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The state of local government finances and financial management as at 30 June 2012

Fourth Quarter of the 2011/12 financial year

Analysis Document

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1 Introduction

1. The purpose of this report is to provide a regular overview of the state of municipal finances that can be used to:
 - (a) Identify areas of risk in local government finances so that appropriate system-wide responses can be investigated and developed; and
 - (b) Identify those municipalities who are in financial distress¹ so that processes can be initiated to determine the full extent of their financial problems with a view to determining whether:
 - A municipality requires support and what support should be provided, or
 - An intervention is required in a municipality due to a crisis in its finances (as provided for in section 139 of the Constitution).
2. Previous versions of this report have been presented to the TCF, the Budget Forum and the Budget Council, and circulated to the Presidency, the Department of Cooperative Governance (DCoG) and the provincial treasuries.
3. This report uses actual information from the annual financial statements, the current MTREF, and the latest information from the municipal in-year financial monitoring system (i.e. the section 71 reports) to improve oversight and facilitate better targeting of national and provincial government support to municipalities. Annexure A provides a list of municipalities that according to this analysis are in financial distress.
4. It is important to note that the main sources of data were taken from the audited financial statements of the municipalities and where available, the previous years' restated numbers from the annual financial statements were used to take into account the adjustments required by the Office of the Auditor General. The primary source of data for in-year performance is the monthly S71 reports submitted to the National Treasury Local Government Database by municipalities. These reports are required to be verified and signed off by the Accounting Officer of the municipality. Every effort has been made to compile a reliable set of numbers, but National Treasury acknowledges that there may still be some shortcomings in the dataset.
5. In-year reporting has also been well institutionalized with 276 out of 278 municipalities or 99.3 per cent reporting in terms of the fourth quarter of the 2011/12 financial year.

2 The Measures of Financial Health

6. There is no single measure that can be used to assess the financial health of a municipality. This report therefore evaluates the state of municipal finances using seven key measures (based on the latest available information) identified in the Funding Compliance Methodology and MFMA Circular 42 (Funding a Municipal Budget).
7. These measures are:

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

Measure		Purpose
i.	Cash as a percentage of operating expenditure	To determine cost coverage –does the municipality have adequate cash available to meet its operating expenditure requirements?
ii.	Persistence of negative cash balances	Identifies whether cash shortages / bank overdrafts pose a “chronic” problem for the municipality
iii.	Over spending of original operating budgets	Tests the effectiveness of municipal spending - are municipalities spending in accordance with resources available to them, what is the credibility of the budget and are municipalities able to adjust expenditure should planned revenues not materialise
iv.	Under spending of original capital budgets	Tests the effectiveness of municipal spending – but also provides an indication of whether municipalities are compromising on capital programmes to resolve cash flow challenges, are there planning deficiencies which are impacting on service delivery, etc.
v.	Debtors as a percentage of own revenue	Examines the revenue management capabilities of municipalities
vi.	Year of year growth in debtors	Is the municipality exercising fiscal effort in collecting outstanding debt? To what extent is financial distress the result of poor debtor management?
vii.	Creditors as a percentage of cash and investments	Is the municipality able to meet its monthly commitments – does it have sufficient cash to pay its creditors in line with the requirements of the MFMA (cost coverage)

8. To better contextualise and complement this analysis the report also presents information on the latest available local government audit outcomes (2010/11 financial year) and information on municipal manager and CFO vacancies.
9. Previous reports have provided overviews of the 2012/13 budget benchmark assessments of the 17 non-delegated municipalities. However, results of the 2012/13 budget benchmark assessments are contained in a separate report and are therefore not included as part of this report.
10. When deciding on whether to intervene, support or how to support a municipality, it is advisable that a full range of information covering the finances, governance and performance information of a municipality be considered. This would include looking at questionnaires based on information such as the 30 MFMA Indicators and the Financial Management Capability Maturity Model, as well as other sources such as the Blue Drop and Green Drop Reports from the Department of Water Affairs.

Audit outcomes – 2010/11 financial year

11. According to the Office of the Auditor-General, the desired progress towards the 2014 Operation Clean Audit is at risk should the following root causes of poor performance not be addressed:

- I. Officials in key positions without minimum competencies and skills to perform their duties;
- II. General lack of consequences for poor performance; and
- III. Political leadership is slow in taking up its responsibilities and do not take ownership of their role in implementing key controls.

12. The following table presents a summary of audit opinions for all municipalities between 2007/08 and 2010/11:

Table 1: Summary of audit opinions for all municipalities, 2007/08 to 2010/11

Audit Opinion	2007/08		2008/09		2009/10		2010/11	
	Number	%	Number	%	Number ¹	%	Number	%
Adverse opinion	11	4%	10	4%	7	2%	7	2%
Disclaimer of opinion	110	39%	103	36%	77	27%	55	19%
Qualified	63	22%	50	18%	61	22%	53	19%
Unqualified - Emphasis of Matter items	91	32%	113	40%	122	43%	115	41%
Unqualified - No findings	4	1%	4	1%	7	2%	13	5%
Audits Outstanding	4	1%	3	1%	9	3%	40	14%
Total	283	100%	283	100%	283	100%	283	100%

Source: Auditor General SA

13. Generally there has been an improvement in audit outcomes between 2007/08 and 2010/11 as indicated in the above table. However, in analysing these figures, we need to be mindful that in 2010/11, the audit opinions for 40 municipalities were still outstanding. 15 of these municipalities failed to submit financial statements within the legislated timeframes, while the remaining 25 municipalities submitted their annual financial statements after the deadline and the audit could therefore not be finalised on time. This increase in the number of audits outstanding between 2007/08 and 2010/11 will impact on the analysis of the outcomes.
14. Excluding the 40 outstanding audits, the numbers of disclaimers and adverse audit opinions have almost halved from 121 in 2007/08 to 62 municipalities who have received such opinions in 2010/11. However, without pre-empting the opinion of the Auditor General, we expect that of the 40 audits outstanding there is a great likelihood that a number of municipalities would receive either an adverse or disclaimer audit opinion given that they could not meet the initial deadline for the submission of the annual financial statements indicating the possibility of financial management problems.
15. The improvement in audit outcomes between 2009/10 and 2010/11 has however been less evident. While the number of municipalities that have received a “clean audit” i.e. an unqualified audit opinion with no findings has improved from 7 in 2009/10 to 13 in 2010/11, the number of municipalities who have received an unqualified audit with emphasis of matter has declined from 122 in 2009/10 to 115 in 2010/11.
16. Therefore, the number of municipalities who fall in the category of an unqualified audit opinion has remained more or less constant (approximately 128 municipalities) between 2009/10 and 2010/11 indicating no real improvement in this regard.
17. It should be noted that the relationship between the audit opinion and the financial health of a municipality is not unequivocal or explicit. An unqualified audit opinion is NOT an indicator of the absence of financial problems in a municipality. This is primarily because the audit process does not assess:

- a) The adequacy of the municipality's cash reserves;
 - b) The credibility of the funding of the municipal budget;
 - c) The allocative efficiency of the municipality's spending priorities;
 - d) The quality of the municipality's revenue management capabilities;
 - e) The effectiveness of municipal spending; and
 - f) The sustainability of the municipality's capital budget and debt burden; and
 - g) The nature and extent of unauthorized, irregular, fruitless and wasteful expenditure.
18. However, the Auditor-General has acknowledged the above is his recent report and a process has been initiated to develop an appropriate set of indicators that can be used across the accountability cycle.
19. In this assessment, approximately 30 per cent of the municipalities who have received either a clean or unqualified audit opinion are identified as being in financial distress according to the seven key measure identified above. This includes 5 of the 13 municipalities who have received a clean audit and 32 of the 115 municipalities who received an unqualified audit opinion. Refer to Annexure A.
20. However, there is also a correlation between municipalities that received negative audit opinions on their financial statements and those that are experiencing financial problems. 29 of the municipalities identified in the distress list have received an adverse or disclaimer of opinion.

3 Governance: Acting Municipal Manager and CFO positions

21. Instability in the administrative leadership can also threaten the financial health of a municipality. As the accounting officer, overall accountability for the administration of the municipality vests with the municipal manager. National Treasury has through its interaction with municipalities generally observed that when this position is vacant, accountability is automatically diluted. This is either because the acting incumbent (if one is appointed) generally feels restricted and inhibited to make certain decisions or if accountability is spread amongst several senior managers, no one person can be held accountable when things go wrong. It is therefore critical to ensure that the post of Municipal Manager is filled and that the necessary performance agreements and contracts are in place.
22. Another critical position in the municipal structure is that of the Chief Financial Officer. The Chief Financial Officer is responsible for the management of the Budget and Treasury Office, oversees the municipality's finances and ensures compliance with finance related legislation and council policies.
23. The following table shows the number of acting municipal managers and CFOs as at 02 October 2012.

