OF LOCAL GOVERNMENT IN SOUTH AFRICA POST COVID-19 PANDEMIC

26. Local government was at the forefront of responding to the COVID-19 pandemic. The provision of emergency services in response to the pandemic as well as the slow economic growth negatively impacted the local government finances. Metros and intermediate cities are leading in the recovery of the economy. As a result, metros were required to re-thinking on new ways to support people and businesses over the long term to boost the economy.

## PROGRESS IN METRO ECONOMIC RECOVERY PLANS

27. The eight metros prepared Economic Recovery Plans in response to the devastating economic impact of the COVID-19 lockdowns and travel restrictions on the national economy and citizens in the first half of 2020. These metros, already struggling under persistent structural challenges and political and economic shocks, faced the daunting challenge of driving national economic recovery in an era of increased uncertainty and instability.

28. The road to recovery has been pitted with major setbacks including the deepening energy security crisis, sustained job losses, the July 2021 unrest, natural disasters and a highly adaptive COVID-19 virus resulting in new and elusive variants. The eThekwini metro has been particularly hard hit and had to continuously adjust and broaden its economic recovery plans to address business and community security concerns, the loss of investor confidence and drying up of Foreign Direct Investment (FDI), stabilization of supply chains and reconstruction of public and private economic infrastructure.

29. The City Economic Development Managers Forum (CEDMF) was conceived by the metros in March 2020 to support peer learning and innovation and to foster broader inter-governmental and societal alignment in the national economic response. Over the past two years, the CEDMF has become a valued platform where city economic development managers are easily accessible to each other and other stakeholders to engage on economic recovery at city level.

30. During the course of 2021, the forum met monthly tackling issues, such as, enabling economic recovery in the tourism sector, fast-tracking automation and other ease of doing business reforms, unlocking township economic development, industrial space revitalization, innovation in urban financing, addressing the economic impact of the July unrest, maximizing the potential of special economic zones, acknowledging the interface between economic and social development issues such as substance abuse and homelessness, designing SMART City innovations and valuing urban agriculture.

31. The fact that the CEDMF is embedded within the day-to-day work of city practitioners and in the lessons gleaned from piloted support interventions, it means that it is not simply a talk-shop but a space to germinate and grow ideas and networks. One of the innovations emerging from the CEDMF was the City Public Employment Programme (City PEP) that took advantage of the opportunity offered through the Presidential Employment Stimulus. The City PEP is a financing window of the Neighbourhood Development Partnership Grant that has offered over R800 million per annum over the MTREF to the metros to contribute to addressing the increase in unemployment as a result of the pandemic.

32. All the metros have implemented their respective Economic Recovery Plans during the 2020/21 financial year. The Plans included both immediate responses to the economic impact of the COVID-19 lockdowns and strategies to position the metros for medium to longer-term economic recovery.

# THE FUTURE OF LOCAL GOVERNMENT IN SOUTH AFRICA POST COVID-19 PANDEMIC | CONT.

33. Examples of short-term responses from different metros are included below:

- **Protecting businesses from income loss:** informal businesses were given a 6-month rental holiday, the rates classification of bed and breakfast establishments (B&Bs) and guesthouses was changed to residential, there was a relaxation of interest on overdue municipal accounts and restructuring of payments for struggling businesses and a 3-month rental holiday was offered to businesses on Council-owned property;
- **Small business support:** Some metros established business recovery fund (financed by both the City and business) aimed at providing small grants to distressed businesses which did not benefit from national support programmes. Structured support was also provided to key city owned business entities which were under financial pressure after suffering income loss. Local SMMEs and township businesses were prioritised in some cities' procurement of good and services, through a buy-local programme and through financial support;
- **Monitoring the impact of the pandemic on city finances:** Spatial and sectoral economic modelling on the impact of the pandemic on the revenue was undertaken by some metros. National Treasury's mining of anonymized and spatial tax data in partnership with the Human Sciences Research Council (HSRC) is a new data source that will enable metros to measure the real impact of COVID-19 and other economic shocks in the future;
- **Improving metro business processes:** The pandemic assisted in fast-tracking the automation of critical business processes linked to the ease of doing business environment owing to the need to maintain business continuity;
- **Sector support:** The construction sector was supported by providing a 1-year fee holiday on all planning related applications and prioritized catalytic projects to fast-track implementation. Incubation programs were offered in partnership with the National Construction Incubator (NCI), i-Hub and the Business Place. Small farmers were supported as part of a food security intervention. Informal trader support was also intensified;
- **Strengthened business engagement:** Economic Councils and other business engagement platforms were established to strengthen communication flows between metros and businesses;
- **Public employment programme:** All the metros responded to a call for proposals by the City Public Employment Programme committing to add over 30 000 employment opportunities per annum over the MTEF; and
- **Fast-tracking of catalytic and infrastructural investments.**

34. The longer-term economic recovery strategies of the metros include:

- Engaging the Transnet (Ports Authority and Transnet Rail), other key public stakeholders in the logistics sector and the private sector on how to strengthen the competitiveness of port cities and the ports;
- Tackling challenges related to construction mafias in a way that promotes economic inclusion;
- Rebuilding business confidence;
- Re-establishing business confidence in township economies;
- Developing catalytic infrastructure;
- Responding to changes in where and how people work – focused efforts to revitalize CBDs for work and play;
- Attracting both domestic and foreign tourists back into the metros through focused destination marketing campaigns;
- Strengthening sectors that competed successfully during the pandemic, such as the business process outsourcing (BPO) and boat-building sectors; and
- A focus on localization (in the clothing and textiles sector) owing to global supply chain weaknesses that were exposed by the COVID-19 pandemic.

# THE FUTURE OF LOCAL GOVERNMENT IN SOUTH AFRICA POST COVID-19 PANDEMIC | CONT.

35. What has become increasingly apparent is that the public sector cannot drive economic recovery alone and that closer working relationships with the private sector must be secured and nurtured. The City Economic Development Managers' Forum (CEDMF) has been utilized as a platform to encourage and foster national-level partnerships and metro efforts have intensified especially in priority sectors, relating to metro business process improvements and in economic spaces such as townships, industrial areas, ports and SEZs. The challenge remains for City political and administrative leadership to adopt and enable a partnering approach throughout their institutions.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES

## INDICATORS OF MUNICIPAL FINANCIAL HEALTH

36. This report evaluates the state of municipal finances using 13 key indicators identified in the Funding Compliance Methodology[1] and MFMA Circular No. 42 (Funding a Municipal Budget) as outlined by figure 1. These indicators give a broader perspective of the financial health of municipalities and are only used for the purposes of this report.

**Figure 3: Indicators Of Municipal Financial Health**

| Indicators | Method |
|---|---|
| Cash/cash equivalent position | Cash+ Short Term Investments - Bank Overdraft |
| Cash Coverage | (Cash + Short Term Investments - Bank Overdraft) / ((Employee related (costs + Remuneration of councillors + Finance charges + Bulk purchases + (Contracted services + Repayment of borrowing + Other materials + Other expenditure + 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 renewal/rehabilitation expenditure level | (Total Renewal of Existing Assets + Total Upgrading of Existing Assets) / Total Capital Expenditure |
| Asset renewal/Depreciation level | (Total Renewal of Existing Assets + Total Upgrading of Existing Assets) / Depreciation & asset impairment |
| Total CAPEX as Percentage of Total Expenditure | (Total capital ex penditure / (Total operating expenditure + Total capital (expenditure)) x 100 |
| Liquidity Ratio | (Cash + Short Term Investments) / Total Current Liabilities |
| Debtors Days | (Total consumer debtors / (Property Rates + Service charges electricity revenue + Service charges water revenue + Service charges sanitation revenue + Service charges refuse revenue) × 365 |
| Creditors Days | (Trade payables / (Bulk purchases + Other materials + Contracted services + Other expenditure + Total Capital Expenditure)) × 365 |
| Debt (Total Borrowing) vs Total Operating Revenue | (Bank overdraft + Current Liabilities borrowings + Non Current Liabilities borrowings) / 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 | CONT.

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

37. 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.

38. Additionally, a municipality must always maintain a positive cash position throughout the financial year and efficiently manage its cash resources to avoid overdraft situation. 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

39. Many municipalities may, at some point in the financial year, 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.

40. Table 1 shows municipalities with negative cash balances for the periods 2019/20 to 2020/21. Although a single instance of negative cash flow is seldom a crisis, this financial asymmetry may become unsustainable if it is uncontrolled or ignored. 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 | CONT.

**Table 1: Municipalities' Negative Cash Balances, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **Metropolitan Municipalities (8)** | | |
| No.of municipalities with negative cash balances | 2 | 1 |
| | | |
| **Secondary Cities (19)** | | |
| No.of municipalities with negative cash balances | 2 | 3 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| No.of municipalities with negative cash balances | 14 | 16 |
| | | |
| **District Municipalities (44)** | | |
| No.of municipalities with negative cash balances | 0 | 1 |
| | | |
| **All municipalities (257)** | | |
| No.of municipalities with negative cash balances | 18 | 21 |

**Source: National Treasury - Local Government Database**

41. At the end of 2020/21, a total 21 municipalities had negative cash balances compared to 18 municipalities in the previous year (2019/20). Ten (10) of these 21 municipalities had negative cash balances for the past two consecutive years. In relation to Table 1, the following observation can be made:
    - City of Tshwane is the only metro that has been reporting negative cash balance for two consecutive years (2019/20 and 2020/21);
    - Two (2) secondary cities[2] namely, City of Matlosana and Newcastle, had negative cash balances at the end of 2020/21;
    - There is a slight increase in the number of local municipalities (towns) that reported negative cash balances in 2020/21, from 14 in 2019/20 to 16 in 2020/21; and
    - One (1) district municipality namely, West Coast in the Western Cape Province, reported a negative cash balance in 2020/21.

## INDICATOR 2: CASH COVERAGE RATIO

42. The cash coverage ratio is essential to measure whether a municipality has adequate cash to meet its monthly fixed operational costs. A municipality's ability to fulfil its financial obligations or provide basic services is compromised if it has a cash coverage ratio below one month. When the cash coverage ratio falls below 1, it signals financial problems and raises the possibility of a municipality defaulting on its financial obligations. A positive and favourable cash coverage is generally considered to be greater than 1 month of monthly operating expenses. Table 2 below shows the number of municipalities that had negative cash coverage at the end of June 2021.

2 Secondary cities are considered important catalysts for more balanced and dispersed growth across the country. They are also seen as alternative urban centres, to relieve pressure from primary cities (metros).

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

43. Metros and secondary cities make up the majority of the municipalities with strong financial position and positive cash coverage ratios.

**Table 2: Municipalities' Cash Coverage, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **Metropolitan Municipalities (8)** | | |
| **No. of municipalities for which cash data is unavailable** | | |
| No. whose cash coverage is: | | |
| more than 3 months of operational expenditure | 2 | 1 |
| between 1 and 3 months of operational expenditure | 2 | 3 |
| Less than one month of operational expenditure | 4 | 4 |
| | | |
| **Secondary Cities (19)** | | |
| **No. of municipalities for which cash data is unavailable** | | |
| No. whose cash coverage is: | | |
| more than 3 months of operational expenditure | 1 | 1 |
| between 1 and 3 months of operational expenditure | 3 | 5 |
| Less than one month of operational expenditure | 15 | 13 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. of municipalities for which cash data is unavailable** | | |
| No. whose cash coverage is: | | |
| more than 3 months of operational expenditure | 46 | 57 |
| between 1 and 3 months of operational expenditure | 30 | 29 |
| Less than one month of operational expenditure | 110 | 100 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities for which cash data is unavailable** | | |
| No. whose cash coverage is: | | |
| more than 3 months of operational expenditure | 17 | 16 |
| between 1 and 3 months of operational expenditure | 11 | 12 |
| Less than one month of operational expenditure | 16 | 16 |
| | | |
| **All Municipalities (257)** | | |
| **No. of municipalities for which cash data is unavailable** | - | - |
| No. whose cash coverage is: | | |
| more than 3 months of operational expenditure | 66 | 75 |
| between 1 and 3 months of operational expenditure | 46 | 49 |
| Less than one month of operational expenditure | 145 | 133 |

**Source: National Treasury - Local Government Database**

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

44. At the end of 2020/21, 133 municipalities (51.8 per cent) had 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 75 municipalities (29.2 per cent) had cash coverage ratios that were greater than three months of operational expenditure in 2020/21. This is an increase from 66 municipalities in 2019/20. Further analysis demonstrates that:
   - Four (4) metros (eThekwini, City of Tshwane, Mangaung and City of Ekurhuleni) had cash coverage ratios of less than one month of operational expenditure and thirteen (13) secondary cities had cash coverage of less than a month of operational expenditure;
   - For the past two years, Nelson Mandela Bay has maintained positive cash coverage of more than three (3) months of operational expenditure; and
   - Only one (1) secondary city namely, uMhlathuze, 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 increased from 46 in 2019/20 to 57 in 2020/21.

45. Amongst the factors that contributes to this poor cash flow management in municipalities, the most common are:
   - *Overspending of operational budgets* – many municipalities are spending beyond their budgets and as a result, make use of 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 a precarious financial situation; and
   - *Inadequate cash flow management* – ineffective cash flow management is caused by a lack of a comprehensive policy on managing cash flows that is supported by a sustainable cash management plan. This also pertains to the absence of a clear investment strategy or cash-backed reserve plan to ensure that cash surpluses are appropriately invested.

46. National Treasury has, on several occasions, cautioned municipalities on 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:
   - Deteriorating economic climate might have a detrimental impact on municipalities' revenue collections and cash flows;
   - Changes in revenue levels as a result of changes in consumption patterns;
   - Escalating rates and tariffs will affect household 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; and
   - Non-implementation of debt collection and credit control policies.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

47. 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 to avoid them. 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 benchmarking 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.

## INDICATOR 3: CASH PLUS INVESTMENTS LESS APPLICATIONS OR COMMITMENTS

48. It is important that municipalities have adequate cash and investment to cover their financial obligations (current and future operations) and be able to accumulate cash reserves[3]. This is to ensure that municipalities have a buffer against internal and external risks and adequate funding in order to achieve their strategic objectives.

49. Cash and investment management is one of the most important requirements for financial sustainability and must be closely monitored to ensure that a minimum 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.

50. Table 3 shows municipalities that still had a positive cash surplus after taking into consideration all their commitments for the period 2019/20 and 2020/21.

**Table 3: Cash Plus Investments Less Applications, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **Metropolitan Municipalities (8)** | | |
| **No. whose audit outcomes were** | | |
| Funded (positive) | 0 | 1 |
| Unfunded (negative) | 8 | 7 |
| Secondary Cities (19) | | |
| Funded (positive) | 0 | 5 |
| Unfunded (negative) | 19 | 14 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. whose audit outcomes were** | | |
| Funded (positive) | 48 | 61 |
| Unfunded (negative) | 138 | 125 |

3 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.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **District Municipalities (44)** | | |
| **No. whose audit outcomes were** | | |
| Funded (positive) | 15 | 19 |
| Unfunded (negative) | 29 | 25 |

**Source: National Treasury - Local Government Database**

51. The total number of municipalities with positive cash-backed accumulated surpluses after taking into account commitments have considerably increased from 63 in 2019/20 to 86 in 2020/21, while municipalities with cash shortfalls also decreased from 194 to 171. 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.

52. Further analysis demonstrates that:
    - Similar to the previous financial year, only one (1) metro, City of Cape Town, had a positive cash-backed accumulated surplus at the end of 2020/21. Five (5) secondary cities: Mogale City, Newcastle, uMhlathuze, Sol Plaatjie, and George had positive cash-backed accumulated surpluses. It is alarming 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
    - A worrying trend also emerged, showing that municipalities with significant cash surplus projected at the beginning of the year, ended up with deficits or financial shortfalls at the end of the audit year.

## INDICATOR 4: LIQUIDITY RATIO

53. The liquidity ratio is a crucial metric for assessing a municipality's ability to settle its debt obligations with cash and investments without acquiring external funding. Despite the possible 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 the short-term debt obligations.

54. Table 4 on the next page shows the liquidity positions of 257 municipalities between the 2019/20 and 2020/21 financial years. A total of 78 municipalities overall demonstrated solid liquidity in 2020/21. When compared to 68 municipalities in 2019/20, this is an improvement.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 4: Liquidity Ratio, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | **2019/20** | **2020/21** |
| **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 | 17 |
| More than current liabilities (more than 1) | 2 | 2 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. of municipalities whose cash and investments is** | | |
| less than current liabilities (less than 1) | 139 | 131 |
| More than current liabilities (more than 1) | 47 | 55 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities whose cash and investments is** | | |
| less than current liabilities (less than 1) | 26 | 24 |
| More than current liabilities (more than 1) | 18 | 20 |
| | | |
| **All municipalities (257)** | | |
| **No. of municipalities whose cash and investments is** | | |
| less than current liabilities (less than 1) | 189 | 179 |
| More than current liabilities (more than 1) | 68 | 78 |

**Source: National Treasury - Local Government Database**

55. 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;
- 17 secondary cities and 131 local municipalities (51 per cent of all municipalities) have inadequate cash and investments to settle current liabilities; and
- 24 district municipalities have weak liquidity positions. The lower the liquidity ratio, the greater the probability of a municipality to experience financial problems.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

## INDICATOR 5: CURRENT RATIO

56. 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.

57. If current liabilities are greater than current assets, it highlights serious financial challenges and most likely, liquidity issues.

58. Table 5 shows current ratio between 2019/20 and 2020/21. Almost half of the municipalities have current liabilities that are greater than current assets in 2020/21.

**Table 5: Current Ratio, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | **2019/20** | **2020/21** |
| **Metropolitan Municipalities (8)** | | |
| **No. of municipalities whose current assets are** | | |
| less than current liabilities (less than 1) | 4 | 3 |
| more than current liabilities (more than 1) | 4 | 5 |
| | | |
| **Secondary Cities (19)** | | |
| **No. of municipalities whose current assets are** | | |
| less than current liabilities (less than 1) | 12 | 12 |
| more than current liabilities (more than 1) | 7 | 7 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. of municipalities whose current assets are** | | |
| less than current liabilities (less than 1) | 91 | 92 |
| more than current liabilities (more than 1) | 95 | 94 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities whose current assets are** | | |
| less than current liabilities (less than 1) | 19 | 15 |
| more than current liabilities (more than 1) | 25 | 29 |
| | | |
| **All municipalities (257)** | | |
| **No. of municipalities whose current assets are** | | |
| less than current liabilities (less than 1) | 126 | 122 |
| more than current liabilities (more than 1) | 131 | 135 |

**Source: National Treasury - Local Government Database**

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

59. Further analysis shows that:

- At the end of 2020/21, three (3) metros namely, Mangaung, City of Tshwane and City of Ekurhuleni have reported current ratios that are lower than the norm;
- Similar to the previous years, a total of 12 secondary cities indicated negative current ratios in 2020/21;
- Almost half of the local municipalities (122) have insufficient current assets to pay current obligations. Although undesirable, this represent a slight improvement from the 2019/20 financial year where 126 municipalities were in this position; and
- 15 of the 44 districts have negative current ratios.