Table 2: Municipalities with acting municipal managers and CFOs at 02 October 2012

Province		Acting MM		Acting CFO		Both Acting	
		No.	%	No.	%	No.	%
2012							
Eastern Cape	45	5	11.1%	10	22.2%	3	6.7%
Free State	24	5	20.8%	7	29.2%	2	8.3%
Gauteng	12	2	16.7%	3	25.0%	0	-
Kw aZulu-Natal	61	18	29.5%	13	21.3%	4	6.6%
Limpopo	30	4	13.3%	11	36.7%	4	13.3%
Mpumalanga	21	5	23.8%	4	19.0%	2	9.5%
Northern Cape	32	8	25.0%	8	25.0%	4	12.5%
North West	24	7	29.2%	10	41.7%	3	12.5%
Western Cape	29	4	13.8%	6	20.7%	2	6.9%
Total	278	58	20.9%	72	25.9%	24	8.6%
2011							
Eastern Cape	45	8	17.8%	5	11.1%	3	6.7%
Free State	24	5	20.8%	8	33.3%	2	8.3%
Gauteng	12	2	16.7%	1	8.3%	0	-
Kw aZulu-Natal	61	17	27.9%	12	19.7%	3	4.9%
Limpopo	30	9	30.0%	11	36.7%	5	16.7%
Mpumalanga	21	10	47.6%	14	66.7%	8	38.1%
Northern Cape	32	8	25.0%	7	21.9%	4	12.5%
North West	23	13	56.5%	11	47.8%	8	34.8%
Western Cape	30	11	36.7%	6	20.0%	4	13.3%
Total	278	83	29.9%	75	27.0%	37	13.3%
Movement between 2011 and 2012							
Eastern Cape	45	-3	-6.7%	5	11.1%	0	0.0%
Free State	24	0	0.0%	-1	-4.2%	0	0.0%
Gauteng	12	0	0.0%	2	16.7%	0	0.0%
Kw aZulu-Natal	61	1	1.6%	1	1.6%	1	1.6%
Limpopo	30	-5	-16.7%	0	0.0%	-1	-3.3%
Mpumalanga	21	-5	-23.8%	-10	-47.6%	-6	-28.6%
Northern Cape	32	0	0.0%	1	3.1%	0	0.0%
North West	24	-6	-27.4%	-1	-6.2%	-5	-22.3%
Western Cape	29	-7	-22.9%	0	0.7%	-2	-6.4%
Total	278	-25	-9.0%	-3	-1.1%	-13	52.0%
Growth rate from 2011 to 2012							
Eastern Cape	45	-37.5%	-37.5%	100.0%	100.0%	0.0%	0.0%
Free State	24	0.0%	0.0%	-12.5%	-12.5%	0.0%	0.0%
Gauteng	12	0.0%	0.0%	200.0%	200.0%	0.0%	0.0%
Kw aZulu-Natal	61	5.9%	5.9%	8.3%	8.3%	33.3%	33.3%
Limpopo	30	-55.6%	-55.6%	0.0%	0.0%	-20.0%	-20.0%
Mpumalanga	21	-50.0%	-50.0%	-71.4%	-71.4%	-75.0%	-75.0%
Northern Cape	32	0.0%	0.0%	14.3%	14.3%	0.0%	0.0%
North West	23	-46.2%	-48.4%	-9.1%	-12.9%	-62.5%	-64.1%
Western Cape	30	-63.6%	-62.4%	0.0%	3.4%	-50.0%	-48.3%
Total	278	-30.1%	-30.1%	-4.0%	-4.0%	-35.1%	-35.1%

Source: Local Government Budget Analysis, National Treasury

24. From the above table, 72 municipalities representing about a quarter of all municipalities have acting municipal managers; 57 municipalities about one fifth of all municipalities have acting CFOs; while 24 municipalities have both acting municipal managers and CFO's.
25. The number of Acting MM's has decreased from 83 or 30 per cent in 2011 to 58 or 21 per cent in 2012 and the number of Acting CFO's has slightly decreased from 75 or 27 per cent in 2011 to 72 or 26 per cent in 2012. Similarly the number of both Acting MM and CFO's has decreased from 37 or 13 per cent to 24 or 9 per cent during the same period.
26. As part of the analysis, National Treasury tried to ascertain whether there was a correlation between the negative audit outcomes and acting administrative leadership. However, no direct correlation could be drawn from the information. More analysis will be required and results will need to be measured over time.

Average experience of Municipal Managers and CFO's

27. The Municipal Demarcation Board has recently concluded the State of Municipal Capacity Assessment Report for 2011/12 which identifies the national trends in municipal capacity.
28. According to this report, a full copy of which can be accessed through the following link http://www.demarcation.org.za/pages/default_new.html, the following were key findings regarding the average experience and qualifications of municipal managers and CFO's:
 - a) In general municipal managers have been in their posts for less than four years and in the case of metros and B1 municipalities less than three years. The national average is 3.34 years;
 - b) In terms of CFOs, the national average years of experience is 11.24 years which is higher than that of municipal managers. However, in B3 and B4 municipalities the number of years of experience is lower; and
 - c) The national average for a CFO to have been in a position is 3.78 years.

4 Current funding compliance assessment information

29. The audit outcomes relate to the past performance of a municipality and provide a good indication on the state of municipal financial management rather than the state of municipal finances. In order to provide a more comprehensive view of municipal finances other financial and economic measures should be included into the assessment paradigm.
30. For this reason, National Treasury has developed a procedure to assess the 'Funding Compliance' of municipal budgets. This procedure which has several dimensions to it focuses on the future sustainability of the municipalities with reference to the following key financial management objectives:
 - a) Short term viability and consideration of whether the community is 'paying its way' relative to economic benefits received;
 - b) Medium and long term sustainability; ensuring that the broader community maintains control over outcomes within appropriate levels of affordability (which is likely to be different for each municipality);

- c) Achievement of community aspirations and service delivery goals;
 - d) Maintenance of a good credit rating and minimising financing costs; and
 - e) Achieving and maintaining key prudential measurements; e.g. borrowing limits.
31. The Funding Compliance indicates upfront whether a municipality's budget is adequately funded and highlights strategic financial sustainability risks that are not always evident from just looking at the numbers alone. The funding compliance assessment which is Supporting Table SA10 in the municipal budget and reporting regulation formats completes automatically drawing on information provided in other tables of the budget formats, such as the Statement of Financial Performance, the cash flow statement, statement of financial position and so forth. It therefore brings together information from several tables and populates this into indicators of financial health. The benefit of the funding compliance table is that information cannot be easily distorted but it is dependent on the accuracy of the information provided by the municipality.
32. Based on the outcome of the Funding Compliance assessment for the tabled 2012 MTREF period, the following observations were made:
- (a) Of the 8 metros:
 - 4 metros had budgets that were fully funded over the 2012 MTREF period;
 - 2 metros had sufficient funding for year 1 – the two outer years being unfunded;
 - The remaining 2 metros had budgets that were completely unfunded for the MTREF period.
 - (b) Of the 9 secondary cities:
 - 1 secondary cities had a fully funded budget with identified risks for the 2012 MTREF period;
 - 6 secondary cities had funding for year 1 – the two outer years being unfunded; and
 - The remaining 2 secondary cities had budgets that were completely unfunded for the MTREF period.
33. Even though the outcomes may appear to be quite discouraging, there has been an improvement compared to the assessment of the previous MTREF period.
34. Where municipal budgets are unfunded, it indicates that the proposed levels of spending on operating and capital exceed the revenue available to the municipality. Furthermore, there are no cash backed reserves from previous years to fund any shortfalls.
35. While a thorough assessment of the level of funding compliance is undertaken for the non-delegated municipalities, this process has not been fully replicated by provincial treasuries in their assessment of MTREF budgets. Only three provincial treasuries have begun to undertake such an assessment with mixed results.

5 Assessing the Financial Health of municipalities

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

36. At a very minimum a municipality should maintain a positive cash position. If the municipality does not reflect a positive cash position, it is the first indicator of financial distress. There are three sub-indicators used to provide a more holistic view of the cash position of municipalities. These are:

- (a) Did the municipality end the financial year with a positive or negative cash balance?
- (b) Are negative cash balances persistent – i.e. is the negative cash balance temporary in nature or is it indicative of deeper rooted financial difficulties prevalent in the municipality?
- (c) Even if a municipality has a positive cash balance, should the municipality's revenue base be threatened, for how many months will the municipality continue to fund its' monthly operational expenditure? In other words, what is the cash coverage ratio of the municipality?

(a) Positive/Negative closing cash balances: 30 June 2012

37. Annexure B1 lists the municipalities that reported negative closing bank balances at the end of the 2011/12 financial year (i.e. their cash position as at 30 June 2012). It also shows their cash balance divided by one twelfth of the municipality's' operating expenditure. This indicates the size of the municipality's cash deficit in terms of the number of months operating expenditure the municipality *does not have funds to pay*².

38. In this assessment, the following broad outcomes were observed:

- a) 44 municipalities reported negative closing cash positions at the end of the 2011/12 financial year (i.e. their cash position as at 30 June 2012) reflecting a slight improvement from the 49 municipalities that reported negative closing cash positions at the end of the 2010/11 financial year;
- b) All metros and secondary cities, with the exception of City of Matlosana have for the second consecutive year reported positive closing cash positions;
- c) 6 municipalities did not report their cash flow position for the entire 2011/12 financial year while 38 did not report their final cash flow for month 12 only; and
- d) These 44 municipalities were excluded from the evaluation of cash positions as at 30 June 2012 making it difficult to assess any improvements against previous reports.