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

60. Municipal infrastructure needs to be repaired and maintained in order to preserve or restore the economic benefits and service levels expected from assets. Municipalities are therefore advised not to spend less than 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, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **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 | 17 |
| more than 8% of PPE | 2 | 2 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. whose repairs and maintenance are** | | |
| less than 8% of PPE | 178 | 170 |
| more than 8% of PPE | 8 | 16 |
| | | |
| **District Municipalities (44)** | | |
| **No. whose repairs and maintenance are** | | |
| less than 8% of PPE | 34 | 33 |
| more than 8% of PPE | 10 | 11 |

**Source: National Treasury - Local Government Database**

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

61. Table 6 shows that almost 90 per cent (227 of the 257) of municipalities in the country spent less than the 8 per cent on repairs and maintenance. All categories of municipalities consistently underspend on repairs and maintenance, which suggests that no effort 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 2020/21;
    - 17 secondary cities underspent on repairs and maintenance in 2020/21 while two (2) municipalities spent more than 8 per cent of PPE;
    - Of a total of 186 local municipalities, 170 underspent on repairs and maintenance; and
    - The similar trend was also observed among the district municipalities where 33 municipalities underspent on repairs and maintenance as a percentage of PPE.

62. Municipalities consistently underspend on maintenance, and often sacrifice maintenance budgets in lieu of other municipal 'priorities'. Delaying asset maintenance and replacements 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. Regular maintenance helps to preserve the useful life of an asset.

63. 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

64. Asset 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.

65. A municipality must set adequate 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, adequate budget is required for asset renewal or upgrading.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 7: Asset Renewal/Rehabilitation Expenditure Level, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **Metropolitan Municipalities (8)** | | |
| **No. 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. whose asset renewal is** | | |
| less than 40% of their total capital expenditure | 11 | 8 |
| More than 40% of their total capital expenditure | 8 | 11 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. whose asset renewal is** | | |
| less than 40% of their total capital expenditure | 110 | 111 |
| More than 40% of their total capital expenditure | 76 | 75 |
| | | |
| **District Municipalities (44)** | | |
| **No. whose asset renewal is** | | |
| less than 40% of their total capital expenditure | 31 | 31 |
| More than 40% of their total capital expenditure | 13 | 13 |

**Source: National Treasury - Local Government Database**

66. As shown in table 7, 153 out of 257 municipalities inadequately spent (less than 40 per cent) on asset renewal at the end of 2020/21. 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.

67. An analysis further indicates the following:

- Similar to the previous financial year, three (3) metros reported assets renewal of less than 40 per cent;
- Eight (8) out of 19 secondary cities reported assets renewal of less than 40 per cent;
- 111 local municipalities recorded asset renewal of less than 40 per cent; and
- 31 district municipalities had spent less than 40 per cent of capital expenditure on asset renewal. Not all districts, with the exception of those that are water service authority, have any assets that require to be renewed.

## INDICATOR 8: ASSET RENEWAL/DEPRECIATION LEVEL

68. To determine if asset standards and condition are likely to worsen or improve, asset renewal as a percentage of depreciation is essential. Municipalities are often 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. If the ratio is less than 100 per cent, the

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

municipality is not investing enough in asset renewal to improve its asset's condition. The rate at which municipalities consume assets in service delivery should correspond to the rate in which they make provision for depreciation in order to replace or upgrade assets.

**Table 8: Asset Renewal/Depreciation Level, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| **Municipalities** | **2019/20** | **2020/21** |
| **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 | 142 | 133 |
| More than 100% of assets | 44 | 53 |
| | | |
| **District Municipalities (44)** | | |
| **No. whose depreciation level is** | | |
| less than 100% of assets | 39 | 33 |
| More than 100% of assets | 5 | 11 |
| | | |
| **All municipalities (257)** | | |
| **No. whose depreciation level is** | | |
| less than 100% of assets | 202 | 187 |
| More than 100% of assets | 55 | 70 |

**Source: National Treasury - Local Government Database**

69. Table 8 shows that municipalities are inadequately spending on asset renewal relative to depreciation costs. A total of 153 out of 257 municipalities have spent less than 100 per cent of depreciation on asset renewal.

70. National Treasury has always urged municipalities to factor depreciation costs into their tariff calculations. The inclusion of this component will result in a more cost-effective tariff for the municipality and eventually, generate sufficient revenue to invest into renewal or replacement of infrastructure. Regular utilisation of an asset depreciates it and shortens its useful life, hence adequate funds will be needed in the future to replace that asset.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

71. At the end of 2020/21, the audited outcomes revealed that:

- Similar to the previous financial year, three (3) metros spent less than 100 per cent on asset renewal against depreciation;
- Eight (8) secondary cities spent less than 100 per cent on asset renewal against depreciation; and
- 111 local municipalities inadequately spent on asset renewal against depreciation. This is inadequate to address the state of municipal infrastructure assets in local government.

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

72. 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. Notably, municipalities investing in infrastructure have increased significantly over the last three financial years, despite the reduction in intergovernmental transfers.

73. Although funding infrastructure remains a challenge in South Africa, many municipalities have started to explore ways of leveraging external finance to expand their capital investments. Without access to private capital markets, Development Finance Institutions (DFI) funding and other funding instruments, most municipalities will not have the required resources to invest in infrastructure.

74. To assess whether a municipality has adequately invested on capital infrastructure, the level of capital expenditure should be in the region of 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 invest its own funding towards capital infrastructure, it might face a risk of eroding all its cash reserves. In cases like these, spending on infrastructure must be assessed against the revenue raising potential of that asset.

75. Table 9 shows the total capital expenditure as a percentage of total expenditure between the 2019/20 and 2020/21 financial years. There are 108 municipalities that have under invested on capital infrastructure in 2020/21. The past records have shown that as municipalities experience financial difficulties, they reduce their own contributions towards capital investments to achieve a balance.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 9: Total Capital Expenditure as A Percentage of Total Expenditure, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | 2019/20 | 2020/21 |
| **Metropolitan Municipalities (8)** | | |
| **No. whose Total Capital Expenditure is** | | |
| less than 10% of their total expenditure | 5 | 4 |
| between 10% and 20% of their total expenditure | 2 | 3 |
| more than 20% of their total expenditure | 1 | 1 |
| | | |
| **Secondary Cities (19)** | | |
| **No. whose Total Capital Expenditure is** | | |
| less than 10% of their total expenditure | 12 | 11 |
| between 10% and 20% of their total expenditure | 5 | 5 |
| more than 20% of their total expenditure | 2 | 3 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. whose Total Capital Expenditure is** | | |
| less than 10% of their total expenditure | 75 | 69 |
| between 10% and 20% of their total expenditure | 50 | 49 |
| more than 20% of their total expenditure | 61 | 68 |
| | | |
| **District Municipalities (44)** | | |
| **No. whose Total Capital Expenditure is** | | |
| less than 10% of their total expenditure | 24 | 24 |
| between 10% and 20% of their total expenditure | 2 | 6 |
| more than 20% of their total expenditure | 15 | 14 |

**Source: National Treasury - Local Government Database**

76. Between 2019/20 and 2020/21 financial years, the audited outcomes revealed that:

- Four (4) of the eight (8) metros spent less than 10 per cent on capital expenditure as a percentage of total expenditure while three (3) metros have adequately invested for infrastructure, within the acceptable norm of between 10 to 20 per cent;
- 11 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 68 local municipalities have spent more than 20 per cent of their total expenditure. The conditional grants transferred affects the spending because this category of municipalities heavily relies on them to finance their capital infrastructure.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

## INDICATOR 10: DEBTORS DAYS

77. Debtor 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.

78. In most cases, late payment of municipal bills is as a result of a municipality's failure to implement municipal credit control and debt collection systems.

79. Table 10 shows the debtors days between the 2019/20 and 2020/21 financial years. A total of 208 municipalities takes more than 30 days to collect outstanding debt whereas 49 municipalities collect debt within the prescribed 30 days.

**Table 10: Debtors Days, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | 2019/20 | 2020/21 |
| **Metropolitan Municipalities (8)** | | |
| **No. of municipalities who receive debtors** | | |
| less than 30 days | 2 | 2 |
| More than 30 days | 6 | 6 |
| | | |
| **Secondary Cities (19)** | | |
| **No. of municipalities who receive debtors** | | |
| less than 30 days | 3 | 3 |
| More than 30 days | 16 | 16 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. of municipalities who receive debtors** | | |
| less than 30 days | 25 | 22 |
| More than 30 days | 161 | 164 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities who receive debtors** | | |
| less than 30 days | 23 | 22 |
| More than 30 days | 21 | 22 |
| | | |
| **All municipalities (257)** | | |
| **No. of municipalities who receive debtors** | | |
| less than 30 days | 53 | 49 |
| More than 30 days | 204 | 208 |

**Source: National Treasury - Local Government Database**

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

80. 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;
- Over 80 per cent of secondary cities takes more than 30 days to collect debt;
- 22 local municipalities collect debts within 30 days' period, this is a slight regression compared to 25 in 2019/20; and
- A similar trend is also noted within the district category where there is a slight decline of municipalities that collected within the 30 days.

## INDICATOR 11: CREDITORS DAYS

81. Timely payment of creditors is not only essential for the liquidity of local economies and the survival of SMMEs but is also a good reflection of the extent of financial challenges facing a municipality. 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 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.

82. 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.

83. The table 11 shows creditors payment period for 257 municipalities between 2019/20 and 2020/21. This reflects the average number of days taken by municipalities to pay creditors.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

**Table 11: Creditors days, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | **2019/20** | **2020/21** |
| **Metropolitan Municipalities (8)** | | |
| **No. of municipalities who pay creditors** | | |
| within 30 days of receiving the invoice | 2 | 3 |
| more than 30 days after receiving the invoice | 6 | 5 |
| | | |
| **Secondary Cities (19)** | | |
| **No. of municipalities who pay creditors** | | |
| within 30 days of receiving the invoice | 4 | 3 |
| more than 30 days after receiving the invoice | 15 | 16 |
| | | |
| **Other Local Municipalities (Towns) 186** | | |
| **No. of municipalities who pay creditors** | | |
| within 30 days of receiving the invoice | 39 | 35 |
| more than 30 days after receiving the invoice | 147 | 151 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities who pay creditors** | | |
| within 30 days of receiving the invoice | 6 | 6 |
| more than 30 days after receiving the invoice | 38 | 38 |
| | | |
| **All municipalities (257)** | | |
| **No. of municipalities who pay creditors** | | |
| within 30 days of receiving the invoice | 51 | 47 |
| more than 30 days after receiving the invoice | 206 | 210 |

**Source: National Treasury - Local Government Database**

84. A total of 210 municipalities took more than 30 days to pay creditors in 2020/21. Further analysis shows that:

- Five (5) metros and 16 secondary cities take more than 30 days to pay creditors; and
- 151 local municipalities take more than 30 days to pay creditors.

85. This clearly shows that municipalities are not complying with Section 65 (2)(e) of the MFMA due to cash flow problems. Failure to meet financial obligations because of insufficient cash is one of the key indicators of a financial crisis.

86. Late or non-payment of creditors has dire consequences for both private and public sectors. Businesses, particularly SMMEs, are most negatively affected because they depend on these payments to create jobs and maintain their financial viability.

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

## INDICATOR 12: TOTAL BORROWING VS TOTAL OPERATING REVENUE

87. The indicator's objective is to provide information on whether the municipality is generating revenue that is sufficient to repay liabilities. Alternatively, 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.

88. Table 12 indicates the total borrowing against the total operating revenue. A total of 253 out of 257 municipalities have less than 45 per cent borrowing relative to total operating revenue. This suggests 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.

**Table 12: Total borrowing vs total operating revenue, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | 2019/20 | 2020/21 |
| **Metropolitan Municipalities (8)** | | |
| **No. of municipalities whose debt level is** | | |
| less than 45% | 7 | 7 |
| more than 45% | 1 | 1 |
| | | |
| **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 | 184 |
| more than 45% | 2 | 2 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities whose debt level is** | | |
| less than 45% | 43 | 44 |
| more than 45% | 1 | 0 |
| | | |
| **All municipalities (257)** | | |
| **No. of municipalities whose debt level is** | | |
| less than 45% | 252 | 253 |
| more than 45% | 5 | 4 |

**Source: National Treasury - Local Government Database**

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

89. Further analysis shows that:

- Seven (7) metros' total borrowing is less than 45 per cent of total operating revenue. This supports 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. However, this needs to be assessed together with cash flow position of a municipality to accurately determine the affordability level;
- 184 of the 186 local municipalities have adequate borrowing capacity and therefore, only two (2) local municipalities have limited capacity to increase borrowing given their revenue limitations; and
- Among district municipalities, none has limited borrowing capacity.

## INDICATOR 13: SOLVENCY RATIO

90. The solvency ratio calculates a municipality's total liabilities as a percentage of its total assets. The ratio's objective is to assess a municipality's capacity to pay off its long-term debt obligations with its assets. Although municipalities cannot sell or dispose 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.

91. The higher the solvency ratio, the more capable the municipality will be to pay its total liabilities.

92. Table 13 shows the solvency ratio of 257 municipalities between 2019/20 and 2020/21. A total of 22 municipalities has insufficient assets to cover their total liabilities.

**Table 13: Solvency ratio, 2019/20 – 2020/21**

| | Audit Outcome | |
|---|---|---|
| | 2019/20 | 2020/21 |
| **Metropolitan Municipalities (8)** | | |
| **No. of municipalities whose total assets are** | | |
| less than total liabilities (less than 1) | 1 | 2 |
| more than total liabilities (more than 1) | 7 | 6 |
| | | |
| **Secondary Cities (19)** | | |
| **No. of municipalities whose total assets are** | | |
| less than total liabilities (less than 1) | 1 | 3 |
| more than total liabilities (more than 1) | 18 | 16 |

# ASSESSMENT OF THE FINANCIAL HEALTH OF MUNICIPALITIES | CONT.

| | Audit Outcome | |
|---|---|---|
| | **2019/20** | **2020/21** |
| **Other Local Municipalities (Towns) 186** | | |
| **No. of municipalities whose total assets are** | | |
| less than total liabilities (less than 1) | 15 | 12 |
| more than total liabilities (more than 1) | 171 | 174 |
| | | |
| **District Municipalities (44)** | | |
| **No. of municipalities whose total assets are** | | |
| less than total liabilities (less than 1) | 5 | 5 |
| more than total liabilities (more than 1) | 39 | 39 |
| | | |
| **All municipalities (257)** | | |
| **No. of municipalities whose total assets are** | | |
| less than total liabilities (less than 1) | 22 | 22 |
| more than total liabilities (more than 1) | 235 | 235 |

**Source: National Treasury - Local Government Database**

93. Further analysis shows that:

- Two (2) metros (City of Tshwane and eThekwini) and three (3) secondary cities (Matjhabeng, Mogale City and Govan Mbeki) have insufficient total assets to cover their total liabilities;
- 12 local municipalities also reflected total liabilities that exceeds total assets; and
- Five (5) district municipalities have total liabilities that exceeds total assets.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY

## AUDIT OUTCOMES: 2020/21 FINANCIAL YEAR

94. Over the past five financial years, the overall audit outcomes of municipalities have not improved. When compared to the previous administration's term, most municipalities are currently in a dire position.

95. Audit outcomes are not always a reliable measure of a municipality's financial stability. Municipalities with positive audit outcomes may be in financial distress, and conversely, municipalities with good financial standing may obtain negative audit outcomes. Audit opinions are the auditors' expression as to whether the financial statements fairly present the financial position of auditees at financial year-end and the results of their operations for that financial year.

96. Table 14 presents a summary of audit opinions for all municipalities between 2016/17 and 2020/21. In the financial year 2020/21, 41 municipalities obtained unqualified opinions with no findings, an increase from 32 municipalities in 2019/20. For the past two years, a total of 30 municipalities were able to maintain their unqualified with no findings status, while 11 municipalities improved to this position. The majority of these unqualified audit opinions with no findings were received by 22 municipalities in the Western Cape province. City of Ekurhuleni is the only metro that received unqualified audit opinions with no findings, while five (5) secondary cities, 20 local municipalities, and 15 districts did as well.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

**Table 14: Summary of audit opinions for all municipalities, 2011/12 to 2020/21**

| Audit Opinon | 2011/12 | | 2012/13 | | 2013/14 | | 2014/15 | | 2015/16 | | 2016/17 | | 2017/18 | | 2018/19 | | 2019/20 | | 2020/21 | | 2015/16 | | 2016/17 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | No. | % | No. | % | No. | % | No. | % | No | % | No | % | No | % | No | % | No | % | No | % | No | % | No | % |
| Adverse | 3 | 1% | 4 | 1% | 9 | 3% | 4 | 1% | 4 | 1% | 6 | 2% | 12 | 5% | 6 | 2% | 7 | 3% | 4 | 2% | 4 | 1% | 4 | 2% |
| Disclaimer | 76 | 27% | 90 | 32% | 66 | 21% | 33 | 12% | 25 | 9% | 32 | 12% | 35 | 14% | 42 | 16% | 34 | 13% | 25 | 10% | 21 | 9% | 24 | 9% |
| Qualified | 64 | 23% | 68 | 24% | 83 | 27% | 71 | 26% | 63 | 23% | 71 | 28% | 86 | 33% | 95 | 37% | 87 | 34% | 78 | 30% | 60 | 23% | 66 | 25% |
| Unqualified - with findings | 106 | 38% | 98 | 35% | 109 | 36% | 111 | 41% | 122 | 44% | 114 | 44% | 106 | 41% | 94 | 37% | 96 | 37% | 100 | 39% | 108 | 44% | 112 | 44% |
| Unqualified - no findings | 9 | 3% | 22 | 8% | 40 | 13% | 54 | 20% | 49 | 18% | 34 | 13% | 18 | 7% | 20 | 8% | 32 | 12% | 41 | 16% | 48 | 18% | 33 | 13% |
| Audits Out-standing | 20 | 7% | 0 | 0% | 0 | 0% | 0 | 0% | 15 | 5% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 0% | 9 | 4% | 0 | 5% | 18 | 7% |
| **Total** | **278** | **100%** | **282** | **100%** | **307** | **100%** | **273** | **100%** | **278** | **100%** | **257** | **100%** | **257** | **100%** | **257** | **100%** | **257** | **100%** | **257** | **100%** | **241** | **100%** | **257** | **100%** |

**Consolidated general reports on the audit outcomes of local government MFMA**

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

97. The number of unqualified audit opinions with findings increased to 100 in 2020/21, from 96 in 2019/20. In contrast, qualified audit opinions decreased from 87 to 78 municipalities within the same period.

98. A total of 25 municipalities obtained disclaimer opinions while four (4) obtained adverse audit opinions. Although there is a decrease in disclaimer audit opinions from 34 in 2019/20 to 25 in 2020/21, it is alarming that some municipalities are still unable to provide sufficient evidence to support their financial reporting.

99. Municipalities in the Kwazulu-Natal showed improvement in audit outcomes, two (2) municipalities improved from disclaimer to qualified opinion while five (5) moved from qualified to unqualified with findings in 2020/21. A total of 10 municipalities (Midvaal, Okhahlamba, Cape Winelands District, West Coast District, Bergrivier, Cape Agulhas, Hessequa, Overstrand, Witzenberg and Senqu) have been obtaining unqualified opinion without findings for the past five consecutive years.

100. The provinces with the worst audit outcomes in 2020/21, based on the highest disclaimed opinions are North West (9), Eastern Cape (4) and Northern Cape (4). Western Cape and Free State provinces do not have a municipality that obtained disclaimer audit opinion in 2020/21.

101. The provinces with the best audit outcomes in 2020/21, based on the highest unqualified with no findings, are Western Cape (22), Northern Cape (5) and Mpumalanga (4).

102. The closing amounts for irregular[4] expenditure decreased from R26.2 billion in 2019/20 to R21.9 billion in 2020/21. In general, this irregular expenditure relates to non-compliance with supply chain management legislation including non-compliance with other procurement process requirements such as preference points not being applied or procurement from suppliers who had not submitted valid tax clearance certificates, procurement without following a competitive bidding or quotation process and inadequate contract management.

103. The top ten contributors to irregular expenditure are City of Tshwane, Nelson Mandela Bay, eThekwini, City of Johannesburg, Gamagara, Madibeng, Matlosana, Matjhabeng, City of Cape Town and Rustenburg.

104. Fruitless and wasteful expenditure incurred by municipalities has reduced from R3.5 billion to R2.1 billion in 2020/21. Among the factors that contributed to this expenditure are interest and penalties on overdue accounts, litigation and claims as well as write-offs of assets.

105. Unauthorised expenditure increased from R22.0 billion in 2019/20 to R20.4 billion in 2020/21. Unauthorised expenditure is predominantly the result of overspending of budgets and expenditure related to non-cash items which indicates a poor estimation of asset impairment and debt impairment.

106. 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 consultancy costs, which increased from R1.0 billion in 2019/20 to R1.3 billion in 2020/21.

4 Irregular, unauthorised and wasteful expenditure as defined in Section 1 of the MFMA.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

## GOVERNANCE: ACTING MUNICIPAL MANAGER AND CHIEF FINANCIAL OFFICER POSITIONS

107. 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 incumbents fail 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, when a permanent Municipal Manager (MM) is temporarily suspended, the MM's responsibilities are typically shared by senior managers, which results in a lack of accountability.

108. It was also observed that the instability in the position of Chief Financial Officer presented a risk to sound financial management because it presents opportunity for the flouting of internal controls, non-compliance to the legal framework and general mismanagement of public funds.

109. Most municipalities with institutional capacity challenges as a result of instability and vacancies in key positions have demonstrated serious financial problems. The vacancies compromised the financial management environment over a period and creates a lack of effective controls or measures to rectify the situation.

110. 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 critical that the position of MM remains filled.

111. In the municipal organisational structure, the Chief Financial Officer (CFO) post is of equal importance. 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).

112. As part of National Treasury's efforts to promote stability and accountability in municipalities, MFMA Budget Circular No. 72 requires municipalities that are applying for a roll-over of unspent conditional grants to provide documentation proving that the MM and CFO are permanently appointed.

113. Table 15 shows the number of acting MMs and CFOs as at 30 June 2020 and 2021.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

**Table 15: Municipalities With Acting Municipal Managers and CFOs At 30 June 2020 & 2021**

| 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%** |

| 2020 | | | Acting MM | | Acting CFO | | Both Acting | |
|---|---|---|---|---|---|---|---|---|
| Summary Per Province | | | No. | % | No. | % | No. | % |
| Eastern Cape | 39 | EC | 6 | 15,4% | 8 | 20,5% | 3 | 7,7% |
| Free State | 23 | FS | 6 | 26,1% | 7 | 30,4% | 2 | 8,7% |
| Gauteng | 11 | GT | 3 | 27,3% | 4 | 36,4% | 2 | 18,2% |
| Kwazulu-Natal | 54 | KZ | 5 | 9,3% | 7 | 13,0% | 3 | 5,6% |
| Limpopo | 27 | LP | 7 | 25,9% | 9 | 33,3% | 5 | 18,5% |
| Mpumalanga | 20 | MP | 5 | 25,0% | 5 | 25,0% | 1 | 5,0% |
| North West | 22 | NW | 10 | 45,5% | 11 | 50,0% | 8 | 36,4% |
| Northern Cape | 31 | NC | 8 | 25,8% | 10 | 32,3% | 6 | 19,4% |
| Western Cape | 30 | WC | - | 0,0% | 6 | 20,0% | - | 0,0% |
| **Total** | **257** | | **50** | **19%** | **67** | **26%** | **30** | **12%** |

114. The number of acting MMs increased from 50 in 2020 to 70 in 2021. Notably, the high increase was in Free State and Limpopo provinces. CFOs showed signs of improvement, with the number of acting positions decreasing from 67 to 56 in 2021. Eastern Cape, Northern Cape, and Western Cape are the areas with the highest decrease in 2021. The number of municipalities who had both MM and CFO acting reduced from 30 to 25.

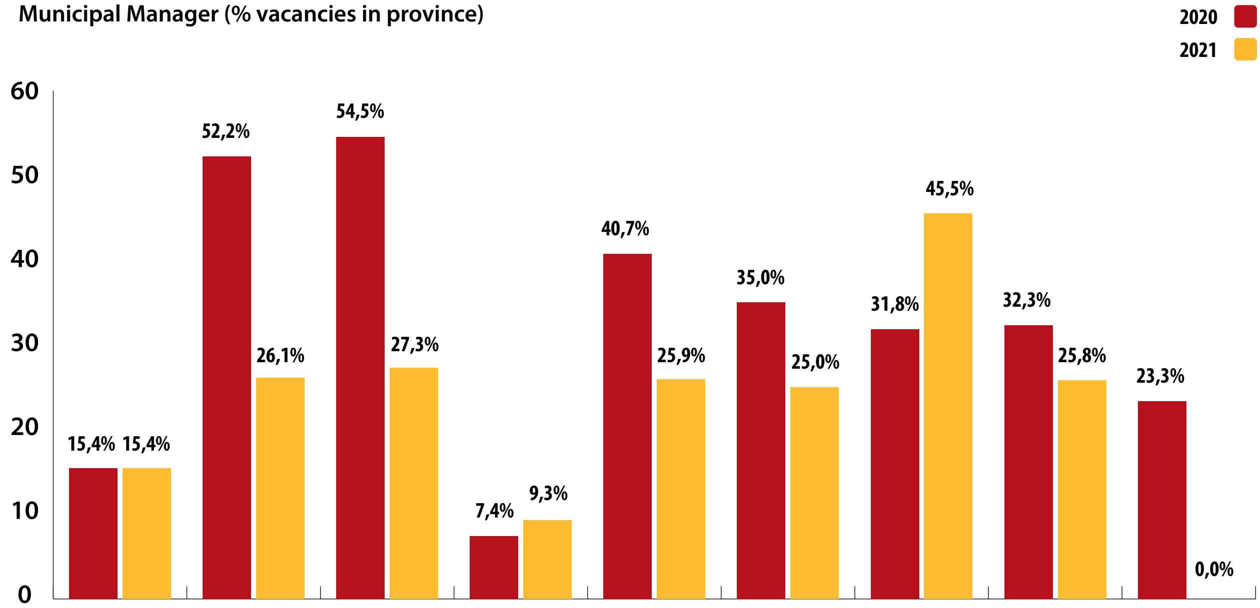
115. Table 15 shows that the province with the largest percentage of both acting MMs and CFOs was North West (27.3 per cent) followed by Limpopo with 22.2 per cent.

116. Figure 4 depicts the comparison of acting Municipal Managers and Chief Financial Officers as at 30 June 2021. The acting MMs and acting CFOs were prevalent in Gauteng with 54.5 per and 45.5 per cent in 2021.

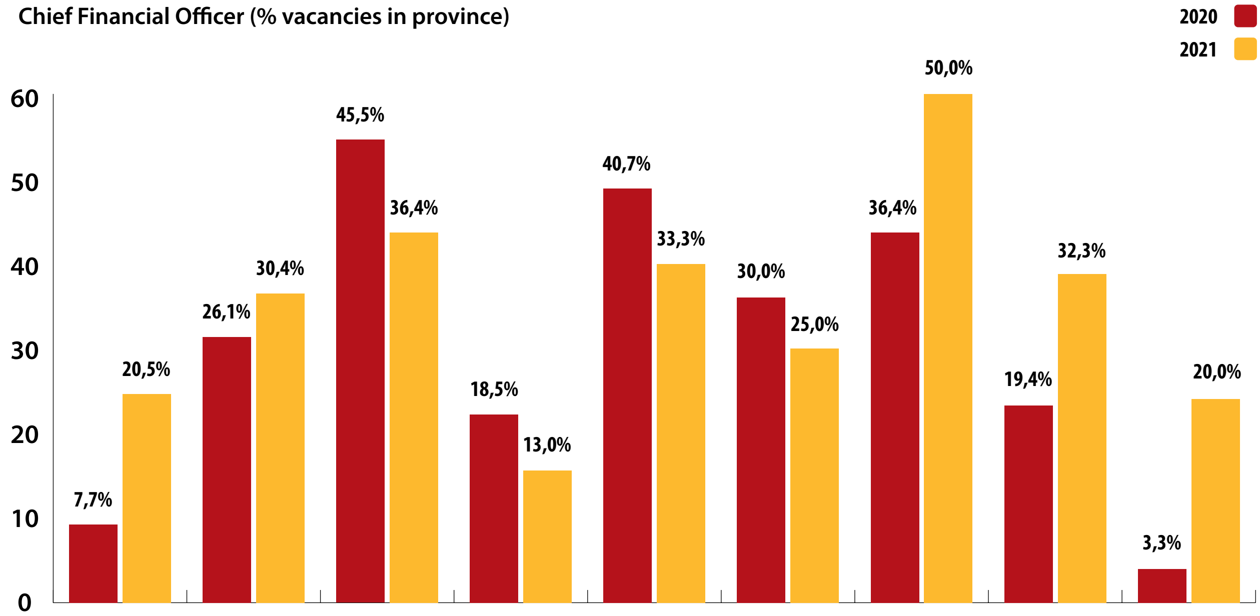
# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

**Figure 4: Graphical representation of acting MMs and CFOs**

Municipal Manager (% vacancies in province)




Chief Financial Officer (% vacancies in province)




117. The lack of administrative stability 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.

118. It should be emphasized that in some instances, municipalities' locations, particulary rural areas, make it difficult to recruit and attract qualified candidates for these positions.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

## MINIMUM COMPETENCY LEVELS

119. Almost half of senior municipal officials do not meet the government's prescribed minimum competency levels. The prescribed minimum competency levels were introduced for Municipal Managers, Chief Financial Officers (CFOs) and Chief Executive Officers (CEOs) of municipal entities, Senior Managers, SCM managers and Middle Managers including other officials dealing with financial management (FM) and supply chain management (SCM). The regulations require the senior management to have at least a NQF level 7, such as a bachelor's degree. However, the regulation was amended in 2017 to allow municipalities to appoint officials that have not completed the required unit standards to complete within 18 months from day of appointment.

120. Table 16 summarises the enrolment in the Minimum Competency programme across the regulated positions and provinces. Out of 242 CFOs reported, only 152 (62.8 per cent) have achieved minimum competency levels while 56.1 per cent of senior managers have achieved minimum competency levels.

**Table 16: National Status of Minimum Competency Levels by position**

| Province | Accounting Officer | Meet Minimum Competency | Chief Financial Officer - Municipality | Meet Minimum Competency | Senior Manager (MSA S56) | Meet Minimum Competency | Head of Supply Chain Management unit | Meet Minimum Competency |
|---|---|---|---|---|---|---|---|---|
| EC Eastern Cape | 38 | 33 | 38 | 31 | 142 | 97 | 12 | 7 |
| FS Free State | 23 | 15 | 23 | 12 | 72 | 32 | 4 | 3 |
| GT Gauteng | 11 | 8 | 11 | 8 | 83 | 41 | 4 | 1 |
| KZN Kwazulu-Natal | 45 | 35 | 45 | 34 | 150 | 97 | 14 | 9 |
| LIM Limpopo | 27 | 19 | 27 | 12 | 100 | 40 | 6 | 4 |
| MP Mpumalanga | 18 | 13 | 18 | 12 | 73 | 46 | 5 | 3 |
| NC Northern Cape | 32 | 24 | 32 | 12 | 73 | 39 | 14 | 5 |
| NW North West | 19 | 11 | 19 | 9 | 74 | 31 | 4 | 3 |
| WC Western Cape | 29 | 24 | 29 | 22 | 96 | 62 | 15 | 13 |
| **TOTAL** | **242** | **182** | **242** | **152** | **863** | **485** | **78** | **48** |

**Source: National Treasury - Capacity Building Unit**

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

## INADEQUATE BUDGETS FOR REPAIRS AND MAINTENANCE AND ASSET MANAGEMENT

121. Asset management must be considered a key spending priority for municipalities as infrastructure is pivotal to sustainable service delivery and revenue generation. Asset management consists of two distinct categories of expenditure: asset renewal as part of the capital programme and operational repairs and maintenance of infrastructure. Asset renewal refers to costs incurred in relation to refurbishment, rehabilitation or reconstruction of assets to return its desired service levels whereas asset maintenance refers to activities aimed at ensuring that an asset carries out a required function to a specific standard of performance over its expected useful life by sustaining it as close as possible to its original condition.

122. Inadequate asset maintenance remains a major obstacle in South Africa achieving its full economic growth potential. Infrastructure in South Africa is collapsing and reaching the end of its useful lifespan due to the lack of proper maintenance. Municipal failure to maintain infrastructure over the years negatively impacted the economy and resulted in accounts of sewer leakages, load shedding, water cuts in some areas of the country and potholes.

123. The escalating backlog in the maintenance required to keep infrastructure operational has led to these assets being in a dilapidated state at most municipalities. Consequentially, this has caused significant water and electricity distribution losses at municipalities. Service reliability is threatened by an infrastructure network that is not properly maintained. An aging water infrastructure, for instance, that is not adequately maintained, runs the risk of generating insufficient revenue and causing service interruptions. The level of services delivered, which is strongly dependent on how municipalities invest in asset maintenance or capital renewal, directly impacts residents' decision to pay rates and service charges.

124. The financing of infrastructure operations and maintenance by rural municipalities is another concern that, if not properly addressed, would continue to cause rapid infrastructure deterioration and poor service delivery. The medium to long-term consequences of underspending on repairs and maintenance include:
    - Deteriorating reliability and quality of services;
    - Reactive maintenance rather than planned maintenance;
    - Increased future cost of maintenance and refurbishment;
    - Shortened useful lifespan of assets, requiring earlier replacement; and
    - Consumer unhappiness and boycotts.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

125. Table 17 shows the national aggregate spending patterns on repairs and maintenance as a percentage of expenditure on property, plant and equipment for the financial years 2018/19 to 2020/21. This indicator compares the amount spent on repairs and maintenance to the value of the municipal asset base. Between 2018/19 and 2020/21, most municipalities spent below the average norm of 8 per cent on repairs and maintenance.

**Table 17: National - Repairs and maintenance, 2018/19 - 2020/21**

| Description | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| R thousands | Audited Outcome | Audited Outcome | Audited Outcome |
| **Repairs and Maintenance by Asset Class** | 20 132 958 | 14 675 635 | 18 659 905 |
| *Roads Infrastructure* | 2 476 083 | 2 713 594 | 2 878 583 |
| *Storm water Infrastructure* | 240 440 | 356 240 | 380 318 |
| *Electrical Infrastructure* | 3 384 433 | 4 714 216 | 4 790 839 |
| *Water Supply Infrastructure* | 2 174 424 | 2 920 234 | 3 137 065 |
| *Sanitation Infrastructure* | 1 665 069 | 1 908 910 | 2 239 548 |
| *Solid Waste Infrastructure* | 259 049 | 335 633 | 389 009 |
| *Rail Infrastructure* | 2 697 | 9 799 | 57 145 |
| *Coastal Infrastructure* | 7 847 | 12 400 | 67 938 |
| *Information and Communication Infrastructure* | 66 785 | 102 111 | 140 726 |
| Infrastructure | *10 276 827* | *13 073 136* | *14 081 170* |
| Community | 971 096 | 1 119 740 | 1 243 907 |
| Heritage assets | 1 366 | 1 159 | 791 |
| Investment properties | 72 224 | 75 240 | 81 608 |
| Other assets | 3 354 122 | 4 668 347 | 4 854 974 |
| **TOTAL EXPENDITURE** | **14 675 635** | **18 937 622** | **20 262 450** |
| ***% of capital exp on renewal of assets*** | *46,1%* | *52,6%* | *56,9%* |
| ***Renewal of Existing Assets as % of deprecn*** | *129,7%* | *178,3%* | *226,0%* |
| ***R&M as a % of PPE*** | *3,0%* | *3,0%* | *3,0%* |
| ***Renewal and R&M as a % of PPE*** | *11,0%* | *14,0%* | *17,0%* |

**Source: National Treasury - Local Government Database**

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

126. The spending of metropolitan municipalities on asset renewal as well as repairs and maintenance is shown in Table 18. Metros slightly decreased their spending on repairs and maintenance from 5 per cent in 2019/20 to 4 per cent in 2020/21, which is below the NT recommendation of 8 per cent. Most metros indicated that their strategy is to replace or renew assets to expand their useful lives, as a result, asset maintenance is not necessary. The investment in asset renewal has increased significantly from 45.1 per cent in 2018/19 to 77.1 per cent in 2020/21. Additionally, in the last three financial years, the renewal of existing assets as a percentage of depreciation increased from 104.4 per cent in 2018/19 to 221.4 per cent in 2020/21.

**Table 18: Metros - Repairs and maintenance, 2018/19 - 2020/21**

| Description | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| R thousands | Audited Outcome | Audited Outcome | Audited Outcome |
| **Repairs and Maintenance by Asset Class** | 8 086 254 | 11 552 008 | 11 345 707 |
| *Roads Infrastructure* | 1 489 092 | 1 652 778 | 1 531 498 |
| *Storm water Infrastructure* | 123 525 | 259 675 | 262 086 |
| *Electrical Infrastructure* | 2 402 052 | 3 463 518 | 3 359 646 |
| *Water Supply Infrastructure* | 754 805 | 1 195 960 | 1 234 771 |
| *Sanitation Infrastructure* | 855 401 | 1 006 095 | 1 080 478 |
| *Solid Waste Infrastructure* | 68 459 | 80 332 | 70 482 |
| *Rail Infrastructure* | | 8 292 | 6 671 |
| *Coastal Infrastructure* | | 1 227 | 21 290 |
| *Information and Communication Infrastructure* | 30 697 | 75 376 | 105 359 |
| Infrastructure | *5 724 031* | *7 743 253* | *7 672 281* |
| Community | 673 635 | 683 511 | 778 698 |
| Heritage assets | 1 028 | 986 | 616 |
| Investment properties | 62 564 | 66 969 | 72 506 |
| Other assets | 1 624 995 | 3 057 289 | 2 821 608 |
| **TOTAL EXPENDITURE** | **8 086 254** | **11 552 008** | **11 345 707** |
| ***% of capital exp on renewal of assets*** | *45,1%* | *78,0%* | *77,1%* |
| ***Renewal of Existing Assets as % of deprecn*** | *104,4%* | *208,8%* | *221,4%* |
| ***R&M as a % of PPE*** | *3,0%* | *5,0%* | *4,0%* |
| ***Renewal and R&M as a % of PPE*** | *10,0%* | *20,0%* | *20,0%* |

**Source: National Treasury - Local Government Database**

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

127. Table 19 shows secondary cities' asset management spending from 2018/19 to 2020/21. Over the past three years, this category of municipalities has seen a reduction in capital renewal. Although the overall capital expenditure for asset renewal has reduced from 55.1 per cent in 2018/19 to 41.1 per cent in 2020/21, it is still greater than the 40 per cent as per NT guideline. The expenditure on repairs and maintenance has been insignificant at below 5 per cent over the past three financial years.