39. In terms of section 45 of the MFMA municipalities are not allowed to close the financial year with any short-term borrowing or overdraft. The fact that these municipalities were not able to close the financial year with positive cash positions is a very strong indicator that these municipalities were in financial distress at that date.

40. Annexure B1 shows that of the 44 municipalities with negative closing cash balances at 30 June 2012, 29 have closing cash positions below one month's operating expenditure

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

requirements. This suggests that these municipalities' negative cash positions are probably not critical. However, this information needs to be considered in relation to information on these municipalities' outstanding creditors and the other variables identified below to get a fuller picture.

41. 15 municipalities recorded closing cash positions that exceed one month's operating expenditure requirements. These municipalities in all probability have severe cash flow problems. For instance Siyathemba Local Municipality has reported an overdraft that exceeds 11 months' worth of operating expenditure. The relevant provincial treasuries need to investigate their finances immediately with a view to establishing the nature and extent of their financial problems, what technical support can be provided and whether intervention in terms of section 139(4) of the Constitution is required.
42. Annexure B2 provides the names of the 38 municipalities that failed to report closing cash positions for the end of the 2011/12 financial year as part of their section 71 reports reporting obligations or reported information that was clearly incorrect. The failure to provide this information should not be dismissed lightly. Consideration should be given to charging the responsible accounting officers with financial misconduct in terms of section 171(1)(d) of the MFMA for withholding or being negligent in reporting such critical information, particularly at year end.

(b) Persistence of negative cash balances

43. Many municipalities may experience temporary cash-flow problems. However, where cash-flow problems persist over a number of months it is a strong indicator that there are severe underlying financial problems. The following table shows at the end of each quarter for how many months in the previous six months a municipality has reported negative end of month cash balances or failed to report credible cash information. The aim is to identify those municipalities that are persistently in a vulnerable cash-flow position or those with unreliable information.

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

	Audited Outcome 2010/11	Section 71 Report for the financial year 2011/12				
		Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Year to Date 2011/12
Metropolitan municipalities (8)						
No.of municipalities w ith negative cash balances over the last 6 months	0	1	1	1	1	1
No.of municipalities w hose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	0	0	0	0
between 2 and 3 months of the previous 6 months	0	0	1	0	0	0
less than 2 months of the previous 6 months	0	1	0	1	1	1
Secondary cities (19)						
No.of municipalities w ith negative cash balances over the last 6 months	5	4	5	6	4	4
No.of municipalities w hose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	2	2	3	3	2	2
between 2 and 3 months of the previous 6 months	1	1	0	0	2	2
less than 2 months of the previous 6 months	2	1	2	3	0	0
Other Local Municipalities (Towns) (210)						
No.of municipalities w ith negative cash balances over the last 6 months	72	75	60	64	67	67
No.of municipalities w hose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	34	15	19	20	25	25
between 2 and 3 months of the previous 6 months	23	37	13	23	26	26
less than 2 months of the previous 6 months	15	23	28	21	16	16
District municipalities(46)						
No.of municipalities w ith negative cash balances over the last 6 months	11	12	5	6	14	14
No.of municipalities w hose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	3	1	2	3	3	3
between 2 and 3 months of the previous 6 months	4	6	1	1	4	4
less than 2 months of the previous 6 months	4	5	2	2	7	7
All Municipalities (283)						
No.of municipalities w ith negative cash balances over the last 6 months	88	92	71	77	86	86
No.of municipalities w hose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	39	18	24	26	30	30
between 2 and 3 months of the previous 6 months	28	44	15	24	32	32
less than 2 months of the previous 6 months	21	30	32	27	24	24

44. The above table shows that at an overall level the number of municipalities with negative cash balances over the last 6 months appears to have stabilised but not significantly improved from last year. 86 municipalities representing about a third of all municipalities have had negative cash balances over the last 6 months compared to 88 in the previous year. Of the 86 municipalities, 67 of these are local municipalities.
45. Metros have generally had positive cash positions throughout the 2011/12 financial year. Only 1 metro has had a negative cash balance for less than two of the previous six months.
46. The performance of secondary cities has not shown significant improvement over the last year. 4 secondary cities accounting for about 21 per cent of all secondary cities have had negative cash balances over the last six months. 2 of these 4 municipalities appear to have persistent cash problems as cash has been negative for more than 3 of the previous six months while the other 2 municipalities have had negative cash balances for between 2 and 3 months of the previous six months.
47. The performance of local municipalities has improved marginally. However, more than 76 per cent of the municipalities who have had negative cash balances over the last six months fall in this category alone. It also indicates that there are strategic risks in this category as 32 per cent of all local municipalities have negative cash balances.
48. The performance of districts has deteriorated over the last year. Of the 46 district municipalities, 14 districts which account for 30 per cent of all districts have had negative cash balances over the last six months compared to 11 in the previous year. Of these 14,

3 districts appear to have persistent cash flow challenges, while 4 municipalities have had negative cash balances of between 2 and 3 months.

49. It does not necessarily indicate that if a municipality has a positive cash position that it has enough cash and investments on hand to fulfil its legal obligations to provide for the cash-backing of reserves and other working capital requirements. The municipal budget and reporting formats enable the evaluation of this aspect provided the municipality submits the correct information. Of the 17 non-delegated municipalities, only 5 municipalities have funded budgets going forward into the 2012 MTREF period.

(c) Cash coverage position of municipalities

50. A municipality also needs to have enough cash on hand to meet its monthly payments as and when they fall due. In this regard, calculating the level of cash coverage in a municipality is important should the municipality be faced with circumstances that threaten revenue. It is generally accepted that a prudent level of cash coverage is three months of average operational expenditure. The table below shows the number of municipalities that at the end of June had less than three months cash coverage.

Table 4: Municipalities' cash coverage as at 30 June 2012

	Audited Outcome				Section 71 Report for the financial year 2011/12				
	2007/08	2008/09	2009/10	2010/11	Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Date 2011/12
Metropolitan municipalities (8)									
No. of munics for which cash data is unavailable	0	0	0	0	0	0	0	0	0
No. whose cash coverage is									
more than 3 months of operational expenditure	2	2	1	1	1	1	3	1	1
between 1 and 3 months of operational expenditure	4	2	3	1	3	4	4	4	4
less than 1 month of operational expenditure	2	4	4	6	4	3	1	3	3
Secondary cities (19)									
No. of munics for which cash data is unavailable	3	2	0	2	0	0	0	0	0
No. whose cash coverage is									
more than 3 months of operational expenditure	3	1	1	3	4	2	5	3	3
between 1 and 3 months of operational expenditure	2	4	3	5	3	8	6	6	6
less than 1 month of operational expenditure	11	12	15	9	12	9	8	10	10
Other Local Municipalities (Towns) (210)									
No. of munics for which cash data is unavailable	126	86	3	18	10	10	10	14	10
No. whose cash coverage is									
more than 3 months of operational expenditure	12	22	34	32	59	59	77	46	47
between 1 and 3 months of operational expenditure	12	23	46	37	45	48	50	43	48
less than 1 month of operational expenditure	61	80	128	124	97	94	74	108	106
District municipalities (46)									
No. of munics for which cash data is unavailable	17	9	0	2	2	2	2	2	2
No. whose cash coverage is									
more than 3 months of operational expenditure	12	8	10	8	21	22	29	14	15
between 1 and 3 months of operational expenditure	5	7	10	8	11	12	6	6	8
less than 1 month of operational expenditure	12	22	26	28	12	10	9	24	21
All Municipalities (283)									
No. of munics for which cash data is unavailable	146	97	3	22	12	12	12	16	12
No. whose cash coverage is									
more than 3 months of operational expenditure	29	33	46	44	85	84	114	64	66
between 1 and 3 months of operational expenditure	23	36	62	51	62	72	66	59	66
less than 1 month of operational expenditure	86	118	173	167	125	116	92	145	140

51. It must firstly be acknowledged that reporting on cash information has improved significantly since 2007/08. There were 146 municipalities in 2007/08 with no cash data available. This was reduced to only 12 municipalities in 2011/12. However, the increase in reporting also gives the impression of a deterioration in year-on-year performance. However, this is not the case as we are simply obtaining a more complete picture of cash coverage through better reporting by municipalities.

52. As at the end of June 2012, the following observations on municipal cash coverage were made:
- a) 66 municipalities had a cash coverage ratio which exceeded 3 months of operational expenditure indicating a good financial condition;
 - b) 66 municipalities also had a cash coverage ratio of between 1 and 3 months indicating a level of risk particularly for those municipalities who fall on the lower end of this classification;
 - c) 140 municipalities had a cash coverage ratio of less than 1 month indicating that should these municipalities revenue streams be threatened all monthly expenditure will not be covered by the cash available; and
 - d) 12 municipalities did not provide the data.
53. There has been a clear improvement in the cash coverage of metros compared to the 2010/11 financial year. As at 30 June 2011, 6 metros appeared to be in a vulnerable position (less than 1 month of operational expenditure) compared to only 3 as at 30 June 2012. However, only 1 metro appears to have a good cash coverage ratio that is one that exceeds three months of operational expenditure.
54. The performance of secondary cities has remained stagnant with no visible improvement in the number of municipalities that have increased their cash coverage in excess of three months. The number of municipalities with less than a month's cash coverage has also increased albeit marginally. However, a maintenance of the status quo in this respect indicates no increased effort to improve the financial condition of municipalities in this category.
55. Local municipalities have shown good improvement over the last year with the number of local municipalities who have more than three months cash coverage increasing from 32 in 2010/11 to 47 in 2011/12. There has also been a reduction in the number of local municipalities who have previously had less than one month of cash coverage from 124 in 2010/11 to 106 in 2011/12.
56. District municipalities have also reflected good improvements in their cash coverage between 2010/11 and 2011/12. 15 district municipalities indicated cash coverage in excess of three months at the end of 2011/12 compared to 8 in the previous year an increase of almost 100 per cent. The number of district municipalities exposed to vulnerable cash coverage ratios (i.e. less than one month of operational expenditure) has also reduced from 28 at the end of the 2010/11 financial year to 21 at the end of 2011/12.
57. In aggregate, municipalities are beginning to demonstrate an understanding of the importance of budgeting for operating surpluses to mitigate cash and liquidity challenges. In addition this prudent budgeting approach will contribute in generating internal capacity to fund capital infrastructure from own revenue sources. This trend applies to both the budgeted and actual operating figures for the 2011/12 financial year.
58. Any one of the following events could push the municipalities that already have very low cash coverage into a negative cash position:
- a) A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs have on household budgets;

- b) The need to pay suppliers, especially contractors responsible for capital projects (whose billings are often lumpy and come at year-end);
 - c) The need to finance the cash-flow difference between paying for the increased cost of bulk electricity/water and the collection of revenues from customers;
 - d) Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue; or
 - e) A rate-payers/consumers boycott.
59. Broadly speaking, there is a disjuncture between the reporting of the quarterly cash information and annual end of year figures used to calculate this measure. The following are the probable causes for this misalignment:
- a) Municipalities do not, in general, conduct regular bank reconciliations throughout the year and defer this important control measure to the end of the financial year. This means that quarterly reporting of the cash position remains critically flawed; and
 - b) The practice of closing-off periods – monthly or quarterly - is not institutionalised within the municipal environment. As a result, transactions continue to be processed for historical periods throughout the financial year, leading to constantly changing and incomplete actual information. Reporting stabilises with year-end closing off processes when journals are processed and figures are finalised for submission to the annual audit process.

5.2 Indicator 3: Overspending of operational budgets

60. Municipalities that have difficulty compiling credible operational budgets or that are unable to manage their operational expenditures according to their budgets are at financial risk. Where either of these failures occur within the context of limited cash resources, and poor revenue collection rates, the financial risk is greatly magnified.
61. In the past municipalities were in the habit of passing last minute ‘adjustments budgets’ just prior to submitting their annual financial statements to the Auditor-General which aligned their budgets to actual spending. This manipulative practice enables municipalities to hide both over and under spending relative to their original budgets. This bad practice has been addressed by the Municipal Budget and Reporting Regulations which regulates the timing and number of adjustments budgets municipalities are allowed to pass.
62. The table below reflects the overspending of operational budgets from 2007/08 to 2011/12 per category of municipality:

Table 5: Overspending of original operational budgets

	Audited Outcome				Section 71 Report for the financial year 2011/12				
	2007/08	2008/09	2009/10	2010/11	Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Year to Date 2011/12
Metropolitan municipalities (8)									
Total Operating Budgets	74 576	81 267	92 780	109 417	136 165	136 165	137 034	137 034	137 034
Total Overspending of Original Operating Budgets	1 036	2 813	5 215	5 808	-	-	-	-	-
Overspending as % of original operating budgets	1%	3%	6%	5%	0%	0%	0%	0%	0%
Number of municipalities who overspent by									
less than 10% of their operational budget	4	5	3	1	0	0	0	0	0
between 10% and 25% of their operational budget	0	1	1	2	0	0	0	0	0
more than 25% of their operational budget	0	0	0	0	0	0	0	0	0
Secondary cities (19)									
Total Operating Budgets	15 820	17 302	20 869	24 730	28 336	28 336	28 934	28 934	28 934
Total Overspending of Original Operating Budgets	791	2 855	2 899	2 532	303	254	256	279	1 130
Overspending as % of original operating budgets	5%	16%	14%	10%	1%	1%	1%	1%	4%
Number of municipalities who overspent by									
less than 10% of their operational budget	4	3	6	8	0	0	0	0	1
between 10% and 25% of their operational budget	5	12	5	3	0	0	0	0	0
more than 25% of their operational budget	1	2	3	3	0	0	0	0	0
Other Local Municipalities (Towns) (210)									
Total Operating Budgets	19 996	23 796	29 926	33 886	38 054	38 054	39 439	39 439	39 439
Total Overspending of Original Operating Budgets	3 061	3 678	4 256	5 668	735	456	179	134	1 849
Overspending as % of original operating budgets	15%	15%	14%	17%	2%	1%	0%	0%	5%
Number of municipalities who overspent by									
less than 10% of their operational budget	50	39	48	39	0	0	0	0	18
between 10% and 25% of their operational budget	36	41	37	29	0	0	0	0	10
more than 25% of their operational budget	124	130	125	142	210	210	210	210	182
District municipalities(46)									
Total Operating Budgets	7 166	7 758	9 437	12 039	13 347	13 347	13 609	13 609	13 609
Total Overspending of Original Operating Budgets	2 555	3 511	3 506	2 162	-	-	46	14	976
Overspending as % of original operating budgets	36%	45%	37%	18%	0%	0%	0%	0%	7%
Number of municipalities who overspent by									
less than 10% of their operational budget	4	2	4	7	0	0	0	0	1
between 10% and 25% of their operational budget	6	7	9	7	0	0	0	0	2
more than 25% of their operational budget	22	26	23	8	0	0	1	1	4

63. There has been no overspending of operational budgets by metros. All metros have spent in accordance with their planned revenue and expenditure projections. This indicates that the credibility of budgeting at metropolitan level is fairly accurate.
64. With respect to secondary cities, only 1 secondary city has reported an overspending of less than 10 per cent of the operational budget. Similar to metros, this indicates the ability of secondary cities to manage their expenditure in line with their revenue further indicating generally credible budgeting.
65. The overspending by local municipalities is of extreme concern. 182 of the 210 local municipalities or 87 per cent of all local municipalities overspent their operational budgets by more than 25 per cent. There has also been an increasing trend in this regard since 2009/10. This indicates that the quality of budgeting by local municipalities is extremely poor with revenue and expenditure projections lacking credibility and local municipalities not demonstrating the ability to adjust expenditure in line with revised revenue estimates.
66. There has been an improvement in the performance of district municipalities compared to 2010/11. Only 4 districts have overspent their operational budgets by more than 25 per cent compared to 8 districts in 2010/11.

5.3 Indicator 4: Under-spending of capital budgets

67. The under-spending of capital budgets in municipalities is mainly attributed to difficulties with planning and executing capital projects. However, it could also indicate potential cash flow problems in municipalities. Total under-spending of the 2011/12 original capital budget was R14 billion or 31.6 per cent compared to the R14.8 billion or 32.3 per cent reported against the adjusted capital budget in the S71 reports for the fourth quarter.

Table 6: Under spending of original capital budgets

	Audited Outcome				Section 71 Report for the financial year 2011/12				
	2007/08	2008/09	2009/10	2010/11	Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Date 2011/12
Metropolitan municipalities (8)									
Total Original Capital Budget	18 605	24 100	25 301	20 428	22 465	22 465	22 044	22 044	22 044
Total Underspending of Original Capital Budget	2 633	720	4 083	4 592	20 374	18 607	18 410	14 103	4 519
Underspending as % of Original Capital Budget	14%	3%	16%	22%	91%	83%	84%	64%	21%
Number of municipalities who underspent by									
less than 10% of their capital budget	2	6	3	2	0	0	0	0	1
between 10 and 30% of their capital budget	6	1	3	4	0	0	0	0	4
more than 30% of their capital budget	0	1	2	2	8	8	8	8	3
Secondary cities (19)									
Total Original Capital Budget	5 071	6 000	6 778	5 393	4 994	4 994	5 275	5 275	5 275
Total Underspending of Original Capital Budget	1 732	1 072	2 104	2 666	4 542	4 250	4 671	3 919	2 079
Underspending as % of Original Capital Budget	34%	18%	31%	49%	91%	85%	89%	74%	39%
Number of municipalities who underspent by									
less than 10% of their capital budget	8	9	5	4	2	2	1	1	2
between 10 and 30% of their capital budget	1	3	3	4	0	0	0	0	8
more than 30% of their capital budget	10	7	11	11	17	17	18	18	9
Other Local Municipalities (Towns) (210)									
Total Original Capital Budget	9 213	9 428	10 925	9 730	10 223	10 223	10 310	10 310	10 310
Total Underspending of Original Capital Budget	4 172	3 882	4 385	4 115	9 051	8 635	9 010	8 182	4 263
Underspending as % of Original Capital Budget	45%	41%	40%	42%	89%	84%	87%	79%	41%
Number of municipalities who underspent by									
less than 10% of their capital budget	73	70	75	96	32	34	30	33	57
between 10 and 30% of their capital budget	32	30	37	35	1	0	0	1	41
more than 30% of their capital budget	105	110	98	79	177	176	180	176	112
District municipalities(46)									
Total Original Capital Budget	5 077	6 565	6 942	5 814	6 882	6 882	6 977	6 977	6 977
Total Underspending of Original Capital Budget	2 851	3 183	2 949	2 088	6 222	5 836	6 135	5 667	3 232
Underspending as % of Original Capital Budget	56%	48%	42%	36%	90%	85%	88%	81%	46%
Number of municipalities who underspent by									
less than 10% of their capital budget	12	13	15	15	3	5	5	6	14
between 10 and 30% of their capital budget	7	9	6	4	0	0	0	1	8
more than 30% of their capital budget	27	24	25	27	43	41	41	39	24