**Table 19: Secondary Cities - Repairs and maintenance, 2018/19 - 2020/21**

| Description | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|
| R thousands | Audited Outcome | Audited Outcome | Audited Outcome |
| **Repairs and Maintenance by Asset Class** | 2 279 526 | 2 563 942 | 3 752 397 |
| *Roads Infrastructure* | 322 124 | 257 978 | 448 084 |
| *Storm water Infrastructure* | 29 171 | 28 869 | 42 328 |
| *Electrical Infrastructure* | 349 603 | 593 113 | 701 662 |
| *Water Supply Infrastructure* | 299 000 | 432 138 | 754 625 |
| *Sanitation Infrastructure* | 340 013 | 432 482 | 704 151 |
| *Solid Waste Infrastructure* | 58 807 | 149 775 | 192 682 |
| *Rail Infrastructure* | 1 755 | 1 188 | 49 960 |
| *Coastal Infrastructure* | 2 194 | 1 013 | |
| *Information and Communication Infrastructure* | 3 767 | 252 | 9 871 |
| Infrastructure | *1 406 434* | *1 896 808* | *2 903 363* |
| Community | 156 932 | 242 762 | 261 579 |
| Heritage assets | 260 | 173 | 163 |
| Investment properties | 6 653 | 6 528 | 7 217 |
| Other assets | 709 248 | 417 671 | 580 075 |
| **TOTAL EXPENDITURE** | **2 279 526** | **2 563 942** | **3 752 397** |
| ***% of capital exp on renewal of assets*** | *55,1%* | *35,9%* | *41,1%* |
| ***Renewal of Existing Assets as % of deprecn*** | *107,1%* | *150,2%* | *199,8%* |
| ***R&M as a % of PPE*** | *2,0%* | *2,0%* | *3,0%* |
| ***Renewal and R&M as a % of PPE*** | *9,0%* | *10,0%* | *14,0%* |

**Source: National Treasury - Local Government Database**

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

## SIGNIFICANT ELECTRICITY AND WATER LOSSES

128. There are significant losses in the distribution of electricity and water due to aging infrastructure and poor maintenance of existing infrastructure assets. As a result, every year, municipalities suffer significant revenue shortfalls owing to these losses. It is therefore imperative that municipalities eradicate the maintenance and refurbishment backlogs as an important solution to address this problem.

129. A significant portion of these losses, which are caused by illegal connections, leaks, and pipe bursts, are not technical or commercial in nature. However, technical losses from unmetered water also had an impact. The water and electricity losses for metros as of 30 June 2021 is shown in Table 20.

**Table 20: Electricity and Water Losses for the Metros as at 30 June 2021**

| Municipality | Code | Water Losses | | Electricity Losses | |
|---|---|---|---|---|---|
| | | R'000 | % | R'000 | % |
| Buffalo City | BUF | 125 496 | 36.3% | 368 218 | 22.8% |
| Nelson Mandela Bay | NMA | 217 200 | 39.9% | 600 670 | 20.0% |
| Mangaung | MAN | 229 323 | 42.0% | 182 695 | 10.0% |
| City of Ekurhuleni | EKU | 1 083 753 | 30.3% | 1 881 786 | 14.1% |
| City of Johannesburg | JHB | 1 525 900 | 25.0% | 3 671 613 | 29.0% |
| City of Tshwane | TSH | 1 167 387 | 34.6% | 1 839 199 | 12.2% |
| eThekwini | ETH | 1 721 600 | 51.1% | 762 000 | 7.7% |
| Cape Town | CPT | 286 581 | 15.9% | 528 795 | 11.9% |
| **Total** | | **6 357 239** | | **9 834 975** | |

**Source: 2020/21 Audited Financial Statements**

130. At the end of 30 June 2021, metros recorded water and electricity losses of R6.4 and R9.8 billion respectively. Electricity losses increased by R601 million, from R9.2 billion in 2019/20 to R9.8 billion in 2020/21.

131. The City of Johannesburg reported the highest losses on electricity (R3.6 billion) while eThekwini had the highest water losses of R1.7 billion. Mangaung reported the lowest electricity losses of R182.7 million.

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

## SPENDING OF CONDITIONAL GRANTS

132. Table 21shows conditional grants performance by municipalities as at 30 June 2021. In terms of the Division of Revenue Amendment Act, 2020 (Act No.20 of 2020), municipalities were allocated R43.6 billion in conditional grants for the 2020/21 financial year as depicted in table 21.

**Table 21: Conditional grants transferred from national departments to municipalities in 2020/21**

| | | | | | YTD Expenditure | | % Spent | |
|---|---|---|---|---|---|---|---|---|
| R thousands | Division of revenue Act No. 4 of 2020 | Adjustments | Total Available 2020/21 | Transferred to municipalities for direct grants | Actual expenditure National Department | Actual expenditure by municipalities | Actual expenditure National Department | Actual expenditure by municipalities |
| Local Government Financial Management Grant | 544 862 | - | 544 862 | 544 862 | 478 617 | 424 508 | 88% | 78% |
| Infrastructure Skills Development Grant | 153 192 | (9 332) | 143 860 | 143 860 | 109 178 | 125 981 | 76% | 88% |
| Integrated City Development Grant | 317 499 | (3 777) | 313 722 | 313 722 | - | 228 272 | 0% | 73% |
| Neighbourhood Development Partnership (Schedule 5B) | 559 442 | (80 025) | 479 417 | 481 417 | 354 512 | 344 121 | 74% | 71% |
| Integrated Urban Development Grant | 948 031 | (11 663) | 936 368 | 936 368 | 925 002 | 559 883 | 99% | 60% |
| Municipal Disaster Grant | 158 792 | - | 158 792 | 150 970 | 25 675 | 91 622 | 17% | 61% |
| Public Transport Network Grant | 6 445 848 | (2 056 778) | 4 389 070 | 4 389 070 | 3 776 341 | 4 422 301 | 86% | 101% |
| Rural Road Assets Management Systems Grant | 108 436 | - | 108 436 | 108 436 | 70 249 | 63 170 | 65% | 58% |
| Expanded Public Works Programme Integrated Grant (Municipality) | 748 039 | - | 748 039 | 748 039 | 674 472 | 733 694 | 90% | 98% |
| Integrated National Electrification Programme (Municipal) Grant | 1 858 752 | (500 000) | 1 358 752 | 1 358 752 | 1 086 885 | 995 763 | 80% | 73% |
| Energy Efficiency and Demand Side Management (Municipal) Grant | 217 994 | (21 799) | 196 195 | 196 195 | 138 374 | 103 310 | 71% | 53% |

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

| R thousands | Division of revenue Act No. 4 of 2020 | Adjustments | Total Available 2020/21 | Transferred to municipalities for direct grants | YTD Expenditure | | % Spent | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Actual expenditure National Department | Actual expenditure by municipalities | Actual expenditure National Department | Actual expenditure by municipalities |
| Regional Bulk Infrastructure Grant (Schedule 5B) | 2 005 605 | - | 2 005 605 | 2 005 605 | 1 293 192 | 1 212 693 | 64% | 60% |
| Water Services Infrastructure Grant (Schedule 5B) | 3 445 165 | (77 608) | 3 367 557 | 3 367 557 | 2 541 348 | 3 072 574 | 75% | 91% |
| Municipal Emergency Housing Grant | 158 792 | - | 158 792 | 166 261 | 145 148 | 22 679 | 87% | 14% |
| Municipal Infrastructure Grant | 14 671 101 | (180 036) | 14 491 065 | 14 491 065 | 13 097 894 | 16 219 521 | 90% | 112% |
| Sub-Total | 32 341 550 | (2 941 018) | 29 400 532 | 29 402 179 | 24 716 887 | 28 620 092 | 84% | 97% |
| Urban Settlement Development Grant | 11 281 871 | (709 726) | 10 572 145 | 10 572 145 | | 8 524 106 | 0% | 81% |
| **Total** | **43 623 421** | **(3 650 744)** | **39 972 677** | **39 974 324** | **24 716 887** | **37 144 198** | **62%** | **93%** |

**Source: Q4 Section 71 figures National Treasury Local Government Database**

# OTHER ISSUES IMPACTING ON THE FINANCIAL HEALTH OF A MUNICIPALITY | CONT.

133. On aggregate, municipalities spent a total expenditure of R37.1 billion, representing 93.0 per cent of the direct transfers of R39.9 billion. The total spending on the Urban Settlements Development Grant, which is transferred only to metros, was fairly at 81 per cent of the direct transfers.

## UNDERFUNDED MANDATES IN THE HEALTH AND LIBRARY SERVICES

134. Underfunded mandates are another challenge that contributes to the local government's financial problems. These underfunded mandates represent the phenomenon of governing from the centre. Provincial and municipal governments are burdened with mandates by the national government.

135. Generally, underfunded mandates occur when the national or provincial government transfer functions to local government and provide municipalities with insufficient funds than they spent on providing services, forcing them to pay the additional costs, which they mostly cannot afford.

136. The following are some of the examples of the existence of underfunded mandates in South Africa:

- Health service (primary health care): Municipalities cite primary health care as an underfunded mandate. Although the Constitution lists municipal health services as a Schedule 4B function, municipalities perform this function as per the service level agreements which provide for inadequate funding arrangements; and
- Libraries other than national libraries are a Schedule 5A functional area that falls within the exclusive legislative competence of a province. However, municipalities perform this function on behalf of the provincial government. Provinces are involved in this functional area, but only to a limited extent.

# MUNICIPALITIES IN FINANCIAL DISTRESS

137. 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 that they may experience. Section 154(1) of the Constitution requires the national government 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 in the affairs of a municipality.

138. 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.

139. 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.

140. 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.

141. 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.

142. There are also structural changes in the economy that impacts on a sustainable municipality, such as slow economic growth and social unrest. In order to address these challenges, a municipality is required to review its priorities to align spending objectives with revenue levels.

143. 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

144. Depending on the nature and severity of the issues, 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 Report, and criteria outlined in Section 138 and 140 of the MFMA.

# MUNICIPALITIES IN FINANCIAL DISTRESS | CONT.

145. 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.

146. 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.

147. According to the key financial indicators used for this report, 165 municipalities were identified as being in financial distress in 2020/21 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 (2016/17 to 2020/21) and the type of interventions implemented in those municipalities. From the list, the following observations are made:
   - 14 of the 41 municipalities that received unqualified audit opinion with no findings are classified as financially distressed;
   - Financial distress was considered to be present in 57 of the 100 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, 59 are in financial distress; and
   - 15 of the 25 municipalities that received disclaimers are financially distressed.

148. In addition, there are 43 municipalities that are in financial and service delivery crisis. These municipalities are characterised by political infighting, weak council oversight, serious financial problems and service delivery failures.

## HOW WERE THE 43 MUNICIPALITIES IDENTIFIED?

149. The National Government was, for the first time, ordered by a division of the High Court to intervene in Lekwa Local Municipality (Mpumalanga). This intervention was a result of an ongoing financial and service delivery crisis in the municipality. The National Treasury was then directed by His Excellency, President Cyril Ramaphosa, to identify municipalities that are in a similar situation to Lekwa.

150. To ensure that there was consistency in addressing municipal failures, the National Treasury in consultation with CoGTA undertook a process to identify municipalities that are in a crisis using four pillars of sustainability i.e., financial health, service delivery, institutional arrangement and governance. Based on this assessment, 43 municipalities were identified to be in financial and service delivery crisis.

151. In addition, there were various discussions between the treasuries and CoGTAs to determine the most appropriate mode of intervention in the 43 municipalities. Following these discussions, S139(5) of the Constitution has been recommended in most of the 43 municipalities as the most appropriate approach to address the current crisis. As a result, the Minister of Finance issued directives to the respective Provincial Premiers outlining the mode of intervention that will be invoked in each of the 43.

152. The National Treasury in collaboration with the National CoGTA, has already begun with councilors induction training of the 43 municipalities to assist the new Municipal Council to better understand the S139(5) intervention and how it will benefit the municipality.

# MUNICIPALITIES IN FINANCIAL DISTRESS | CONT.

153. A municipality that is part of the 43 but currently subject to any discretionary interventions under S139(1) of the Constitution will 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, which the Provincial Executive then imposes on the municipality.

## INTERVENTIONS IN MUNICIPALITIES

154. 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. The role of the province is to assess the nature of the problem, and to respond in terms of the relevant sub-section of Section 139 of the Constitution as follows:

- Section 139(1) should be invoked in response to a "failure to fulfil an executive obligation": these are discretionary interventions;
- Section 139(4) should be invoked in response to a failure by Council to pass a budget or budget related measures. This refers to a failure to fulfil a legislative function and is a mandatory intervention; and
- Section 139(5) should be invoked in response to a financial crisis, specifically a material breach of financial obligations or ability to provide basic services: these are also mandatory interventions.

155. Sections 139(4) and (5) of the Constitution are regulated by Chapter 13 of the MFMA. Chapter 13 also addresses the requirements for discretionary interventions that require the development of a financial recovery plan. Any mandatory intervention invoked in a municipality must be referred to the Municipal Finance Recovery Services (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.

156. National Treasury commissioned a study to review the implementation of Section 139 of the Constitution and Chapter 13 of the MFMA. The study concluded that intervention outcomes have been very different from what was intended by the legislation. The processes required for serious financial problems and financial crises in municipalities are simply not being followed. There have been many repeat interventions in terms of Section 139 (1) of the Constitution. In the last three years, more than 60 per cent of interventions were in municipalities that already had at least one prior intervention. However, despite clear evidence of serious financial problems, provinces are not taking the actions required by the Constitution. Most interventions have been too late wherein many municipalities have experienced wide-ranging financial problems for years before an intervention. Beyond the requirement for support in terms of section 154 of the Constitution (which is not an "intervention", and a general obligation of the national and provincial spheres to local government), the focus of formal provincial interventions has often been on quick and visible wins, rather than the detailed diagnostics and financial recovery plan required by Chapter 13 the MFMA.

157. Some provinces have failed to intervene at all when municipalities have serious problems, while others have intervened primarily in terms of Section 139(1) of the Constitution, rather than the sections intended to deal with financial problems. This is despite the clear legal provisions that invoking Section 139(5) is both mandatory and will supersede all other interventions and/ or support measures.

# MUNICIPALITIES IN FINANCIAL DISTRESS | CONT.

158. As indicated in the previous report, the MFRS Unit developed and implemented a new phased strategic approach that guides the development of financial recovery plans in municipalities. This approach consists of three phases namely, Rescue Phase, Stabilisation Phase and Sustainability Phase.

159. Under this revised approach, there are 38 interventions in terms of Section 139 of the Constitution that the MFRS unit has supported in 2020/21. Most of these interventions were in North West (8 municipalities) followed by Free State and Eastern Cape (6 municipalities each), Mpumalanga Province (5 municipalities), Northern Cape Province (4 municipalities), Limpopo (3 municipalities), Gauteng, Western Cape and KwaZulu-Natal (2 municipalities each). In addition, the unit is also supporting 11 municipalities with voluntary FRPs.

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY

160. 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.

161. 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.

162. 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 (*m*SCOA)

163. *m*SCOA is one of the key game changers to address municipal performance failures. The institutionalisation of *m*SCOA also remains a concern as the reform is still seen largely as a finance reform and not an organisation reform. By now, municipalities should:
    - Have acquired and upgraded the hardware, software and licences required to be and remain *m*SCOA compliant;
    - Budget, transact and report on all six (6) legislated *m*SCOA segments and directly on the core financial system and submit the required data strings directly from this system to the local government portal;
    - Lock down the budget adopted by Council on the core municipal financial system before submitting the budget (ORGB) data string to the local government portal;
    - Closed the core financial system at month-end as required in terms of the MFMA before submitting the monthly data string to the local government portal; and
    - Generate the regulated MBRR Schedules (A, B, C) directly from the core municipal financial systems.

164. The manual correction of data strings by municipal officials or system providers are not allowed in terms of the *m*SCOA Regulations. Where a municipality makes use of a stand-alone 3rd party sub-system or a system provider that has entered into an agreement or consortium for the provision of certain functionality with a 3rd party sub-system provider, such a 3rd party sub-system should host the relevant part of the *m*SCOA chart to seamlessly integrate with the core financial system without manual intervention.

165. All municipalities have implemented *m*SCOA but the level of implementation differs. Ninety-five per cent of the budget and section 71 data strings are being submitted, but the credibility of the data strings needs further attention. Several municipalities are still budgeting, transacting and reporting outside of the core systems in excel spreadsheets and then capture the information on the system at a later stage. Municipalities do not openly admit to these poor practices, but it is evident when the financial performance reported to Council differ from the information that is submitted to national and provincial treasuries and the high levels of unauthorised expenditure reported by the Auditor-General (when budgeting, transacting and reporting are done outside of the system and captured at a later stage, the built-in controls in the core system to prevent unauthorised expenditure are not triggered).

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

166. The national and provincial treasuries have had several meetings with all key municipal financial system providers during which these system providers had to demonstrate the functionality available in the systems. From these engagements it was evident that most of the municipal systems available in the market comply with the system requirements of the *m*SCOA Regulations.

167. The reasons why municipalities are not fully using their core financial systems include:

- Lack in capacity of municipal officials to use the financial system, use the *m*SCOA chart correctly, apply basic accounting principles and do balance sheet budgeting;
- Unwillingness of municipalities to lock the budget on the system before transactions take place and to properly close off month-end processes as changes cannot be made to the figures on the system once the budget and month-end has been locked;
- Resistance to change previous financial management practices and adopt *m*SCOA and its transparency;
- Deliberate circumvention of the internal controls built-in on the systems to prevent unauthorised expenditure and commit acts of fraud and corruption;
- Budgetary constraints to upgrade and maintain the ICT environment (servers, hardware, software, updated modules and versions of the system, and licenses);
- Connectivity problems at rural municipalities impact on the use of web-based systems and the submission of data strings to the Local Government upload portal;
- The level of customisation in the system functionality required by Metros and large secondary cities delay system development;
- Municipalities are dependent on the system vendors and do not take ownership of their system/the data captured on it;
- Municipalities do not perform the responsibilities required from them (i.e. data cleansing, user testing, transaction capturing, etc.) when migrating to a new system, resulting in delays to implement the core system; and
- Non-payment of system vendors due to contractual disagreements result in vendors suspending support.

168. There is a need for targeted support to municipalities to improve data string credibility and the implementation of *m*SCOA. Technical support and training are provided to municipalities to address any implementation challenges. Guidance on the recording of transactions in *m*SCOA is also provided in the form of *m*SCOA and MFMA circulars. The respective treasuries are responsible for analysing the credibility of the data strings and provide feedback to municipalities on these analyses.

## INTRODUCTION AND IMPLEMENTATION OF THE GOMUNI PORTAL

169. The MFMA laid the foundation for the development of a comprehensive reporting system for local government to collect and store information required in terms of legislation. A sound reporting system facilitates transparency, better in-year management and oversight of budgets, making it an early warning mechanism for councils to improve municipal performance. With the promulgation of *m*SCOA, municipalities submit *m*SCOA data strings to report on their financial and non-financial performance and legislated documents to the National Treasury Local Government

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

Database and Reporting System (LGDRS). To improve the methodology of reporting and uploading of financial and non-financial information, the National Treasury have provided access to all 257 municipalities to the GoMuni platform from 1 April 2022. Municipalities must submit their reporting to the GoMuni – GoUploads portal. Through the GoMuni portal, every municipality now have access to several automated reports that can be drawn by the municipalities to see how their data strings convert into the reporting used by external stakeholders.

170. This will enhance the credibility of data submitted to the LGDRS as municipalities can review their validation errors directly on the GoMuni, extract automated reports on budget, actuals and segmental reporting, verify and correct the accuracy of the data submitted prior to the publication thereof. Since 2020, all National Treasury publications are sourced from *m*SCOA data strings submitted by municipalities. However, municipalities are cautioned that the credibility and accuracy of the data strings should be verified prior to submission and the financial system must be locked at the end of the relevant period (month/year). Municipalities may not open closed periods to correct errors. Errors can only be corrected in the next open period.

## MUNICIPAL FINANCE IMPROVEMENT PROGRAMME (MFIP IIIX)

171. The third three-year phase of the programme, MFIP III, commenced on 1 April 2017 and ended on 31 March 2020. To sustain the momentum generated during MFIP III 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). The project is 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 2021, the MFIP procured and deployed 73 technical advisors (TAs) at the following institutions and work streams:

- Direct capacity support to municipal budget and treasury offices in general financial management: 22 TAs were deployed supporting 43 municipalities across the nine provinces;
- Direct capacity support to the municipal finance units of provincial treasuries: 31 TAs were placed. Specialist support was offered in the following areas: supply chain management (eight advisors), the Municipal Standard Chart of Accounts or *m*SCOA (four advisors), accounting and audit support (four advisors), asset management (eight advisors) and revenue management (seven advisors);
- Direct capacity support to National Treasury Chief Directorates – Local Government Budget Analysis, Municipal Finance Management Act Implementation and the OCPO: 18 TAs were placed, providing specialist support in following areas: accounting and audit (three advisors), budgeting and financial management (one advisor), the Municipal Financial Recovery Service (nine advisors), *m*SCOA (three advisors and one administrator), OCPO (one advisor) and local government budget and expenditure review (one advisor); and
- One TA was procured to provide knowledge and information management capacity support to the officials in the MFIP project management unit.

172. 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 2020/21 financial year, 1 104 capacity building sessions were

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

held, involving 3 954 officials. The municipal advisors conducted 469 capacity building sessions, reaching 1 017 officials across 43 municipalities. The MFIP specialists conducted 635 capacity building sessions with 2 937 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), *m*SCOA and the Municipal Financial Recovery Service (MFRS).

173. The programme also supported the procurement and coordination of ad-hoc projects which include the compilation of the 2019 local government budget and expenditure review, the 12-month Municipal Financial Management Programme (NQF 6) which registered 115 nominated officials from NT and PTs with LGSETA, and the development of Municipal Socio-Economic Profiles for 8 provinces, excluding Western Cape Province.

174. The programme has made substantial progress since the implementation of MFIP IIIx and various measures have been implemented to improve the overall effectiveness and efficiency of the programme.

## CITIES SUPPORT PROGRAMME (CSP)

175. 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.

176. In 2020, The CSP initiated a seminar series targeting the leadership in the metropolitan cities, with a focus on building Change Capable Leaders. The Leadership Seminars are a series of engagements that deliberated on the leadership challenges facing cities today and are collectively aimed at contributing to the public discourse on city leadership. The first seminar was held in October 2020 and focused on the context and environment within which the city leadership are operating especially focusing on the impact of COVID-19 on urbanisation and how the cities are managing the new normal. The second leadership seminar was held in March 2021 and was aimed at the senior management of the metropolitan municipalities, focusing on building agency, shared leadership experiences and looking for innovation and impact in addressing the challenges in the city environment.

177. The built environment performance plans (BEPPs) for the 2020/21 MTREF were assessed in the latter half of 2020 and all cities showed improvement in the quality of BEPPs and were able to determine how the lessons learnt over the last seven years would be used to reform their planning processes and plans. BEPPs will now longer be a requirement in the planning system, but the BEPP approach, content, process and practice will continue in other planning processes and plans. With the term-of-office planning being reformed, attention turned to reviewing the local government longer-term planning. Work on the review started in September 2020 and continued into 2021.

178. In the 2020/21 financial year, the support on programme and project preparation was consolidated. In discussions with cities and the rest of government, it has become increasingly clear that the primary reason for infrastructure under-investment is limited availability of well-prepared, shovel-ready and bankable investment programmes and projects.

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

In May 2020, a workshop on 'supporting inclusive and resilient growth through infrastructure delivery in cities' was convened with the cities. Together with the Neighbourhood Development Partnership Programme ongoing support is being provided to the cities to strengthen their programme and project preparation capabilities.

179. In March 2020, the Intergovernmental Relations Division of the National Treasury as the custodian of the CSP signed a partnership agreement with the Development Action Group (DAG) and Lincoln Institute of Land Policy (LiLP). The partnership arrangement relates to the implementation of a three-year programme on Land Value Capture, which aims to strengthen the capability of metropolitan governments to implement innovative Land Value Capture tools and strategies efficiently and effectively. Simultaneously, the programme seeks to build capacity among built environment practitioners and civic organisations to influence institutional, regulatory, and other procedural changes essential for the successful implementation of Land Value Capture tools and strategies.

## LONG TERM FINANCIAL MODEL (LTFM)

180. During the period under review, the CSP concluded its support to three pilot metropolitan municipalities being City of Tshwane, eThekwini and Nelson Mandela Bay, with long-term financial models and long-term financial strategies to support the long-term financial sustainability of these metropolitan municipalities. The support included:
   - Development of long-term financial models for the three cities;
   - Development of COVID-19 scenarios;
   - Assisting the cities to develop a long-term financial strategy adjusted for the most likely COVID-19 scenario;
   - Initiating institutionalization of the LTFM to enhance medium to longer term financial planning as envisioned by National Treasury;
   - Evaluation of the Long-Term Financial Model developed for the pilot municipalities; and
   - Procurement to undertake the development of long-term financial strategies for the other five metros.

181. Although some municipalities have long term financial models (LTFM), these models 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. The LTFM 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.

182. As part of the reform, municipalities are required to develop 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. This 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.

183. Apart from the three piloting metros, the National Treasury has also introduced this reform in other three metropolitan municipalities (Buffalo City, City of Ekurhuleni, and Mangaung) and some of the Intermediate City municipalities during Phase I (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).

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

## WATER RESILIENCE

184. In April 2020, CSP convened city water managers on the state of water businesses, in the face of anticipated impacts from the pandemic and the associated lockdown. City water managers requested that CSP undertake a rapid diagnostic assessment on the state of the city water business and anticipated impacts from the pandemic and lockdown. The diagnostic phase of the project has concluded with presentations being made to executive management of eThekwini and Mangaung and inputs at city benchmarking engagements with Tshwane, Mangaung, Nelson Mandela Bay and City of Johannesburg. This has resulted in the identification of opportunities to take forward for implementation support in the next phase of the project. Presentations were also made at the City Budget Forum (CBF) and other key policy fora. A city support and policy reform agenda for the CSP was set out in response to the diagnostic.

185. Five cities subsequently requested a package of support from the CSP to support turnarounds of city water businesses, including the City of Cape Town, eThekwini, Nelson Mandela Bay, Buffalo City and Mangaung. Support commenced the development of a strategy for a water business turnaround, with ongoing support for the implementation of the strategy and technical assistance on specific priority areas identified.

186. The CSP convened a meeting of the heads of the water departments of the eight cities on 24 March 2021. The city water managers gave a clear mandate to the CSP and to SALGA to reconvene the City Water Managers' Forum as a platform for learning, building leadership and advocacy to harness the collective voice of water managers in the policy space. The desired impact from the City Water Managers Forum is to ensure more effective managers, knowledge translated into practise, a supportive policy environment, and ultimately, more effective, efficient and sustainable service delivery.

187. A number of enabling environment reforms are being pursued in support of City Water Business turnarounds, including to strengthen transparency on the financial and operational performance of the water business, to strengthen ability to engage the private sector on turnarounds, and progress on a number of procurement reforms.

## UNDERFUNDED MANDATE OF THE HEALTH FUNCTION AND LIBRARY SERVICES IN METROPOLITAN MUNICIPALITIES

188. Over the past eight years, many attempts have been made to comprehend the nature and extent of underfunded mandates of the social services undertaken by metropolitan municipalities on an agency basis. There was a consensus that the function was unfunded throughout this time. This interpretation was derived from the notion that if a mandate was not initially a local government function and did not have clear funding to perform the function, municipalities would consider the mandate as unfunded.

189. In the beginning, efforts to comprehend unfunded mandates focused on how much money local governments invested in a given function in relation to the financing available within the provinces. The outcomes of this effort demonstrated the provincial financial gaps in the function. The metros have been critical about the National Treasury's persistent disregard for these underfunded mandates for a several years as they threatened the sustainability of local government finances. In 2018, the National Treasury started the investigation to determine the extent to which these functions have contributed to the destabilization of metro finances.

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

190. The three Gauteng Metros were used as proxies during 2019 for some preliminary work. The aim was to clarify the problem statement and identify related problems. These engagements led to the realization that the health function was not unfunded in any way, but rather underfunded. The transfer of funds between the metros and Gauteng province within the context of the Service Level Agreements (SLA) provided evidence for this. These funds were meant to support primary health care services as well as the rollout of HIV/AIDS.

191. Some of the provinces have already started discussions with the provincial department of health to transfer the health function to the province. For instance, the Kwazulu-Natal provincial treasury initiated a process to provincialize the health services function as a way of resolving the governance and financial challenges.

## REVENUE MANAGEMENT SUPPORT

192. The National Treasury is extending its support to enhance local government revenue management. At the core of sustainable service delivery is a funded budget underpinned by credible budget assumptions, based on realistically anticipated revenue, and limiting expenditure to what is affordable. As part of revenue support initiatives, the existing budget funding methodology and related dashboard reporting are being strengthened to improve the assessment and understanding of local government funding of the budget and assessment feedback to municipalities.

193. As part of strengthening budget assumptions, socio-economic profiling of all 257 municipalities was completed and is available on the National Treasury website. To better understand the viability of the economic revenue base across municipalities, further economic and viability benchmark profiling was undertaken of municipalities across four (4) provinces, respectively in Gauteng, North West, Eastern Cape and Northern Cape, also indicating the relation of municipal viability with leadership, the economy and other factors.

194. The National Treasury's assessment of the revenue value chain in a selection of municipalities indicates that basic financial management best practises are often lacking and have a direct impact on the completeness of the local revenue base. This informed the development of a reconciliation tool to assist and guide municipalities to monthly reconcile the general valuation roll (GVR)/ supplementary GVR(s) approved by council with the financial billing system. This include reconciling the alignment of property values and prescribed municipal property rates categories set out in the GVR.

195. The National Treasury also undertook revenue assessments in 43 municipalities considered to be in crisis towards informing and/ or strengthening financial recovery plans for these municipalities. The budget assessment of the 43 municipalities in crisis revealed that generally most of these municipalities are not generating adequate cash from their operations to sustain their operational requirements, implementation of the capital budget and provision to meet all liabilities and working capital requirement at financial year-end. In this context, the National Treasury developed a tariff tool that facilitated these assessments as part of oversight and to strengthen the cost-reflectiveness of municipal tariffs. The tool is available to municipalities as part of the budget funding assessment tools.

196. The revenue support also included the deployment of specialists nationally and across six (6) provinces to drive and support these revenue enhancement initiatives and to build capacity in provincial treasuries to enhance their revenue related oversight and support. This included extending training on the tools to provincial treasuries and municipalities to facilitate embrace and implement the tools.

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

## MFMA CIRCULAR NO. 88

197. 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, CoGTA and the 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 (USDG) and now relies on MFMA Circular No. 88 data for performance monitoring.

198. The 3rd Addendum Update to MFMA Circular No. 88 (2021) has further advanced the piloting of the reform across local government. The latest circular update has incorporated financial management into a singular, differentially applied set of indicators for all of local government covering 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.

199. In 2020/21, intermediary cities, districts and local municipalities began planning for and reporting against differentiated sub-sets of MFMA Circular No. 88 indicators. Despite this progress, more than half of municipalities are regularly reporting on Circular No. 88 to provincial CoGTAs, which remains focused in providing further technical and capacity support to provinces.

200. As part of the coordination of the reform, MFMA Circular No. 88 indicators now form the foundational municipal performance monitoring component of the District Development Model (DDM)'s Integrated Monitoring and Evaluation Framework. This contributes to complementary and mutually reinforcing reforms in terms of local government performance information and data sharing.

201. Ultimately, MFMA Circular No. 88 is now one step closer to institutionalising a differentially applied set of indicators for local government. Upon the achievement of a common monitoring and reporting standard in relation to the indicators, it is expected that they will be regulated by CoGTA through an update of the Planning and Performance Management Regulations of 2001, issued in terms of the Municipal Systems Act.

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

## MUNICIPAL SOCIO-ECONOMIC PROFILES

202. In October 2020, the National Treasury commissioned a project to develop a socio-economic profile for each municipality in eight of the nine provinces in South Africa. The Western Cape Province was excluded from this project since the Western Cape Provincial Treasury initiated a similar process a few years ago and annually updates the socio-economic profile for each municipality in the Province. The project was awarded to Urban Econ Development Economists and was managed via a Project Reference Group (PRG) consisting of representatives from all nine Provincial Treasuries. The PRG was established to oversee the implementation of the project and to ensure alignment with provincial requirements.

203. The objectives of the project were:

- To collect and analyse data from existing government departments and official data sources for the purposes of compiling SEPs for municipalities;
- To identify and analyse additional socio-economic data from reputable sources i.e. private data service providers including the management of the database subscriptions;
- To address data discrepancies to ensure data integrity and consistency;
- To define a data management plan for data collection and analysis including a workflow to facilitate a standardised manner for the compilation and narration of the MSEPs;
- To create and manage a central repository for all data sources identified as part of the project to allow for ease of access to the socio-economic data across all the municipalities;
- To compile 227 MSEPs with infographics for a visually compelling communication of the data per local and metropolitan municipality, district and province;
- To compile a consolidated report which provides a provincial and national view on social economic factors;
- To compile a capacity building plan for skills transfer to National and Provincial Treasury officials; and
- To facilitate provincial workshops for provincial and municipal officials to present the municipal-specific SEP approach, methodology and results, and to create awareness of the profiles and their use amongst relevant stakeholders.

204. MSEPs will provide information on structural issues that may impede a municipality's ability to deliver services. It will also identify any risks to financial sustainability and identify opportunities to improve efficiencies at a macro level. From a policy perspective, MSEPs will be extremely useful to the national and provincial treasuries in the decision-making of resource allocation, support programmes and interventions. In addition, it will assist in the annual municipal budget assessment process by providing a deeper understanding of the structural issues that must be considered in the determination of funded or unfunded budgets.

## SYSTEM OF CAPACITY BUILDING FOR LOCAL GOVERNMENT

205. 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. According to the Auditor General's report municipalities spent over R1.3 billion on financial reporting consultants in 2020/21.

# SUPPORT AND REFORMS TO MUNICIPALITIES PROVIDED BY THE NATIONAL TREASURY | CONT.

206. National government provides a range of support and resources to help municipalities to build capacity. In 2021, the National Treasury reviewed the system of capacity-building for local government. It was discovered that the focus should move from capacity building to a broader measure of developing capability. The review indicated that although capacity is directly related to individual improvements, such as skill development, measures of capability take into consideration a range of factors, such as the environment in which the individual works. This has implications on how the state designs support and the resources available to local governments. Capacity-building programmes often fail because the problem is inadequately diagnosed, and there is a fragmented approach to building capacity.

207. Substantive changes are required to improve municipal capabilities. The review proposed a new framework to build a capable local government by improving the current system incrementally and identifying pilot sites for innovation and experimentation. Although the review has implications for all of government, the National Treasury plans to commit to the following main action areas:

- Advocacy for a reorientation towards the Capability Development Problem-Led (CDPL) framework approach by making the review widely available to all spheres of the government and the public and engaging with CoGTA in any updates of the National Capacity Building Framework for Local Government and capacity building forum;
- Introduction of more specific capacity building programme expenditure and destination reporting measures, by initially working with the Provincial Treasuries and Municipal Treasury departments;
- Reviewing and streamlining of current capacity building and capability development data collection received from and about municipalities;
- Investigate the streamlining of capacity building conditional grants to achieve a more efficient structure;
- Identification and implementation of learning opportunities with a view to suggesting systemic improvements to the system on a once-off and ongoing basis; and
- Investigation of the implications of the establishment of one or more CDPL Innovation Labs within the District Development Model (DDM) initiative to engage with municipalities and relevant stakeholders in the recommended CDPL approach with a view to diagnosing problems, appropriate capability building solutions and identifying lessons that can be incorporated into the system.

# CONCLUDING REMARKS

208. Municipalities are operating in a difficult environment, with continued low economic growth and rising fiscal risk. There are a number of external factors that has brought serious disruptions to the economy and society. Even with the economy now recovering, local government is still having difficulty overcoming challenges to building a resilient environment.

209. The local government financial management system in South Africa has undergone a number of reforms and made significant progress. It is recognised on a global scale that South Africa has some of the best financial management legislation. The introduction of the multi-year allocations, continuous changes to the local government equitable share formula, and implementation of reforms has brought certainty and consistency into the fiscal system. Given the context of the fundamental reforms of local government and the wide mandate of developmental local government, some challenges still remain in implementing the new system.

210. The finances of a few municipalities were able to withstand the pressure brought on by the COVID-19 pandemic in 2020/21 whilst many other municipalities regressed to a financially distressed position. Despite the financial sustainability in metros, Moody's rating agency has downgraded most cities' credit status due to declined revenue collection and significant pressures on liquidity.

211. This year's report identified that there are 165 municipalities that are in financial distress. Additionally, there are 43 municipalities that are in both financial and service delivery crises. It is therefore concluded that the state of municipal finances continues to worsen. **A significant number of municipalities continued to perform poorly with no sign of improvement**. At an aggregate level:

- **There are municipalities that closed their year with negative cash and cash equivalents.** A negative cash balance is a strong indicator that there are severe underlying financial problems;
- **Municipalities continue to have insufficient cash coverage to fund their operations.** This means that municipalities have cash coverage ratio of below 1-3 months. A ratio below 1 month implies that a municipality is at a higher risk of defaulting on its debts;
- **Most municipalities do not have sufficient cash and investments to pay for current obligations (liquidity ratio).** This reflects that most short-term liabilities are not covered by the cash and investments;
- **It takes longer than 30 days for municipalities to collect debt from consumers after issuing the bill.** Some municipalities have demonstrated no effort to intensify their debt collection and credit control strategies;
- **Outstanding creditors are growing rapidly.** The declined collection rates and deteriorating cash flows led municipalities to many financial problems. Several municipalities have defaulted on bulk suppliers' accounts including paying workers' pension contributions to respective pension funds;
- **There are not enough current assets to pay short term liabilities in about half of the municipalities.** This indicates that most municipalities are unable to pay their current or short-term obligations and provide for a risk cover to enable them to continue operations at desired levels;
- **Few municipalities are in a state of insolvency.** A municipality is technically insolvent if its total liabilities exceed total assets. This means that a municipality might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets;
- **Unfunded budgets are a threat to municipal financial sustainability.** Most municipalities that adopted unfunded budgets found themselves in financial distress;
- **Municipal audit outcomes have regressed.** The overall audit outcomes for 2020/21 shows regression. This

# CONCLUDING REMARKS | CONT.

demonstrate a lack of commitment by municipal leadership and weak control environment to improve audit outcomes;

- **Inadequate spending on repairs and maintenance of infrastructure.** Municipalities are still underspending on repairs and maintenance. Underspending results in a steady deterioration in the quality and serviceability of municipal assets; and
- **Underinvesting on capital infrastructure.** This continues to undermine efforts to improve access to basic services to the people of South Africa, service reliability and local economic growth.