68. Under-spending by metros remains high with more than 20 per cent of the capital budget being unspent by the end of the 2011/12 financial year. Only 1 metro has underspent by less than 10 per cent which is considered reasonable. 4 metros have underspent by between 10 and 30 per cent while the remaining 3 metros have underspent by more than 30 per cent. Given that most metros fund a significant portion of the capital budget from their own funding, under-spending could be more the result of own funding being unavailable in terms of cash or perhaps slow supply chain management processes.
69. The problem with financing capital budgets with own funding and subsequently under-spending on capital is that tariffs have already been increased at the start of the financial year to provide such funding. Where a municipality underspends at year end, it already recovers this money through the tariff. Therefore consumers may pay for projects that may not materialise in a financial year and could again be included as a component in the tariff for the next year.

70. The ability of secondary cities to spend their capital budgets is a concern. Under-spending by the 19 secondary cities has been consistently high although some improvement in spending between 2010/11 and 2011/12 is noted. Nevertheless, in aggregate, secondary cities underspent their capital budget by R2.1 billion or 39 per cent. This negative trend has been emerging since 2007/08 and indicates that secondary cities are failing in the delivery of their own IDP objectives as well as the applicable objectives of national and provincial government.
71. Aggregate under-spending by local municipalities is R4.3 billion or 41 per cent of the original capital budget. This trend has remained relatively constant since 2007/08 as under-spending has consistently exceeded 40 per cent.
72. The capital budgets of local municipalities are largely grant funded and hence a lack of funding is not the probable cause of poor capital spending. In local municipalities, it is fair to conclude that failure to spend the capital budget is more the result of poor planning, project management and project implementation. What is of concern is that local municipalities have been the beneficiaries of a number of support programmes run by various departments and yet they are still unable to plan and implement projects appropriately. 112 local municipalities which is more than half of all local municipalities underspent their capital budgets by more than 30 per cent.
73. Similar to local municipalities, the performance of district municipalities with regard to the spending of the original capital budgets has been extremely dismal. In aggregate district municipalities underspent their capital budgets by R3.2 billion or 46 per cent increasing by approximately 10 per cent from the 2010/11 financial year. 24 district municipalities underspent their capital budget by more than 30 per cent. Given that districts are heavily grant reliant for both their operating and capital revenue, significant under-spending of the capital budget is equivalent to significant under-spending of conditional grants.
74. The factors that contribute to the under-spending of capital budgets include:
 - i. Poor capital budgeting – the capital budgets are very often over ambitious and not adequately funded (i.e. the funding sources are not realistic or credible);
 - ii. Shortage of planners and engineers that can draft appropriate specifications and prepare tenders of sufficient quality to attract bids for projects;
 - iii. Poor capital expenditure planning – the tendency to start planning the implementation of the capital budget at the beginning of the financial year which leads to a slow start to spending;
 - iv. Badly managed procurement processes – the widespread mismanagement of these processes mean further delays to spending;
 - v. The various holidays during Quarters 2 and 3 mean that spending cannot be easily accelerated later in the municipal financial year, leaving only quarter 4 to reach the budgeted spending targets;
 - vi. Poor management of adjustment budgets, e.g. increase budgets even though spending performance is poor;
 - vii. Political interference in procurement processes; and
 - viii. Promising in the budget what cannot be delivered in reality.

75. A separate report on the *Over- and under spending of municipalities as at 30 June 2012* has been prepared and is available.

Under-spending of Conditional Grants

76. Linked to the under-spending of the capital programme is the under-spending of conditional grants. For the year under review, the following observations were made:
- a) The Division of Revenue Act, 2011 (Act No.6 of 2011) allocated R65.6 billion in transfers to local government. This consists of the local government equitable share of R34.1 billion and R31.5 billion for both direct and indirect grants:

I.	Direct conditional grants	R20.1 billion
II.	Equitable Share	R34.1 billion
III.	In-kind allocations	R5.1 billion
IV.	USDG	R6.3 billion
 - b) Departments administering conditional grants transferred an amount of R22.6 billion by the end of the fourth quarter against an allocation of R24.8 billion for both direct and indirect conditional grants. This constitutes 91.1 per cent of the total conditional grants allocated for the 2011/12 financial year.
 - c) Municipalities receiving direct conditional grants reported an average expenditure of 78.5 per cent or R15.8 billion of the R20.1 billion allocated directly to them.
 - d) The spending per cent excludes performance by all metropolitan municipalities receiving the USD Grant which totals R6.3 billion and all schedule 7 grants.
 - e) The Water Services Operating and Subsidy Grant (WSOS) is the highest performing programme with expenditure of 116.5 per cent as reported by municipalities.

Indicator 5 and 6: Levels of Growth in Consumer Debtors

77. Consumer debtors as a per cent of own revenue provides a useful, easily calculated indicator of the state of municipalities' debtor management capabilities. Municipalities whose debtors are greater than 30 per cent of own revenue are at serious financial risk, especially if there is an on-going deteriorating trend.
78. However, when the quality of municipal reporting on this information improves, the National Treasury is still committed to make the following refinements but only at the opportune time:
- a) Consumer debtors will be reduced by the provision for debt impairment. This will align this amount with what municipalities are supposed to be reporting in their annual financial statements, and on Table A6 of the budget formats.
 - b) Own revenue will be replaced by billable revenue so as to emphasise that consumer debtors arise due to the failure to collect this particular revenue.
 - c) Debt impairment as a percentage of billable revenue will be added as a complementary measure so as to highlight the cost to the municipality of providing for the non-collection/writing off of billable revenue.

79. The table below shows that at 30 June 2012, there were at least 171 municipalities with debtor levels higher than 30 per cent of own revenue. This represents a marginal improvement from June 2011 where a 185 municipalities reported debtors in excess of 30 per cent of own revenue. However, the improvement in the trend may not be credible given serious shortcomings with many municipalities' reported own revenues, particularly among the district and local municipalities (see the reported increases in total own revenue in these categories- which are completely unrealistic).

Table 7: Debtors as at 30 June 2012 percentage of own revenue

	Audited Outcome				Section 71 Report for the financial year 2011/12						
	2007/08	2008/09	2009/10	2010/11	Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Year to Date 2011/12	2012/13	2013/14
Metropolitan municipalities (8)											
Total Own Revenue	58 452	65 721	78 452	94 381	31 886	30 572	31 104	33 596	127 158	123 685	141 856
Total Debtors	27 918	30 915	32 412	38 636	44 455	44 476	45 006	46 089	46 089	-	-
Debtors as a % of total own revenue	48%	47%	41%	41%	139%	145%	145%	137%	36%	0%	0%
No. whose total debtors are											
less than 15% of their total own revenue	0	0	0	0	0	0	0	0	0	0	0
between 15 and 30% of their total own revenue	1	1	0	3	0	0	0	0	4	0	0
more than 30% of their total own revenue	7	7	8	5	8	8	8	8	4	0	0
Secondary cities (19)											
Total Own Revenue	13 188	15 169	18 655	18 453	6 500	5 717	5 594	5 467	23 277	25 189	28 500
Total Debtors	5 262	7 100	9 839	11 489	12 707	13 089	13 547	13 904	13 904	-	-
Debtors as a % of total own revenue	40%	47%	53%	62%	196%	229%	242%	254%	60%	0%	0%
No. whose total debtors are											
less than 15% of their total own revenue	6	5	3	5	0	0	0	0	4	0	0
between 15 and 30% of their total own revenue	3	4	5	2	0	1	1	1	2	0	0
more than 30% of their total own revenue	10	10	11	12	19	18	18	18	13	0	0
Other Local Municipalities (Towns) (210)											
Total Own Revenue	14 282	16 759	19 159	19 403	8 817	6 616	6 614	5 795	27 842	25 612	27 736
Total Debtors	3 308	7 214	11 768	13 558	16 774	17 597	17 593	16 176	16 176	-	-
Debtors as a % of total own revenue	23%	43%	61%	70%	190%	266%	266%	279%	58%	0%	0%
No. whose total debtors are											
less than 15% of their total own revenue	163	120	37	42	13	10	16	23	38	0	0
between 15 and 30% of their total own revenue	9	14	28	21	9	5	6	2	37	0	0
more than 30% of their total own revenue	38	76	145	147	188	195	188	185	135	0	0
District municipalities(46)											
Total Own Revenue	2 264	2 312	2 902	4 190	1 743	1 440	1 998	1 506	6 687	3 495	3 647
Total Debtors	691	1 477	1 858	2 275	2 406	2 437	2 784	2 922	2 922	-	-
Debtors as a % of total own revenue	31%	64%	64%	54%	138%	169%	139%	194%	44%	0%	0%
No. whose total debtors are											
less than 15% of their total own revenue	33	30	22	20	14	16	18	17	23	0	0
between 15 and 30% of their total own revenue	5	3	4	5	6	1	4	5	4	0	0
more than 30% of their total own revenue	8	13	20	21	26	29	24	24	19	0	0

80. All metropolitan municipalities have reported debtors in excess of 30 per cent of own revenue for each quarter of the 2011/12 financial year through the S71 reporting process. However, at year end based on the unaudited outcomes for 2011/12, only 4 metros reported to be in this position while the remaining 4 have indicated that outstanding debt accounts for between 15 and 30 per cent of own revenue.
81. The performance of secondary cities has remained fairly constant. From the information in the table, it is evident that there has been no real improvement in the management of debtors by secondary cities. The number of municipalities in this category who have debtors in excess of 30 per cent of own revenue has shown a slow but steady increase between 2007/08 and 2011/12.
82. Some improvement has been noted in respect of local municipalities. The number of local municipalities who had debtor balances exceeding 30 per cent of own revenue has declined from 147 in 2010/11 to 135 in 2011/12. Similar improvements have also been observed amongst district municipalities. 23 municipalities or 50 per cent have reported debtors less than 15 per cent of total own revenue. However, the satisfactory

performance in this regard is probably due to the limited powers and functions of the district municipalities.

83. While debtors as a percentage of total revenue is improving, debtor levels remain very high as depicted in the above table.
84. The total debtors for all 278 Municipalities increased from R66 million in 2010/2011 to R79 million in 2011/2012 (i.e. 20 per cent increase).
85. This deterioration is partially due to the average collection rate for the four quarters of the 2011/12 financial year of 90.7 per cent.
86. The underperformance of actual collections against billed revenue can be attributed to amongst others, the affordability of municipal services. The ongoing economic slowdown and substantial increases in electricity tariffs are starting to impact on affordability and subsequently the ability of consumers to pay for services.
 - a) It is important to note that the growth in the level of consumer debtors may also be attributed to the following:
 - b) A failure on the part of Mayors and municipal councils to provide political backing to revenue enhancement programmes (often councillors are in arrears with their own payments);
 - c) A failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function, thus compromising implementation of policies to enhance revenue;
 - d) Poorly designed revenue management, indigent and debtor policies;
 - e) Resistance among certain communities to paying for certain types of services (or to being billed in a particular way); and
 - f) Rate-payer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.
87. The following table shows growth in consumer debtors across financial years.

Table 8: Growth in consumer debtors as at 30 June each year

	Audited Outcome				Section 71 Report for the financial year 2011/12				
	2007/08	2008/09	2009/10	2010/11	Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Year to Date 2011/12
Metropolitan municipalities (8)									
No. whose debtors grew	0	6	6	7	8	5	5	8	8
No. whose debtors increased by									
less than 10% over period show n	0	2	1	2	3	4	4	1	1
between 10% and 20% over period show n	0	2	4	4	3	1	1	4	4
more than 20% over period show n	0	2	1	1	2	0	0	3	3
Secondary cities (19)									
No. whose debtors grew	0	12	16	15	18	11	14	18	18
No. whose debtors increased by									
less than 10% over period show n	0	1	4	4	9	9	12	3	3
between 10% and 20% over period show n	0	8	5	7	3	2	2	11	11
more than 20% over period show n	0	3	7	4	6	0	0	4	4
Other Local Municipalities (Towns) (210)									
No. whose debtors grew	0	52	94	152	175	146	149	163	163
No. whose debtors increased by									
less than 10% over period show n	0	6	15	22	75	89	98	26	26
between 10% and 20% over period show n	0	11	25	46	46	30	23	60	60
more than 20% over period show n	0	23	38	69	36	15	13	59	59
District municipalities(46)									
No. whose debtors grew	0	12	19	19	21	22	20	22	22
No. whose debtors increased by									
less than 10% over period show n	0	2	3	2	10	16	12	3	3
between 10% and 20% over period show n	0	3	3	3	2	0	3	6	6
more than 20% over period show n	0	7	13	14	9	6	5	13	13
All Municipalities (283)									
No. whose debtors grew	-	82	135	193	222	184	188	211	211
No. whose debtors increased by									
less than 10% over period show n	-	11	23	30	97	118	126	33	33
between 10% and 20% over period show n	-	24	37	60	54	33	29	81	81
more than 20% over period show n	-	35	59	88	53	21	18	79	79

88. Comparing the information between 2010/11 and 2011/12 it is evident that municipalities in all categories are still struggling to curb the growth in consumer debtors. A total of 211 municipalities reported growth in debtors between June 2011 and June 2012, compared to 193 for the previous period. This increase may be partly related to more complete reporting, but most of it is attributable to the actual growth in debtors.
89. Overall, 79 municipalities experienced growth in debtors in excess of 20 per cent between June 2011 and June 2012. This indicates either a failure to implement proper debtor management processes or a breakdown of existing processes. Particularly concerning is the on-going rapid growth in debtors in secondary cities.

Indicator 7: Levels of Creditors

90. Section 65(2)(e) of the MFMA provides that the accounting officer of a municipality must take all reasonable steps to ensure “that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.” The quality of the information on the age of outstanding creditors has improved in recent months, but it still remains weak. This issue continues to receive attention.
91. In addition section 65(2)(h) provides that the accounting officer must take all reasonable steps to ensure “that the municipality’s available working capital is managed effectively

and economically.” At very least this involves ensuring that the timing of the municipality’s expenditures are matched by its flow of income.

92. The following table shows creditors as a percentage of cash and investments. This indicates whether municipalities have the working capital to settle their outstanding creditors.

Table 9: Creditors as a percentage of cash and investments

	Audited Outcome				Section 71 Report for the financial year 2011/12				
	2007/08	2008/09	2009/10	2010/11	Quarter 1: 30 Sep '11	Quarter 2: 31 Dec '11	Quarter 3: 31 Mar '12	Quarter 4: 30 Jun '12	Year to Date 2011/12
Metropolitan municipalities (8)									
Total Cash and Investments	14 134	9 414	10 111	12 260	13 367	17 549	22 124	19 350	19 350
Total Creditors	7 208	8 672	8 002	11 331	6 454	4 748	6 749	10 267	10 267
Creditors as a % of Total Cash	51%	92%	79%	92%	48%	27%	31%	53%	53%
No. whose Total Creditors are									
less than 25% of their Cash	2	3	3	0	3	5	4	3	
between 25 and 50% of their Cash	3	2	0	3	1	1	2	1	
between 50 and 75% of their Cash	2	0	1	0	0	1	1	1	
more than 75% of their Cash	1	3	4	5	4	1	1	3	
Secondary cities (19)									
Total Cash and Investments	2 364	111	(38)	2 558	2 558	2 716	3 419	2 771	2 771
Total Creditors	795	979	1 517	2 149	1 883	1 848	1 864	2 452	2 452
Creditors as a % of Total Cash and Investments	34%	882%	-4019%	84%	74%	68%	55%	88%	88%
No. whose Total Creditors are									
less than 25% of their Cash	7	7	10	5	6	7	8	6	
between 25 and 50% of their Cash	0	0	1	1	2	4	4	0	
between 50 and 75% of their Cash	0	0	0	1	3	3	0	3	
more than 75% of their Cash	6	7	7	10	5	4	6	8	
Other Local Municipalities (Towns) (210)									
Total Cash and Investments	533	1 233	2 667	2 847	4 613	5 314	6 560	4 449	4 449
Total Creditors	284	807	1 393	1 932	2 320	2 390	2 001	2 460	2 460
Creditors as a % of Total Cash and Investments	53%	65%	52%	68%	50%	45%	31%	55%	55%
No. whose Total Creditors are									
less than 25% of their Cash	22	42	102	96	112	113	108	97	
between 25 and 50% of their Cash	3	9	10	16	8	8	10	13	
between 50 and 75% of their Cash	3	4	7	3	6	6	7	6	
more than 75% of their Cash	11	21	41	56	54	49	46	51	
District municipalities (46)									
Total Cash and Investments	1 551	1 407	2 555	1 968	5 191	5 838	6 547	3 926	3 926
Total Creditors	134	420	712	842	756	743	826	872	872
Creditors as a % of Total Cash and Investments	9%	30%	28%	43%	15%	13%	13%	22%	22%
No. whose Total Creditors are									
less than 25% of their Cash	17	20	24	22	25	32	34	26	
between 25 and 50% of their Cash	3	1	3	5	5	5	2	4	
between 50 and 75% of their Cash	1	2	0	1	4	1	1	2	
more than 75% of their Cash	2	6	13	11	7	4	6	9	

93. The above table suggests that the situation with regards to outstanding creditors is highly variable – most likely linked to whether municipalities have settled their bulk electricity and water bills at the time of reporting or when the last equitable share payment was received by the municipality. Nevertheless, there are some very concerning indications that many municipalities are delaying the payment of creditors because of a lack of cash.
94. There is an improvement in the cash position as only 3 metros and 8 secondary cities reported creditors at more than 75 per cent of total cash and investments as at 30 June 2012, compared to 5 and 10 for 30 June 2011 respectively. This is particularly true for the metros as the increase in cash and investment did not result in an increase in creditors.
95. The increase in cash and investment for secondary cities has also resulted in an increase to that of creditors and this could be attributed to the non-payment of creditors.