212. Many of the 165 municipalities that are in a "financial crisis" (as the term used in the Constitution and MFMA, requires mandatory provincial intervention in terms of Section 139(5) of the Constitution. It is known that some provinces have never intervened when municipalities experienced serious financial problems, while others have intervened primarily in terms of Section 139(1) of the Constitution, rather than the provisions meant to address financial problems. Initiatives by provincial governments to address municipal failures have been limited and to some extent, ineffective.

213. When a provincial government fails to intervene timeously in addressing a municipal financial crisis, there is greater opportunity for the national government to exercise its authority under Chapter 13 of the MFMA.

# ANNEXURE A1

**Municipalities in financial distress as at 30 June 2021** *(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

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.

## ANNEXURE A1: SOLGF REPORT 2020/21 - SUMMARY SHEET

| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| Eastern Cape | A | Buffalo City | BUF | Metro | - | Permanent | Permanent |
| Eastern Cape | A | Nelson Mandela Bay | NMA | Metro | - | Permanent | Permanent |
| Eastern Cape | B | Blue Crane Route | EC102 | Sarah Baartman | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Dr Beyers Naude | EC101 | Sarah Baartman | Financial Distress | Permanent | Acting |
| Eastern Cape | B | Kou-Kamma | EC109 | Sarah Baartman | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Kouga | EC108 | Sarah Baartman | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Makana | EC104 | Sarah Baartman | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Ndlambe | EC105 | Sarah Baartman | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Sundays River Valley | EC106 | Sarah Baartman | Financial Distress | Permanent | Permanent |
| Eastern Cape | C | Sarah Baartman | DC10 | Sarah Baartman | - | Permanent | Permanent |
| Eastern Cape | B | Amahlathi | EC124 | Amathole | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Great Kei | EC123 | Amathole | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Mbhashe | EC121 | Amathole | - | Permanent | Permanent |
| Eastern Cape | B | Mnquma | EC122 | Amathole | - | Permanent | Permanent |
| Eastern Cape | B | Ngqushwa | EC126 | Amathole | - | Permanent | Permanent |
| Eastern Cape | B | Raymond Mhlaba | EC129 | Amathole | Financial Distress | Permanent | Acting |
| Eastern Cape | C | Amathole | DC12 | Amathole | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Emalahleni (EC) | EC136 | Chris Hani | - | Permanent | Permanent |
| Eastern Cape | B | Engcobo | EC137 | Chris Hani | - | Permanent | Permanent |
| Eastern Cape | B | Enoch Mgijima | EC139 | Chris Hani | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Intsika Yethu | EC135 | Chris Hani | - | Acting | Permanent |
| Eastern Cape | B | Inxuba Yethemba | EC131 | Chris Hani | Financial Distress | Acting | Permanent |
| Eastern Cape | B | Sakhisizwe | EC138 | Chris Hani | Financial Distress | Permanent | Permanent |
| Eastern Cape | C | Chris Hani | DC13 | Chris Hani | Financial Distress | Permanent | Acting |
| Eastern Cape | B | Elundini | EC141 | Joe Gqabi | - | Permanent | Permanent |

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# ANNEXURE A1 | CONT.

| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| Eastern Cape | B | Senqu | EC142 | Joe Gqabi | - | Permanent | Permanent |
| Eastern Cape | B | Walter Sisulu | EC145 | Joe Gqabi | Financial Distress | Permanent | Permanent |
| Eastern Cape | C | Joe Gqabi | DC14 | Joe Gqabi | - | Permanent | Permanent |
| Eastern Cape | B | King Sabata Dalindyebo | EC157 | O .R. Tambo | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Mhlontlo | EC156 | O .R. Tambo | - | Acting | Permanent |
| Eastern Cape | B | Ngquza Hills | EC153 | O .R. Tambo | - | Acting | Permanent |
| Eastern Cape | B | Nyandeni | EC155 | O .R. Tambo | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Port St Johns | EC154 | O .R. Tambo | - | Permanent | Permanent |
| Eastern Cape | C | O R Tambo | DC15 | O .R. Tambo | Financial Distress | Acting | Permanent |
| Eastern Cape | B | Matatiele | EC441 | Alfred Nzo | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Ntabankulu | EC444 | Alfred Nzo | Financial Distress | Permanent | Permanent |
| Eastern Cape | B | Umzimvubu | EC442 | Alfred Nzo | - | Permanent | Permanent |
| Eastern Cape | B | Winnie Madikizela-Mandela | EC443 | Alfred Nzo | - | Permanent | Permanent |
| Eastern Cape | C | Alfred Nzo | DC44 | Alfred Nzo | - | Permanent | Permanent |
| Free State | A | Mangaung | MAN | Metro | Financial Distress | Acting | Acting |
| Free State | B | Kopanong | FS162 | Xhariep | Financial Distress | Acting | Permanent |
| Free State | B | Letsemeng | FS161 | Xhariep | Financial Distress | Permanent | Permanent |
| Free State | B | Mohokare | FS163 | Xhariep | Financial Distress | Acting | Permanent |
| Free State | C | Xhariep | DC16 | Xhariep | Financial Distress | Permanent | Permanent |
| Free State | B | Masilonyana | FS181 | Lejweleputswa | Financial Distress | Acting | Permanent |
| Free State | B | Matjhabeng | FS184 | Lejweleputswa | Financial Distress | Permanent | Permanent |
| Free State | B | Nala | FS185 | Lejweleputswa | Financial Distress | Acting | Permanent |
| Free State | B | Tokologo | FS182 | Lejweleputswa | Financial Distress | Acting | Permanent |
| Free State | B | Tswelopele | FS183 | Lejweleputswa | Financial Distress | Acting | Permanent |
| Free State | C | Lejweleputswa | DC18 | Lejweleputswa | - | Acting | Permanent |
| Free State | B | Dihlabeng | FS192 | Thabo Mofutsanyana | Financial Distress | Permanent | Acting |
| Free State | B | Maluti-a-Phofung | FS194 | Thabo Mofutsanyana | Financial Distress | Permanent | Permanent |
| Free State | B | Mantsopa | FS196 | Thabo Mofutsanyana | Financial Distress | Acting | Permanent |
| Free State | B | Nketoana | FS193 | Thabo Mofutsanyana | Financial Distress | Permanent | Acting |
| Free State | B | Phumelela | FS195 | Thabo Mofutsanyana | Financial Distress | Permanent | Permanent |
| Free State | B | Setsoto | FS191 | Thabo Mofutsanyana | Financial Distress | Acting | Permanent |
| Free State | C | Thabo Mofutsanyana | DC19 | Thabo Mofutsanyana | - | Permanent | Permanent |
| Free State | B | Mafube | FS205 | Fezile Dabi | Financial Distress | Permanent | Acting |
| Free State | B | Metsimaholo | FS204 | Fezile Dabi | Financial Distress | Permanent | Acting |
| Free State | B | Moqhaka | FS201 | Fezile Dabi | Financial Distress | Acting | Acting |
| Free State | B | Ngwathe | FS203 | Fezile Dabi | Financial Distress | Acting | Permanent |
| Free State | C | Fezile Dabi | DC20 | Fezile Dabi | - | Permanent | Permanent |
| Gauteng | A | City of Ekurhuleni | EKU | Metro | Financial Distress | Permanent | Permanent |
| Gauteng | A | City of Johannesburg | JHB | Metro | Financial Distress | Acting | Permanent |

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# ANNEXURE A1 | CONT.

| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| Gauteng | A | City of Tshwane | TSH | Metro | Financial Distress | Acting | Permanent |
| Gauteng | B | Emfuleni | GT421 | Sedibeng | Financial Distress | Permanent | Permanent |
| Gauteng | B | Lesedi | GT423 | Sedibeng | Financial Distress | Permanent | Acting |
| Gauteng | B | Midvaal | GT422 | Sedibeng | - | Acting | Permanent |
| Gauteng | C | Sedibeng | DC42 | Sedibeng | Financial Distress | Acting | Acting |
| Gauteng | B | Merafong City | GT484 | West Rand | Financial Distress | Acting | Acting |
| Gauteng | B | Mogale City | GT481 | West Rand | Financial Distress | Permanent | Acting |
| Gauteng | B | Rand West City | GT485 | West Rand | Financial Distress | Permanent | Acting |
| Gauteng | C | West Rand | DC48 | West Rand | Financial Distress | Acting | Permanent |
| Kwazulu-Natal | A | eThekwini | ETH | Metro | Financial Distress | Permanent | Acting |
| Kwazulu-Natal | B | Ray Nkonyeni | KZN216 | Ugu | Financial Distress | Permanent | Acting |
| Kwazulu-Natal | B | Umdoni | KZN212 | Ugu | - | Acting | Acting |
| Kwazulu-Natal | B | Umzumbe | KZN213 | Ugu | - | Permanent | Permanent |
| Kwazulu-Natal | B | uMuziwabantu | KZN214 | Ugu | - | Permanent | Permanent |
| Kwazulu-Natal | C | Ugu | DC21 | Ugu | Financial Distress | Permanent | Acting |
| Kwazulu-Natal | B | Impendle | KZN224 | uMgungundlovu | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Mkhambathini | KZN226 | uMgungundlovu | - | Permanent | Permanent |
| Kwazulu-Natal | B | Mpofana | KZN223 | uMgungundlovu | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Msunduzi | KZN225 | uMgungundlovu | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Richmond | KZN227 | uMgungundlovu | - | Permanent | Permanent |
| Kwazulu-Natal | B | uMngeni | KZN222 | uMgungundlovu | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | uMshwathi | KZN221 | uMgungundlovu | - | Permanent | Permanent |
| Kwazulu-Natal | C | uMgungundlovu | DC22 | uMgungundlovu | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Alfred Duma | KZN238 | Uthukela | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Inkosi Langalibalele | KZN237 | Uthukela | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Okhahlamba | KZN235 | Uthukela | Financial Distress | Permanent | Acting |
| Kwazulu-Natal | C | Uthukela | DC23 | Uthukela | Financial Distress | Permanent | Acting |
| Kwazulu-Natal | B | Endumeni | KZN241 | Umzinyathi | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Msinga | KZN244 | Umzinyathi | - | Permanent | Permanent |
| Kwazulu-Natal | B | Nquthu | KZN242 | Umzinyathi | Financial Distress | Acting | Acting |
| Kwazulu-Natal | B | Umvoti | KZN245 | Umzinyathi | - | Permanent | Permanent |
| Kwazulu-Natal | C | Umzinyathi | DC24 | Umzinyathi | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Dannhauser | KZN254 | Amajuba | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Emadlangeni | KZN253 | Amajuba | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Newcastle | KZN252 | Amajuba | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | C | Amajuba | DC25 | Amajuba | Financial Distress | Acting | Permanent |
| Kwazulu-Natal | B | Abaqulusi | KZN263 | Zululand | Financial Distress | Permanent | Acting |
| Kwazulu-Natal | B | Nongoma | KZN265 | Zululand | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Ulundi | KZN266 | Zululand | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | eDumbe | KZN261 | Zululand | Financial Distress | Acting | Acting |

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# ANNEXURE A1 | CONT.

| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| Kwazulu-Natal | B | uPhongolo | KZN262 | Zululand | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | C | Zululand | DC26 | Zululand | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Hlabisa Big Five | KZN276 | Umkhanyakude | - | Permanent | Permanent |
| Kwazulu-Natal | B | Jozini | KZN272 | Umkhanyakude | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Mtubatuba | KZN275 | Umkhanyakude | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Umhlabuyalingana | KZN271 | Umkhanyakude | - | Permanent | Permanent |
| Kwazulu-Natal | C | Umkhanyakude | DC27 | Umkhanyakude | - | Permanent | Acting |
| Kwazulu-Natal | B | Mfolozi | KZN281 | King Cetshwayo | - | Permanent | Permanent |
| Kwazulu-Natal | B | Mthonjaneni | KZN285 | King Cetshwayo | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Nkandla | KZN286 | King Cetshwayo | - | Permanent | Permanent |
| Kwazulu-Natal | B | uMhlathuze | KZN282 | King Cetshwayo | - | Permanent | Permanent |
| Kwazulu-Natal | B | uMlalazi | KZN284 | King Cetshwayo | - | Permanent | Permanent |
| Kwazulu-Natal | C | King Cetshwayo | DC28 | King Cetshwayo | - | Permanent | Permanent |
| Kwazulu-Natal | B | KwaDukuza | KZN292 | iLembe | - | Permanent | Permanent |
| Kwazulu-Natal | B | Mandeni | KZN291 | iLembe | - | Permanent | Permanent |
| Kwazulu-Natal | B | Maphumulo | KZN294 | iLembe | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Ndwedwe | KZN293 | iLembe | - | Permanent | Permanent |
| Kwazulu-Natal | C | iLembe | DC29 | iLembe | - | Permanent | Permanent |
| Kwazulu-Natal | B | Dr Nkosazana Dlamini Zuma | KZN436 | Harry Gwala | - | Permanent | Permanent |
| Kwazulu-Natal | B | Greater Kokstad | KZN433 | Harry Gwala | Financial Distress | Permanent | Permanent |
| Kwazulu-Natal | B | Ubuhlebezwe | KZN434 | Harry Gwala | - | Permanent | Permanent |
| Kwazulu-Natal | B | Umzimkhulu | KZN435 | Harry Gwala | - | Permanent | Permanent |
| Kwazulu-Natal | C | Harry Gwala | DC43 | Harry Gwala | Financial Distress | Permanent | Permanent |
| Limpopo | B | Ba-Phalaborwa | LIM334 | Mopani | Financial Distress | Acting | Acting |
| Limpopo | B | Greater Giyani | LIM331 | Mopani | Financial Distress | Permanent | Acting |
| Limpopo | B | Greater Letaba | LIM332 | Mopani | Financial Distress | Permanent | Permanent |
| Limpopo | B | Greater Tzaneen | LIM333 | Mopani | - | Permanent | Permanent |
| Limpopo | B | Maruleng | LIM335 | Mopani | Financial Distress | Acting | Acting |
| Limpopo | C | Mopani | DC33 | Mopani | Financial Distress | Permanent | Acting |
| Limpopo | B | Collins Chabane | LIM345 | Vhembe | - | Permanent | Permanent |
| Limpopo | B | Makhado | LIM344 | Vhembe | Financial Distress | Acting | Permanent |
| Limpopo | B | Musina | LIM341 | Vhembe | Financial Distress | Permanent | Permanent |
| Limpopo | B | Thulamela | LIM343 | Vhembe | - | Acting | Acting |
| Limpopo | C | Vhembe | DC34 | Vhembe | Financial Distress | Permanent | Permanent |
| Limpopo | B | Blouberg | LIM351 | Capricorn | - | Permanent | Permanent |
| Limpopo | B | Lepelle-Nkumpi | LIM355 | Capricorn | - | Acting | Permanent |
| Limpopo | B | Molemole | LIM353 | Capricorn | - | Permanent | Permanent |
| Limpopo | B | Polokwane | LIM354 | Capricorn | Financial Distress | Permanent | Permanent |
| Limpopo | C | Capricorn | DC35 | Capricorn | - | Acting | Permanent |

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# ANNEXURE A1 | CONT.

| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| Limpopo | B | Bela Bela | LIM366 | Waterberg | Financial Distress | Acting | Permanent |
| Limpopo | B | Lephalale | LIM362 | Waterberg | Financial Distress | Permanent | Permanent |
| Limpopo | B | Modimolle-Mookgopong | LIM368 | Waterberg | Financial Distress | Acting | Permanent |
| Limpopo | B | Mogalakwena | LIM367 | Waterberg | Financial Distress | Acting | Acting |
| Limpopo | B | Thabazimbi | LIM361 | Waterberg | Financial Distress | Acting | Acting |
| Limpopo | C | Waterberg | DC36 | Waterberg | - | Permanent | Permanent |
| Limpopo | B | Elias Motsoaledi | LIM472 | Sekhukhune | Financial Distress | Permanent | Acting |
| Limpopo | B | Ephraim Mogale | LIM471 | Sekhukhune | - | Acting | Acting |
| Limpopo | B | Makhuduthamaga | LIM473 | Sekhukhune | Financial Distress | Permanent | Acting |
| Limpopo | B | Tubatse Fetakgomo | LIM476 | Sekhukhune | - | Permanent | Permanent |
| Limpopo | C | Sekhukhune | DC47 | Sekhukhune | Financial Distress | Permanent | Acting |
| Mpumalanga | B | Albert Luthuli | MP301 | Gert Sibande | Financial Distress | Permanent | Permanent |
| Mpumalanga | B | Dipaleseng | MP306 | Gert Sibande | Financial Distress | Acting | Acting |
| Mpumalanga | B | Govan Mbeki | MP307 | Gert Sibande | Financial Distress | Acting | Acting |
| Mpumalanga | B | Lekwa | MP305 | Gert Sibande | Financial Distress | Permanent | Permanent |
| Mpumalanga | B | Mkhondo | MP303 | Gert Sibande | Financial Distress | Permanent | Permanent |
| Mpumalanga | B | Msukaligwa | MP302 | Gert Sibande | Financial Distress | Acting | Acting |
| Mpumalanga | B | Pixley Ka Seme (MP) | MP304 | Gert Sibande | - | Acting | Permanent |
| Mpumalanga | C | Gert Sibande | DC30 | Gert Sibande | - | Permanent | Permanent |
| Mpumalanga | B | Dr J.S. Moroka | MP316 | Nkangala | Financial Distress | Acting | Acting |
| Mpumalanga | B | Emakhazeni | MP314 | Nkangala | - | Permanent | Acting |
| Mpumalanga | B | Emalahleni (MP) | MP312 | Nkangala | Financial Distress | Permanent | Permanent |
| Mpumalanga | B | Steve Tshwete | MP313 | Nkangala | - | Acting | Permanent |
| Mpumalanga | B | Thembisile Hani | MP315 | Nkangala | Financial Distress | Permanent | Permanent |
| Mpumalanga | B | Victor Khanye | MP311 | Nkangala | Financial Distress | Acting | Permanent |
| Mpumalanga | C | Nkangala | DC31 | Nkangala | - | Permanent | Permanent |
| Mpumalanga | B | Bushbuckridge | MP325 | Ehlanzeni | - | Permanent | Acting |
| Mpumalanga | B | City of Mbombela | MP326 | Ehlanzeni | Financial Distress | Permanent | Permanent |
| Mpumalanga | B | Nkomazi | MP324 | Ehlanzeni | - | Permanent | Permanent |
| Mpumalanga | B | Thaba Chweu | MP321 | Ehlanzeni | Financial Distress | Permanent | Permanent |
| Mpumalanga | C | Ehlanzeni | DC32 | Ehlanzeni | - | Permanent | Permanent |
| North West | B | Kgetlengrivier | NW374 | Bojanala Platinum | Financial Distress | Permanent | Permanent |
| North West | B | Madibeng | NW372 | Bojanala Platinum | Financial Distress | Permanent | Permanent |
| North West | B | Moretele | NW371 | Bojanala Platinum | - | Permanent | Permanent |
| North West | B | Moses Kotane | NW375 | Bojanala Platinum | Financial Distress | Permanent | Permanent |
| North West | B | Rustenburg | NW373 | Bojanala Platinum | Financial Distress | Permanent | Permanent |
| North West | C | Bojanala Platinum | DC37 | Bojanala Platinum | - | Acting | Acting |
| North West | B | Ditsobotla | NW384 | Ngaka Modiri Molema | Financial Distress | Acting | Acting |
| North West | B | Mafikeng | NW383 | Ngaka Modiri Molema | Financial Distress | Permanent | Permanent |
| North West | B | Ramotshere Moiloa | NW385 | Ngaka Modiri Molema | Financial Distress | Permanent | Permanent |