96. Among the local municipalities, 51 had creditors of more than 75 per cent of their cash and investments at the end of June 2012. Even though this is a decrease compared to 56 in June 2011, it is unacceptably high and still further indication of the deteriorating cash position among local municipalities due to them depleting their cash and reserves to fund extensive and overly ambitious capital programmes and / or compiling unfunded budgets.
97. The general trend is that municipalities are delaying paying creditors at the end of the financial year so as to end the year in a 'positive cash position' and ensure compliance with the Municipal Finance Management Act.

6 Other issues impacting on the financial health of a municipality

6.1 Inadequate budgets for repairs and maintenance

98. In the past, reporting on repairs and maintenance has been problematic and unreliable. National Treasury is currently putting in place processes to ensure better quality budgeting and reporting on repairs and maintenance through the budget formats. This will be reflected in municipalities' approved budgets, as well as the section 71 reports for 2012/13.
99. As soon as a municipality experiences any kind of financial stress, invariably the first category of expenditure to be cut is repairs and maintenance. This is because the impact of not spending on this item is not visible and not obvious in the short term. It is also less politically sensitive than say cutting the capital expenditure programme, or reducing the entertainment budget. However, the medium to long term consequences of underspending on repairs and maintenance include:
 - a. Deteriorating reliability and quality of services;
 - b. Move to more expensive crisis maintenance, rather than planned maintenance;
 - c. Increasing the future cost of maintenance and refurbishment;
 - d. Shortening the useful lifespan of assets, necessitating earlier replacement; and
 - e. Reduced revenues due to the failure to sell water and electricity, and other services.

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

The Municipal Finance Improvement Programme (MFIP)

100. Financial management expertise was previously deployed to municipalities via the Siyenza Manje programme managed by the DBSA. However, a decision was taken to remove the financial management component of this programme and transfer to this National Treasury. In addition the Infrastructure component of the programme was moved to CoGTA under the Municipal Infrastructure Support Agency (MISA).
101. The Municipal Finance Improvement Programme (MFIP) as it is now called focuses on capacity building covering various Financial Management Disciplines and attempts to address gaps in the implementation of the MFMA.

102. 80 municipalities are currently receiving support through an MFIP advisor appointed to these municipalities. Municipalities have each signed Support Plans which serves as the basis for support and assists in prioritising activities that require support. In order to monitor progress and impact, reports must be submitted to the Municipal Steering Committee which consists of inter alia, the Municipal Manager, Chief Financial Officer, Mayor or Councillor for Finance placing accountability for the support with the municipality.
103. However, the achievements of the programme vary as circumstances in municipalities differ. Differences in municipal capacity such as filling of vacancies, appointment of suitably qualified officials, changes to structures, policies, procedures, etc. will affect the outcomes of this programme.
104. In many instances, municipal officials do not carry out financial management activities on a regular basis or the activities are undertaken in isolation of each other, internal processes and procedures are not in place and there is a lack of management supervision, necessary checks and appropriate training offered. Furthermore, challenges relating to the appointment and training of officials in Budget and Treasury Office on the minimum competencies, practical ability of officials to absorb the reforms, appointment and absorption of interns, improvements and finalisation of Systems of Delegations, performance management of officials need improving, were also identified.
105. Progress is being made in addressing the above challenges. Regular reviews are conducted and feedback is provided to the municipality and respective provincial treasury. Real results will only be seen over the medium term as the technical support will need to cover a few financial management cycles to ensure the goals of the support programme are achieved. Future reviews of this nature will include more substantive reports on progress achieved.

Role of Provincial Treasuries

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

specifically provincial treasuries, so that they are better able to provide support to local government.

109. In response to some of the issues highlighted above, National Treasury has subsequently managed to raise funding for the following initiatives to strengthen provincial treasuries' capacity to support local government, namely:
- a. Funding has been made available to each provincial treasury to strengthen their internal capacity and to provide more meaningful support to local government;
 - b. Funding to employ two experts initially later increasing to five experts per province (45 in total) to be appointed by each provincial treasury within their MFMA Implementation and Support Unit; and

8 Municipalities in financial distress: Annexure A

110. Annexure A lists the names of the 94 municipalities that this analysis identifies as being in *financial distress*. This is a 42 per cent increase from last year's total of 66. There are also 29 municipalities whose financial status did not improve as they appear again in this list. This means also that 37 municipalities improved their financial status but more worrying there are 65 new municipalities that are in financial distress.
111. This report identifies Mangaung as the only metro in financial distress and it was also identified as such as part of the secondary cities last year. There are six secondary cities that are in financial distress, four of these were also in financial distress in the previous year. These municipalities are Mogale City, Msunduzi, eMalahleni and Madibeng. The two new municipalities are Matjhabeng and Mbombela.
112. What is also of great concern is that there are nine district municipalities which have been identified as being in financial distress. All of these are new compared to the eight that have been identified last year.
113. Not shown in Annexure A is that a further 37 municipalities are on the borderline to being identified as being in financial distress.
114. The above suggests that there is scope to improve the targeting of support to those municipalities identified as being in financial distress.

9 Risks posed by the current state of municipal finances

115. The risks associated with the current state of municipal finances fall into the following categories:
- a. *Service delivery risks*
 - i. Staff do not get paid – and so refuse to work
 - ii. Bulk services do not get paid for – so services could be cut
 - iii. Contractors and suppliers do not get paid
 - iv. Repairs and maintenance is invariably among the first expenditures cut placing service delivery at risk, as well as future revenues

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

10 Summary

- 116. This report provides an overview of financial health of municipalities. Based on selected measures, it broadly indicates where problems exist and where problems appear to persist requiring further intervention or support.
- 117. It evident from the analysis contained in this report that reporting by municipalities has improved significantly enabling better application of the selected measures to identify municipalities that are potentially in distress and municipalities that require support.
- 118. The 2011/12 report has been enhanced to include the scores per municipality used to determine which municipality is in financial distress. It is hoped that municipalities will utilise this information constructively to institute measures that will avert a potential financial crisis.
- 119. In addition, a separate Annexure C, showing a comparison between audit outcomes and support deployment, has also been included.
- 120. Lastly, we have included a template of an assessment card for Metros that we intend developing for all categories of municipalities. This is contained in Annexure D.

Annexure A

Municipalities in financial distress – 30 June 2012 (the highlighted lines indicate the municipalities identified as being in financial distress).

Annexure A: Municipalities in financial distress – 30 June 2012

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Overspen ding Operation	T5 - Underspe nding Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	> 16
Nelson Mandela Bay	NMA	2	1	3		1	1	2	1	11	-
Ekurhuleni Metro	EKU	2	1	2		2	1	3	2	13	-
City Of Johannesburg	JHB	3	1	2		2	1	3	3	15	-
City Of Tshwane	TSH	3	1	2		2	1	2	3	14	-
eThekweni	ETH	2	1	2		3	1	2	1	12	-
Cape Town	CPT	2	1	2		2	1	2	1	11	-
Buffalo City	BUF	1	1	2		3	1	3	1	12	-
Mangaung	MAN	3	1	2		3	1	3	3	16	YES
Matjhabeng	FS184	2	1	3		3	1	3	3	16	YES
Emfuleni	GT421	3	3	3		3	1	3	3	19	YES
Mogale City	GT481	3	1	2		2	1	3	3	15	-
Msunduzi	KZN225	3	1	2		3	1	3	3	16	YES
New castle	KZN252	1	1	2		3	1	3	2	13	-
uMhlathuze	KZN282	2	2	1	1	3	1	1	3	14	-
Polokwane	LIM354	3	1	2		1	1	3	3	14	-
Govan Mbeki	MP307	1	1	3		3	1	3	1	13	-
Emalahleni (Mp)	MP312	3	3	3		1	1	3	3	17	YES
Steve Tshwete	MP313	3	1	1		3	2	1	3	14	-
Mbombela	MP322	3	1	2		3	1	3	3	16	YES
Madibeng	NW372	3	1	3		2	1	3	3	16	YES
Rustenburg	NW373	1	1	2		3	1	3	1	12	-
Tlokweng	NW402	2	1	1		2	1	2	2	11	-
City Of Matlosana	NW403	3	3	2		2	1	3	1	15	-
Sol Plaatje	NC091	2	1	2		2	1	3	2	13	-
Drakenstein	WC023	2	1	1		2	1	2	1	10	-
Stellenbosch	WC024	3	1	2		2	1	1	1	11	-
George	WC044	2	1	2		2	1	1	1	10	-