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# ANNEXURE A1 | CONT.

| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| North West | B | Ratlou | NW381 | Ngaka Modiri Molema | - | Permanent | Acting |
| North West | B | Tswaing | NW382 | Ngaka Modiri Molema | Financial Distress | Permanent | Permanent |
| North West | C | Ngaka Modiri Molema | DC38 | Ngaka Modiri Molema | Financial Distress | Permanent | Permanent |
| North West | B | Greater Taung | NW394 | Dr Ruth Segomotsi Mompati | - | Permanent | Permanent |
| North West | B | Kagisano-Molopo | NW397 | Dr Ruth Segomotsi Mompati | Financial Distress | Permanent | Permanent |
| North West | B | Lekwa-Teemane | NW396 | Dr Ruth Segomotsi Mompati | Financial Distress | Permanent | Acting |
| North West | B | Mamusa | NW393 | Dr Ruth Segomotsi Mompati | Financial Distress | Acting | Acting |
| North West | B | Naledi (NW) | NW392 | Dr Ruth Segomotsi Mompati | Financial Distress | Permanent | Permanent |
| North West | C | Dr Ruth Segomotsi Mompati | DC39 | Dr Ruth Segomotsi Mompati | Financial Distress | Acting | Acting |
| North West | B | City of Matlosana | NW403 | Dr Kenneth Kaunda | Financial Distress | Acting | Acting |
| North West | B | J B Marks | NW405 | Dr Kenneth Kaunda | Financial Distress | Acting | Acting |
| North West | B | Maquassi Hills | NW404 | Dr Kenneth Kaunda | Financial Distress | Acting | Permanent |
| North West | C | Dr Kenneth Kaunda | DC40 | Dr Kenneth Kaunda | - | Permanent | Permanent |
| Northern Cape | B | Ga-Segonyana | NC452 | John Taolo Gaetsewe | - | Permanent | Permanent |
| Northern Cape | B | Gamagara | NC453 | John Taolo Gaetsewe | Financial Distress | Permanent | Acting |
| Northern Cape | B | Joe Morolong | NC451 | John Taolo Gaetsewe | - | Permanent | Permanent |
| Northern Cape | C | John Taolo Gaetsewe | DC45 | John Taolo Gaetsewe | - | Permanent | Permanent |
| Northern Cape | B | Hantam | NC065 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Kamiesberg | NC064 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Karoo Hoogland | NC066 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Khai-Ma | NC067 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Nama Khoi | NC062 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Richtersveld | NC061 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | C | Namakwa | DC6 | Namakwa | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Emthanjeni | NC073 | Pixley ka Seme (NC) | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Kareeberg | NC074 | Pixley ka Seme (NC) | - | Acting | Permanent |
| Northern Cape | B | Renosterberg | NC075 | Pixley ka Seme (NC) | Financial Distress | Acting | Acting |
| Northern Cape | B | Siyancuma | NC078 | Pixley ka Seme (NC) | Financial Distress | Acting | Permanent |
| Northern Cape | B | Siyathemba | NC077 | Pixley ka Seme (NC) | Financial Distress | Acting | Permanent |
| Northern Cape | B | Thembelihle | NC076 | Pixley ka Seme (NC) | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Ubuntu | NC071 | Pixley ka Seme (NC) | Financial Distress | Acting | Permanent |
| Northern Cape | B | Umsobomvu | NC072 | Pixley ka Seme (NC) | Financial Distress | Permanent | Permanent |
| Northern Cape | C | Pixley Ka Seme (NC) | DC7 | Pixley ka Seme (NC) | Financial Distress | Permanent | Permanent |
| Northern Cape | B | !Kai! Garib | NC082 | Z F Mgcawu | Financial Distress | Acting | Permanent |

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| STATE OF LOCAL GOVERNMENT FINANCE - AUDIT YEAR 2020/21 | | | | | DISTRESS INDICATOR | ACTING POSITION | |
|---|---|---|---|---|---|---|---|
| Province | Cat | Demarcation Description | Demarc Code | District | FINANCIAL DISTRESS | MM Vacancy | CFO Vacancy |
| Northern Cape | B | !Kheis | NC084 | Z F Mgcawu | Financial Distress | Acting | Permanent |
| Northern Cape | B | Dawid Kruiper | NC087 | Z F Mgcawu | Financial Distress | Permanent | Acting |
| Northern Cape | B | Kgatelopele | NC086 | Z F Mgcawu | Financial Distress | Acting | Permanent |
| Northern Cape | B | Tsantsabane | NC085 | Z F Mgcawu | Financial Distress | Permanent | Permanent |
| Northern Cape | C | Z F Mgcawu | DC8 | Z F Mgcawu | Financial Distress | Permanent | Acting |
| Northern Cape | B | Dikgatlong | NC092 | Frances Baard | Financial Distress | Acting | Permanent |
| Northern Cape | B | Magareng | NC093 | Frances Baard | Financial Distress | Permanent | Permanent |
| Northern Cape | B | Phokwane | NC094 | Frances Baard | Financial Distress | Acting | Acting |
| Northern Cape | B | Sol Plaatje | NC091 | Frances Baard | - | Permanent | Permanent |
| Northern Cape | C | Frances Baard | DC9 | Frances Baard | - | Permanent | Acting |
| Western Cape | A | Cape Town | CPT | Metro | - | Permanent | Permanent |
| Western Cape | B | Bergrivier | WC013 | West Coast | - | Permanent | Permanent |
| Western Cape | B | Cederberg | WC012 | West Coast | Financial Distress | Acting | Permanent |
| Western Cape | B | Matzikama | WC011 | West Coast | Financial Distress | Acting | Permanent |
| Western Cape | B | Saldanha Bay | WC014 | West Coast | - | Permanent | Permanent |
| Western Cape | B | Swartland | WC015 | West Coast | - | Permanent | Permanent |
| Western Cape | C | West Coast | DC1 | West Coast | Financial Distress | Permanent | Permanent |
| Western Cape | B | Breede Valley | WC025 | Cape Winelands | - | Permanent | Permanent |
| Western Cape | B | Drakenstein | WC023 | Cape Winelands | Financial Distress | Permanent | Permanent |
| Western Cape | B | Langeberg | WC026 | Cape Winelands | - | Permanent | Permanent |
| Western Cape | B | Stellenbosch | WC024 | Cape Winelands | Financial Distress | Permanent | Permanent |
| Western Cape | B | Witzenberg | WC022 | Cape Winelands | Financial Distress | Permanent | Permanent |
| Western Cape | C | Cape Winelands DM | DC2 | Cape Winelands | - | Permanent | Permanent |
| Western Cape | B | Cape Agulhas | WC033 | Overberg | - | Permanent | Permanent |
| Western Cape | B | Overstrand | WC032 | Overberg | Financial Distress | Permanent | Permanent |
| Western Cape | B | Swellendam | WC034 | Overberg | - | Permanent | Permanent |
| Western Cape | B | Theewaterskloof | WC031 | Overberg | - | Permanent | Permanent |
| Western Cape | C | Overberg | DC3 | Overberg | - | Permanent | Permanent |
| Western Cape | B | Bitou | WC047 | Garden Route | Financial Distress | Permanent | Permanent |
| Western Cape | B | George | WC044 | Garden Route | - | Acting | Permanent |
| Western Cape | B | Hessequa | WC042 | Garden Route | - | Permanent | Permanent |
| Western Cape | B | Kannaland | WC041 | Garden Route | Financial Distress | Acting | Permanent |
| Western Cape | B | Knysna | WC048 | Garden Route | Financial Distress | Acting | Permanent |
| Western Cape | B | Mossel Bay | WC043 | Garden Route | - | Acting | Permanent |
| Western Cape | B | Oudtshoorn | WC045 | Garden Route | - | Acting | Permanent |
| Western Cape | C | Eden | DC4 | Garden Route | - | Permanent | Permanent |
| Western Cape | B | Beaufort West | WC053 | Central Karoo | Financial Distress | Permanent | Permanent |
| Western Cape | B | Laingsburg | WC051 | Central Karoo | Financial Distress | Permanent | Permanent |
| Western Cape | B | Prince Albert | WC052 | Central Karoo | - | Permanent | Acting |
| Western Cape | C | Central Karoo | DC5 | Central Karoo | - | Permanent | Permanent |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2

**Analysis of municipalities in financial distress in municipalities** *(municipalities identified as being in financial distress in 2020/21 are also highlighted).*

This section indicates analysis of financial distress in 257 municipalities for the period 2011/12 to 2020/21.

## Period: 2011/12 to 2020/21

| Eastern Cape | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| 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 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| EC | B | EC102 | Blue Crane Route | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | Funded | | | |
| EC | B | EC104 | Makana | 1 | | | | | | | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | Funded | | S139(5) (a) | In Process |
| EC | B | EC105 | Ndlambe | 1 | | 1 | 1 | 1 | 1 | | | 1 | 1 | Qualified | | 1 | Funded | | | |
| EC | B | EC106 | Sundays River Valley | | 1 | | 1 | | 1 | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | Funded | | | |
| EC | B | EC108 | Kouga | 1 | | 1 | | | | 1 | | 1 | 1 | Unqualified - With findings | | 1 | Unfunded | | | |
| EC | B | EC109 | Kou-Kamma | 1 | 1 | | | 1 | 1 | 1 | | 1 | 1 | Unqualified - With findings | 1 | 1 | Funded | | | |
| EC | C | DC10 | Sarah Baartman | | | | | | | | | | | Unqualified - With findings | | | Funded | | | |

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# ANNEXURE A 2 | CONT.

## Eastern Cape

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| EC | B | EC121 | Mbhashe | | | | | | | 1 | | | | Unqualified - With findings | | | Funded | | | |
| EC | B | EC122 | Mnquma | 1 | | | 1 | 1 | 1 | 1 | 1 | 1 | | Unqualified - With findings | | 1 | Funded | | | |
| EC | B | EC123 | Great Kei | | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | Funded | | | |
| EC | B | EC124 | Amahlathi | | | 1 | 1 | | | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | Request - Voluntary |
| EC | B | EC126 | Ngqushwa | | | | | | 1 | | 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 | 1 | Adverse opinion | 1 | 1 | 1 | | S139(5) (a) | In Process |
| EC | B | EC131 | Inxuba Yethemba | 1 | 1 | | 1 | | | | 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 | 1 | 1 | | Qualified | 1 | 1 | Funded | | | |
| EC | B | EC137 | Engcobo | | | | | | | | | | | Qualified | | | Funded | | | |
| EC | B | EC138 | Sakhisizwe | | | | | | | | 1 | 1 | 1 | Qualified | | 1 | 1 | | | Request - Voluntary |
| EC | B | EC139 | Enoch Mgijima | | | | | | 1 | | 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) | |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2 | CONT.

## Eastern Cape

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| EC | B | EC141 | Elundini | | | | | | 1 | 1 | | | | Unqualified - Without findings | | 1 | 1 | | | |
| EC | B | EC142 | Senqu | | | | | 1 | 1 | 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 | 1 | 1 | 1 | 1 | 1 | 1 | | Unqualified - Without findings | 1 | 1 | Funded | | | |
| EC | B | EC153 | Ngquza Hills | | | | | | | | | | | Qualified | | 1 | Funded | | | |
| EC | B | EC154 | Port St Johns | | 1 | | | | 1 | 1 | | | | Unqualified - With findings | | 1 | Funded | | | |
| EC | B | EC155 | Nyandeni | | | | | | | | | | 1 | Unqualified - With findings | | | Funded | | | |
| EC | B | EC156 | Mhlontlo | 1 | | 1 | | | | | | 1 | | Unqualified - With findings | | 1 | Funded | | | |
| EC | B | EC157 | King Sabata Dalindyebo | 1 | | 1 | 1 | 1 | 1 | 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 |
| EC | B | EC441 | Matatiele | 1 | | | | | 1 | 1 | | 1 | 1 | Unqualified - With findings | | | Funded | | | |

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# ANNEXURE A 2 | CONT.

## Eastern Cape

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| EC | B | EC442 | Umzimvubu | | | 1 | | | | | | | | Unqualified - With findings | | 1 | Funded | | | |
| EC | B | EC443 | Winnie Madikizela Mandela | | | | | | | | | | | Unqualified - Without findings | | | Funded | | | |
| EC | B | EC444 | Ntabankulu | 1 | | | | | | 1 | 1 | | 1 | Unqualified - With findings | | 1 | Funded | | | |
| EC | C | DC44 | Alfred Nzo | 1 | 1 | 1 | | 1 | 1 | | | | | Unqualified - With findings | | 1 | Funded | | | |
| Total EC | | | 39 | 12 | 7 | 9 | 8 | 8 | 18 | 21 | 22 | 24 | 21 | | 17 | 32 | 9 | 1 | 6 | |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2 | CONT.

## Free State

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| FS | A | MAN | Mangaung | 1 | | | | | | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | Funded | | S139(7) | Mandatory |
| FS | B | FS161 | Letsemeng | | | | | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| FS | B | FS162 | Kopanong | 1 | 1 | | 1 | 1 | | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | | Request - Voluntary |
| FS | B | FS163 | Mohokare | 1 | 1 | | 1 | 1 | | | 1 | 1 | 1 | Qualified | | 1 | 1 | | | |
| FS | C | DC16 | Xhariep | 1 | | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | Funded | | | |
| FS | B | FS181 | Masilonyana | 1 | 1 | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | | |
| FS | B | FS182 | Tokologo | | | | 1 | | 1 | | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| FS | B | FS183 | Tswelopele | | | 1 | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |
| FS | B | FS184 | Matjhabeng | 1 | | | 1 | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| FS | B | FS185 | Nala | 1 | | 1 | 1 | 1 | 1 | 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 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| FS | B | FS192 | Dihlabeng | | | | 1 | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| FS | B | FS193 | Nketoana | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | | |
| FS | B | FS194 | Maluti-a-Phofung | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | S139(7) | Mandatory |

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# ANNEXURE A 2 | CONT.

## Free State

| Province | Cat | Code | Name | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 S140 | S138 | Unfunded Budgets 2020/21 adopted | S139 Intervention (current) S139 (1) | S139 (5) or (7) | Financial Recovery Plan Current |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FS | B | FS195 | Phumelela | 1 | | | | | | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |
| FS | B | FS196 | Mantsopa | 1 | 1 | | 1 | 1 | | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | | |
| FS | C | DC19 | Thabo Mofutsanyana | | | 1 | 1 | 1 | 1 | 1 | 1 | | | Unqualified - With findings | | 1 | Funded | | | |
| FS | B | FS201 | Moqhaka | 1 | 1 | | | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| FS | B | FS203 | Ngwathe | | | | 1 | | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | Request - Voluntary |
| FS | B | FS204 | Metsimaholo | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory - In Process |
| FS | B | FS205 | Mafube | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| FS | C | DC20 | Fezile Dabi | | | | | | | | | | | Qualified | | 1 | | | | |
| **Total FS** | | | 23 | 14 | 9 | 9 | 15 | 14 | 16 | 16 | 21 | 21 | 20 | | 19 | 23 | 18 | 2 | 6 | |

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# ANNEXURE A 2 | CONT.

## Gauteng

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| 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 | 1 | Unqualified - With findings | | 1 | | | | Voluntary |
| GT | B | GT421 | Emfuleni | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | S139(5) | Mandatory |
| GT | B | GT422 | Midvaal | 1 | | | | | | | | | | Unqualified - Without findings | | | | | | |
| GT | B | GT423 | Lesedi | | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | | | 1 | | | |
| GT | C | DC42 | Sedibeng | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | Request - Voluntary |
| GT | B | GT481 | Mogale City | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | | 1 | 1 | | | |
| GT | B | GT484 | Merafong City | | | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Adverse opinion | 1 | 1 | 1 | | S139(5) (a) | Mandatory |
| GT | B | GT485 | Rand West City | | | | | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| GT | C | DC48 | West Rand | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | S139(5) (a) | Mandatory - In process |
| **Total GP** | | | **11** | **2** | **1** | **2** | **2** | **3** | **8** | **9** | **9** | **10** | | | **5** | **8** | **7** | **1** | **3** | |

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# ANNEXURE A 2 | CONT.

| KwaZulu-Natal | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| KZ | A | ETH | eThekwini | | | | | | | 1 | | 1 | 1 | Unqualified - With findings | 1 | 1 | | | | |
| KZ | B | KZN212 | Umdoni | 1 | 1 | 1 | | | 1 | | | | | Unqualified - With findings | | | | | | |
| KZ | B | KZN213 | Umzumbe | | | | | | 1 | | | | | Unqualified - With findings | | | | | | |
| KZ | B | KZN214 | uMuziwabantu | 1 | 1 | | | | | 1 | | | | Unqualified - With findings | | | | | | |
| KZ | B | KZN216 | Ray Nkonyeni | | | | | | | | 1 | 1 | 1 | Unqualified - With findings | | | | | | |
| KZ | C | DC21 | Ugu | | | | | | | 1 | 1 | 1 | 1 | Unqualified - Without findings | 1 | 1 | 1 | | | |
| KZ | B | KZN221 | uMshwathi | 1 | 1 | 1 | | | 1 | 1 | | | | Unqualified - With findings | | 1 | | | | |
| KZ | B | KZN222 | uMngeni | 1 | 1 | 1 | 1 | | 1 | | 1 | 1 | 1 | Unqualified - With findings | | 1 | | | | |
| KZ | B | KZN223 | Mpofana | | 1 | | | | 1 | | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | S139(5) (a) | Mandatory |
| KZ | B | KZN224 | Impendle | | 1 | | 1 | 1 | | | | 1 | 1 | Unqualified - With findings | | 1 | | | | |
| KZ | B | KZN225 | Msunduzi | 1 | | | 1 | | | 1 | 1 | 1 | 1 | Unqualified - With findings | | 1 | 1 | S139 (1) (b) | | Discretionary |

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# ANNEXURE A 2 | CONT.

## KwaZulu-Natal

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| KZ | B | KZN226 | Mkhambathini | | | | | | | | | | | Unqualified - With findings | | | | | | |
| KZ | B | KZN227 | Richmond | 1 | 1 | | | | | | | 1 | | Unqualified - With findings | 1 | 1 | 1 | | | |
| KZ | C | DC22 | uMgungundlovu | | 1 | | | 1 | 1 | | 1 | 1 | 1 | Unqualified - With findings | | 1 | 1 | | | Request - Voluntary |
| KZ | B | KZN235 | Okhahlamba | | | | | | | | 1 | | 1 | Unqualified - Without findings | | | | | | |
| KZ | B | KZN237 | Inkosi Langalibalele | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | | | | |
| KZ | B | KZN238 | Alfred Duma | | | | | | | | | | 1 | Unqualified - With findings | | | | | | |
| KZ | C | DC23 | Uthukela | | | | | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - Without findings | 1 | 1 | 1 | | S139(5) (a) | Mandatory |
| KZ | B | KZN241 | Endumeni | 1 | 1 | 1 | 1 | 1 | 1 | | | 1 | 1 | Unqualified - With findings | | | 1 | | | |
| KZ | B | KZN242 | Nquthu | | | | | | 1 | | | 1 | 1 | Unqualified - With findings | | | | | | |
| KZ | B | KZN244 | Msinga | | 1 | | | | | | | | | Unqualified - With findings | | | | | | |

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# ANNEXURE A 2 | CONT.

**KwaZulu-Natal**

| Province | Cat | Code | Name | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21: S140 | S138 | Unfunded Budgets: 2020/21 adopted | S139 Intervention (current): S139 (1) | S139 (5) or (7) | Financial Recovery Plan: Current |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| KZ | B | KZN245 | Umvoti | | | | | | | 1 | 1 | 1 | | Unqualified - With findings | 1 | 1 | | | | |
| KZ | C | DC24 | Umzinyathi | | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | S139(5) (a) | Mandatory |
| KZ | B | KZN252 | Newcastle | | | | | 1 | | | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |
| KZ | B | KZN253 | Emadlangeni | 1 | 1 | | | | 1 | | | 1 | 1 | Unqualified - With findings | | | | | | |
| KZ | B | KZN254 | Dannhauser | 1 | 1 | | | | 1 | | 1 | 1 | 1 | Unqualified - With findings | | 1 | | | | |
| KZ | C | DC25 | Amajuba | | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |
| KZ | B | KZN261 | eDumbe | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | 1 | Unqualified - With findings | | 1 | 1 | | | |
| KZ | B | KZN262 | uPhongolo | | 1 | 1 | 1 | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | | 1 | | | | |
| KZ | B | KZN263 | Abaqulusi | 1 | | 1 | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | S139 (1) (b) | | Discretionary |
| KZ | B | KZN265 | Nongoma | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | | | | |
| KZ | B | KZN266 | Ulundi | 1 | 1 | 1 | | | | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |

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# ANNEXURE A 2 | CONT.

**KwaZulu-Natal**

| Province | Cat | Code | Name | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21: S140 | S138 | Unfunded Budgets: 2020/21 adopted | S139 Intervention (current): S139 (1) | S139 (5) or (7) | Financial Recovery Plan: Current |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| KZ | C | DC26 | Zululand | | 1 | | | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |
| KZ | B | KZN271 | Umhlabuyalin-gana | | 1 | | | | | | | | | Unqualified - With findings | | 1 | | | | |
| KZ | B | KZN272 | Jozini | | 1 | | | | 1 | 1 | | 1 | 1 | Qualified | | 1 | | | | |
| KZ | B | KZN275 | Mtubatuba | 1 | | | 1 | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | | S139 (1) (b) | | Discretionary |
| KZ | B | KZN276 | Hlabisa Big Five | | | | | | 1 | 1 | 1 | | | Qualified | | 1 | | | | |
| KZ | C | DC27 | Umkhanyakude | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | | Unqualified - With findings | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| KZ | B | KZN281 | Mfolozi | 1 | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | | Qualified | 1 | 1 | 1 | | | |
| KZ | B | KZN282 | uMhlathuze | | | | | | | | | 1 | | Qualified | 1 | 1 | | | | |
| KZ | B | KZN284 | uMlalazi | | 1 | 1 | | | | | | 1 | | Qualified | | 1 | 1 | | | |
| KZ | B | KZN285 | Mthonjaneni | | | | | | | 1 | 1 | | 1 | Qualified | 1 | 1 | Unfunded | | | |
| KZ | B | KZN286 | Nkandla | | | | | 1 | 1 | | 1 | | | Qualified | | 1 | 1 | | | |
| KZ | C | DC28 | King Cetshwayo | | | | 1 | | | | | | | Unqualified - With findings | 1 | 1 | | | | |
| KZ | B | KZN291 | Mandeni | | | | | | | | | | | Qualified | | | | | | |
| KZ | B | KZN292 | KwaDukuza | | | | | | | | | | | Qualified | | | | | | |
| KZ | B | KZN293 | Ndwedwe | | 1 | 1 | | | 1 | | | | | Qualified | | | | | | |
| KZ | B | KZN294 | Maphumulo | | | | | | | | 1 | 1 | 1 | Qualified | | | | | | |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2 | CONT.

| KwaZulu-Natal | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| KZ | C | DC29 | iLembe | | | | 1 | | 1 | 1 | 1 | 1 | | Unqualified - With findings | | 1 | | | | |
| KZ | B | KZN433 | Greater Kokstad | | 1 | | 1 | | | | | 1 | 1 | Qualified | | | | | | |
| KZ | B | KZN434 | Ubuhlebezwe | | | 1 | 1 | 1 | | | | | | Disclaimer of opinion | 1 | 1 | | | | |
| KZ | B | KZN435 | Umzimkhulu | | 1 | | | | | | | | | Disclaimer of opinion | | 1 | | | | |
| KZ | B | KZN436 | Dr Nkosazana Dlamini Zuma | | | | | | | 1 | | | | Disclaimer of opinion | | 1 | | | | |
| KZ | C | DC43 | Harry Gwala | | | | | 1 | | 1 | 1 | 1 | 1 | Unqualified - With findings | | 1 | 1 | | | Voluntary |
| **Total KZN** | | | **54** | **13** | **26** | **14** | **15** | **15** | **26** | **25** | **29** | **34** | **31** | | **21** | **27** | **19** | **3** | **4** | |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2 | CONT.

## Limpopo

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| LP | B | LIM331 | Greater Giyani | | | | | | 1 | 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 | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | Voluntary |
| LP | B | LIM335 | Maruleng | | | | | | 1 | | | | 1 | Unqualified - With findings | | | | | | |
| LP | C | DC33 | Mopani | 1 | | 1 | | 1 | | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | | |
| LP | B | LIM341 | Musina | | 1 | | 1 | 1 | | 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 | | | 1 | Unqualified - With findings | 1 | 1 | | | | |
| LP | B | LIM345 | Collins Chabane | | | | | | | | | | | Unqualified - With findings | | 1 | | | | |
| LP | C | DC34 | Vhembe | 1 | | | 1 | | | | 1 | 1 | 1 | Qualified | 1 | 1 | | | | Voluntary |
| LP | B | LIM351 | Blouberg | | | | | | 1 | | 1 | 1 | | Unqualified - With findings | | 1 | | | | |

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# ANNEXURE A 2 | CONT.

## Limpopo

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| LP | B | LIM353 | Molemole | | | 1 | | | | | 1 | 1 | | Unqualified - With findings | | | | | | |
| LP | B | LIM354 | Polokwane | | 1 | | | 1 | 1 | 1 | 1 | | 1 | Qualified | | 1 | | | | |
| LP | B | LIM355 | Lepelle-Nkumpi | | | | | | 1 | 1 | | 1 | | Unqualified - With findings | 1 | 1 | | | | |
| LP | C | DC35 | Capricorn | | | | 1 | | | | | | | Unqualified - With findings | | | 1 | | | |
| LP | B | LIM361 | Thabazimbi | | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| LP | B | LIM362 | Lephalale | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | | | | |
| LP | B | LIM366 | Bela Bela | | 1 | | 1 | 1 | | | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | | | | |
| LP | B | LIM367 | Mogalakwena | 1 | 1 | | | | | | 1 | 1 | 1 | Qualified | | 1 | | | S139 (7) | Mandatory |
| LP | B | LIM368 | Modimolle-Mookgopong | | | | | | 1 | 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 | | 1 | Unqualified - With findings | | 1 | | | | |

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# ANNEXURE A 2 | CONT.

| Limpopo | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| LP | B | LIM473 | Makhuduthamaga | | | 1 | | | | 1 | 1 | 1 | 1 | Unqualified - With findings | | | | | | |
| LP | B | LIM476 | Tubatse Fetakgomo | | | | | | 1 | | 1 | 1 | | Unqualified - With findings | | 1 | | | | |
| LP | C | DC47 | Sekhukhune | | | | 1 | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | | | | |
| **Total LP** | | | **27** | **4** | **5** | **5** | **7** | **7** | **12** | **12** | **17** | **17** | **17** | | **12** | **10** | **6** | **0** | **1** | |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2 | CONT.

## Mpumalanga

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| MP | B | MP301 | Albert Luthuli | | 1 | | | | 1 | 1 | | 1 | 1 | Unqualified - With findings | 1 | 1 | | | | |
| MP | B | MP302 | Msukaligwa | 1 | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| MP | B | MP303 | Mkhondo | | | | | 1 | 1 | | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | Request - Voluntary |
| MP | B | MP304 | Pixley Ka Seme (MP) | | | | | | | | | 1 | | Qualified | 1 | 1 | | | | |
| MP | B | MP305 | Lekwa | 1 | 1 | | | 1 | 1 | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | S139 (7) | Mandatory |
| MP | B | MP306 | Dipaleseng | | | 1 | 1 | | | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | | Voluntary |
| MP | B | MP307 | Govan Mbeki | | 1 | 1 | | 1 | 1 | 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 | 1 | Qualified | 1 | 1 | | | | Request - Voluntary |
| MP | B | MP312 | Emalahleni (MP) | 1 | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| MP | B | MP313 | Steve Tshwete | | | | | | | | | | | Unqualified - Without findings | | 1 | | | | |

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# ANNEXURE A 2 | CONT.

## Mpumalanga

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| MP | B | MP314 | Emakhazeni | | | | | | 1 | 1 | 1 | | | Adverse opinion | 1 | 1 | | | | |
| MP | B | MP315 | Thembisile Hani | | | | | | 1 | | | | 1 | Unqualified - With findings | | 1 | | | | |
| MP | B | MP316 | Dr J.S. Moroka | | | | | 1 | 1 | 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 | | | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| MP | B | MP324 | Nkomazi | 1 | 1 | 1 | 1 | 1 | | | | 1 | | Unqualified - With findings | | 1 | | | | |
| MP | B | MP325 | Bushbuckridge | | 1 | | 1 | 1 | 1 | | 1 | | | Unqualified - With findings | 1 | 1 | | | | |
| MP | B | MP326 | City of Mbombela | | | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | Voluntary |
| MP | C | DC32 | Ehlanzeni | 1 | | | | | | | | 1 | | Unqualified - Without findings | | | | | | |
| **Total MP** | | **20** | | **6** | **7** | **7** | **6** | **9** | **12** | **9** | **12** | **14** | **12** | | **13** | **19** | **8** | **0** | **5** | |

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# ANNEXURE A 2 | CONT.

## Northern Cape

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| NC | B | NC451 | Joe Morolong | 1 | 1 | | | | 1 | 1 | 1 | 1 | | Disclaimer of opinion | | 1 | 1 | | | |
| NC | B | NC452 | Ga-Segonyana | | 1 | | | 1 | 1 | | 1 | | | Unqualified - With findings | | 1 | 1 | | | |
| NC | B | NC453 | Gamagara | | 1 | | | 1 | | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) | Mandatory |
| NC | C | DC45 | John Taolo Gaetsewe | | | | | 1 | 1 | | 1 | | | Unqualified - Without findings | | 1 | | | | |
| NC | B | NC061 | Richtersveld | | 1 | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC062 | Nama Khoi | 1 | 1 | | 1 | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC064 | Kamiesberg | 1 | 1 | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC065 | Hantam | 1 | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - Without findings | 1 | 1 | | | | |
| NC | B | NC066 | Karoo Hoogland | 1 | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | | | | |
| NC | B | NC067 | Khai-Ma | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | Request - Voluntary |
| NC | C | DC6 | Namakwa | | | | | | 1 | 1 | 1 | 1 | 1 | Unqualified - Without findings | | 1 | | | | |
| NC | B | NC071 | Ubuntu | 1 | 1 | 1 | | 1 | | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |

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# ANNEXURE A 2 | CONT.

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| NC | B | NC072 | Umsobomvu | | | 1 | | | | 1 | 1 | 1 | 1 | Qualified | | 1 | | | | |
| NC | B | NC073 | Emthanjeni | | | | | | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | | | | |
| NC | B | NC074 | Kareeberg | 1 | | | | | | | | | | Unqualified - With findings | | | | | | |
| NC | B | NC075 | Renosterberg | | 1 | | | | 1 | | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | | |
| NC | B | NC076 | Thembelihle | | 1 | 1 | | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC077 | Siyathemba | | 1 | 1 | | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC078 | Siyancuma | 1 | 1 | 1 | | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | C | DC7 | Pixley Ka Seme (NC) | 1 | | 1 | 1 | 1 | | | 1 | | 1 | Unqualified - With findings | | | | | | |
| NC | B | NC082 | !Kai! Garib | 1 | | | | | | 1 | 1 | 1 | 1 | Outstanding | 1 | 1 | 1 | | | Voluntary |
| NC | B | NC084 | !Kheis | | | 1 | | | 1 | 1 | 1 | 1 | 1 | Disclaimer of opinion | | 1 | 1 | | | |
| NC | B | NC085 | Tsantsabane | | | | 1 | 1 | 1 | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC086 | Kgatelopele | | | | 1 | | 1 | | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | | | | |
| NC | B | NC087 | Dawid Kruiper | | | | | | 1 | | 1 | 1 | 1 | Unqualified - With findings | | 1 | | | | |
| NC | C | DC8 | Z F Mgcawu | 1 | | | | | | | 1 | 1 | 1 | Unqualified - Without findings | 1 | 1 | 1 | | | |

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# ANNEXURE A 2 | CONT.

| Northern Cape | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| NC | B | NC091 | Sol Plaatje | | | | | | | 1 | | | | Qualified | 1 | 1 | | | | |
| NC | B | NC092 | Dikgatlong | 1 | 1 | | | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC093 | Magareng | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NC | B | NC094 | Phokwane | | | | | | 1 | | | 1 | 1 | Outstanding | 1 | 1 | 1 | | S139(5) (a) | Mandatory |
| NC | C | DC9 | Frances Baard | | | | | | | | | | | Unqualified - Without findings | | | | | | |
| Total NC | | | 31 | 13 | 12 | 13 | 6 | 13 | 22 | 17 | 27 | 25 | 25 | | 21 | 28 | 19 | 0 | 2 | |

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# ANNEXURE A 2 | CONT.

## North West

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| NW | B | NW371 | Moretele | | | | | | 1 | 1 | 1 | 1 | | Unqualified - With findings | | 1 | 1 | | | |
| NW | B | NW372 | Madibeng | 1 | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW373 | Rustenburg | | | | | | | | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | | |
| NW | B | NW374 | Kgetlengrivier | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW375 | Moses Kotane | 1 | | | | | | 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 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW383 | Mafikeng | 1 | | | 1 | | 1 | 1 | 1 | 1 | 1 | Qualified | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW384 | Ditsobotla | | 1 | 1 | 1 | 1 | 1 | | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW385 | Ramotshere Moiloa | 1 | | 1 | | | | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | C | DC38 | Ngaka Modiri Molema | 1 | | | 1 | | 1 | | | 1 | 1 | Adverse opinion | 1 | 1 | Funded | | | Voluntary |

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**North West**

| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| NW | B | NW392 | Naledi (NW) | | | 1 | | | 1 | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW393 | Mamusa | 1 | | 1 | 1 | 1 | | 1 | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | | |
| NW | B | NW394 | Greater Taung | 1 | | | | 1 | 1 | | | | | Disclaimer of opinion | | 1 | | | | |
| NW | B | NW396 | Lekwa-Teemane | 1 | 1 | 1 | 1 | 1 | 1 | 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 Mompati | | | | 1 | | | | 1 | 1 | 1 | Qualified | | 1 | 1 | | S139(5) (a) & (c) | Mandatory |
| NW | B | NW403 | City of Matlosana | | 1 | | 1 | 1 | 1 | 1 | 1 | 1 | 1 | Unqualified - With findings | 1 | 1 | 1 | | | |
| NW | B | NW404 | Maquassi Hills | | 1 | 1 | | 1 | 1 | | 1 | 1 | 1 | Disclaimer of opinion | 1 | 1 | 1 | | | |
| NW | B | NW405 | J B Marks | | | | | | | | 1 | 1 | 1 | Qualified | 1 | 1 | Funded | | | |
| NW | C | DC40 | Dr Kenneth Kaunda | | | | | | | 1 | | | | Unqualified - With findings | | 1 | | | | |
| **Total NW** | | | **22** | **8** | **5** | **8** | **8** | **9** | **10** | **12** | **19** | **20** | **17** | | **16** | **22** | **17** | **0** | **8** | |

Assessment of financial distress is based on data uploaded from the municipal Standard Chart of Accounts data strings and errors in reporting may in some cases lead to municipalities being incorrectly classified. National and Provincial Treasuries are working with municipalities to improve the accuracy of their reporting

# ANNEXURE A 2 | CONT.

| Western Cape | | | | | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| WC | A | CPT | Cape Town | | | | | | | | | | | Unqualified - With findings | | 1 | | | | |
| WC | B | WC011 | Matzikama | | 1 | | | | | 1 | 1 | 1 | 1 | Unqualified - Without findings | | 1 | | | | |
| WC | B | WC012 | Cederberg | | 1 | 1 | 1 | | | 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 | | | | | | | 1 | 1 | Unqualified - Without findings | | | | | | |

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# ANNEXURE A 2 | CONT.

| Western Cape | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| 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 | | | | | | |

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# ANNEXURE A 2 | CONT.

**Western Cape**

| Province | Cat | Code | Name | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21: S140 | S138 | Unfunded Budgets: 2020/21 adopted | S139 Intervention (current): S139 (1) | S139 (5) or (7) | Financial Recovery Plan: Current |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| WC | B | WC033 | Cape Agulhas | | | | | | | | | | | Unqualified - Without findings | | | | | | |
| WC | B | WC034 | Swellendam | | | 1 | | | | | | | | Unqualified - Without findings | | | | | | |
| WC | C | DC3 | Overberg | | | | | | | | | 1 | | Unqualified - Without findings | | 1 | | | | |
| WC | B | WC041 | Kannaland | | 1 | 1 | | | 1 | | 1 | | 1 | Qualified | 1 | 1 | 1 | | S139(5) | Mandatory |
| 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 | | | | | | 1 | | | | | Unqualified - With findings | | 1 | | | | |

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# ANNEXURE A 2 | CONT.

| Western Cape | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Province | Cat | Code | Name | | | | | | | | | | | 2020/21 Audit Outcomes | S138 and S140 Triggers 2020/21 | | Unfunded Budgets | S139 Intervention (current) | | Financial Recovery Plan |
| | | | | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | | S140 | S138 | 2020/21 adopted | S139 (1) | S139 (5) or (7) | Current |
| 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 | 1 | Qualified | | 1 | | | | |
| WC | B | WC052 | Prince Albert | 1 | | | 1 | 1 | | | | | | Unqualified - With findings | | | | | | |
| WC | B | WC053 | Beaufort West | 1 | | | | | 1 | | 1 | 1 | 1 | Qualified | | 1 | | | | |
| WC | C | DC5 | Central Karoo | 1 | | | | | | | 1 | | | Unqualified - Without findings | | 1 | | | | |
| **Total WC** | | | **30** | **5** | **4** | **3** | **2** | **1** | **3** | **4** | **7** | **10** | **12** | | **2** | **14** | **3** | **0** | **1** | |

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# NOTES

2021 SoLGF

# STATE OF LOCAL GOVERNMENT FINANCES AND FINANCIAL MANAGEMENT

**As at 30 June 2021**

**Audit Outcomes of the 2020/21 financial year**
*Analysis Document*

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