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	> 16
Camdeboo	EC101	2	1	3		1	1	2	1	11	-
Blue Crane Route	EC102	2	1	2	1	1	1	2	1	11	-
Ikw ezi	EC103	2	1	3		3	1	3	3	16	YES
Makana	EC104	2	1	3	3	3	1	3	1	17	YES
Ndlambe	EC105	3	3	3	3	2	1	3	1	19	YES
Sundays River Valley	EC106	3	1	2		2	1	3	3	15	-
Baviaans	EC107	3	3	3		1	1	2	1	14	-
Kouga	EC108	3	1	3		2	1	3	3	16	YES
Kou-Kamma	EC109	3	1	3		3	1	3	3	17	YES
Mbhashe	EC121	1	1	3		3	1	3	1	13	-
Mnquma	EC122	2	1	3	2	3	1	3	1	16	YES
Great Kei	EC123	1	1	3		3	2	3	1	14	-
Amahlathi	EC124	1	1	2		1	1	3	1	10	-
Ngqushw a	EC126	2	1	2		3	1	3	1	13	-
Nkonkobe	EC127	2	1	2		2	1	3	1	12	-
Nxuba	EC128	1	1	3		3	2	3	3	16	YES
Inxuba Yethemba	EC131	3	3	1	3	1	3	1	1	16	YES
Tsolw ana	EC132	2	1	3		3	1	3	1	14	-
Inkwanca	EC133	3	3	3	3	1	1	3	3	20	YES
Lukhanji	EC134	1	1	3		3	1	3	1	13	-
Intsika Yethu	EC135	2	1	3		2	3	3	3	17	YES
Emalahleni (Ec)	EC136	2	1	3		3	1	3	1	14	-
Engcobo	EC137	1	1	3	3	3	1	1	1	14	-
Sakhisizw e	EC138	1	1	3		1	1	3	1	11	-
Elundini	EC141	1	1	2		3	1	3	1	12	-
Senqu	EC142	3	1	2		2	1	3	3	15	-
Maletswai	EC143	3	3	2	2	3	2	2	1	18	YES
Gariep	EC144	3	1	3		1	1	3	3	15	-
Ngquza Hills	EC153	1	1	3		3	1	3	1	13	-
Port St Johns	EC154	1	1	3		3	1	1	1	11	-
Nyandeni	EC155	1	1	3		1	1	3	3	13	-
Mhlontlo	EC156	3	1	3	3	2	3	3	3	21	YES
King Sabata Dalindyebo	EC157	3	1	3	2	1	1	2	3	16	YES
Matatiele	EC441	2	3	3		3	1	3	3	18	YES
Umzimvubu	EC442	3	1	3		3	1	3	1	15	-
Mbizana	EC443	1	1	3		3	1	3	1	13	-
Ntabankulu	EC444	1	3	3		1	2	3	3	16	YES

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	> 16
Letsemeng	FS161	1	1	3		3	1	3	1	13	-
Kopanong	FS162	3	3	3	3	1	1	3	1	18	YES
Mohokare	FS163	3	2	3		2	3	3	1	17	YES
Naledi (Fs)	FS164	1	1	3		3	3	1	3	15	-
Masilonyana	FS181	3	3	3		2	3	1	3	18	YES
Tokologo	FS182	3	1	3		2	1	3	3	16	YES
Tswelopele	FS183	1	3	3		1	1	3	3	15	-
Nala	FS185	3	1	3	1	3	3	1	1	16	YES
Setsooto	FS191	3	2	3		3	3	1	3	18	YES
Dhlabeng	FS192	1	3	3		2	1	3	1	14	-
Nketoana	FS193	3	1	2		1	1	3	1	12	-
Maluti-a-Phofung	FS194	3	2	3	3	3	1	3	1	19	YES
Phumelela	FS195	3	3	3		3	1	3	1	17	YES
Mantsopa	FS196	3	2	3		3	1	3	1	16	YES
Moghaka	FS201	3	1	3		3	1	3	3	17	YES
Ngwathe	FS203	2	1	1		3	1	3	3	14	-
Metsimaholo	FS204	3	1	3		3	1	3	3	17	YES
Mafube	FS205	3	1	3	1	2	1	3	3	17	YES
Midvaal	GT422	3	3	2		2	1	2	3	16	YES
Lesedi	GT423	3	1	2	1	2	1	3	3	16	YES
Randfontein	GT482	3	3	2		3	1	3	1	16	YES
Westonaria	GT483	3	1	2		3	1	3	3	16	YES
Merafong City	GT484	2	1	1		1	1	3	1	10	-
Vulamehlo	KZN211	3	1	3	3	3	1	1	1	16	YES
Umdoni	KZN212	3	1	3		3	1	3	3	17	YES
Umzumbe	KZN213	1	1	3		3	1	2	3	14	-
uMuziwabantu	KZN214	2	1	3	3	1	1	3	3	17	YES
Ezingoloni	KZN215	1	1	3		1	3	1	1	11	-
Hibiscus Coast	KZN216	2	1	3		1	1	2	1	11	-
uMshwathi	KZN221	3	1	3		2	1	3	3	16	YES
uMngeni	KZN222	2	1	3		3	1	3	3	16	YES
Mpofana	KZN223	2	1	1		3	1	3	1	12	-
Impendle	KZN224	1	1	3		3	3	1	3	15	-
Mkhambathini	KZN226	3	1	3		2	2	2	1	14	-
Richmond	KZN227	3	3	2		3	1	2	3	17	YES
Ennambithi/Ladysmith	KZN232	3	3	3		1	1	3	1	15	-
Indaka	KZN233	3	1	1	3	1	1	1	1	12	-
Umtshezi	KZN234	2	1	2		3	1	3	1	13	-
Okhahlamba	KZN235	1	1	3		2	1	2	1	11	-
Imbabazane	KZN236	1	1	3	1	3	2	1	1	13	-
Endumeni	KZN241	3	1	2		3	1	3	3	16	YES
Nquthu	KZN242	1	1	3		1	1	2	1	10	-
Msinga	KZN244	1	1	3		1	1	3	1	11	-
Umvoti	KZN245	2	1	2		3	1	2	1	12	-
eMadlangeni	KZN253	3	3	1		3	2	3	1	16	YES
Dannhauser	KZN254	3	3	2	3	3	2	2	1	19	YES
eDumbe	KZN261	3	1	1		1	1	3	1	11	-
uPhongolo	KZN262	2	1	1		3	1	3	1	12	-

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

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	> 16
Richtersveld	NC061	3	1	3		1	1	3	3	15	-
Nama Khoi	NC062	3	1	3		3	1	3	3	17	YES
Kamiesberg	NC064	2	1	3		3	1	3	3	16	YES
Hantam	NC065	3	1	3	1	3	3	3	1	18	YES
Karoo Hoogland	NC066	3	1	1	2	3	1	3	3	17	YES
Khaji-Ma	NC067	1	1	3	1	3	1	3	3	16	YES
Ubuntu	NC071	3	1	3		3	3	1	3	17	YES
Umsobomvu	NC072	2	1	1		3	1	3	1	12	-
Emthanjeni	NC073	2	1	1		1	3	1	3	12	-
Kareeberg	NC074	3	1	3		2	2	3	3	17	YES
Renosterberg	NC075	3	1	1		1	1	3	3	13	-
Thembelihle	NC076	3	1	1	2	3	1	3	1	15	-
Siyathemba	NC077	3	1	1		1	3	1	3	13	-
Siyancuma	NC078	2	3	3		3	1	3	1	16	YES
Mier	NC081	3	1	3	1	3	1	2	1	15	-
Ikail Garib	NC082	3	1	3		2	1	3	3	16	YES
//Khara Hais	NC083	3	1	3		3	1	3	1	15	-
Ikheis	NC084	3	1	2	1	2	1	2	1	13	-
Tsantsabane	NC085	3	2	2		3	2	2	1	15	-
Kgatelopele	NC086	1	1	2		3	1	3	3	14	-
Dikgatlong	NC092	3	1	3		3	1	3	3	17	YES
Magareng	NC093	3	1	3		1	1	3	3	15	-
Phokwane	NC094	2	1	2		3	1	3	1	13	-
Moshaweng	NC451	2	3	3	3	1	1	2	3	18	YES
Ga-Segonyana	NC452	2	1	2		3	1	3	1	13	-
Gamagara	NC453	3	3	1	2	3	1	3	3	19	YES
Moretele	NW371	2	1	3		2	1	3	1	13	-
Kgetlengrivier	NW374	3	1	2		3	1	3	1	14	-
Moses Kotane	NW375	3	1	3		3	3	2	3	18	YES
Ratlou	NW381	1	2	1		1	1	3	1	10	-
Tswaing	NW382	2	3	2		2	1	3	1	14	-
Mafikeng	NW383	3	3	3	1	2	1	3	1	17	YES
Ditsobotla	NW384	1	1	1		3	1	3	1	11	-
Ramotshere Moiloa	NW385	1	1	3	1	3	1	3	3	16	YES
Kagisano/ Molopo	NW397	1	1	3		2	1	3	3	14	-
Naledi (Nw)	NW392	3	1	1		3	1	1	1	11	-
Mamusa	NW393	3	1	3		2	1	3	3	16	YES
Greater Taung	NW394	2	1	3		3	3	1	3	16	YES
Lekwa-Teemane	NW396	3	2	3		1	1	3	3	16	YES
Ventersdorp	NW401	3	3	3		3	1	3	3	19	YES
Maquassi Hills	NW404	3	1	3		3	1	3	1	15	-

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	> 16
Matzikama	WC011	3	1	3		2	1	2	2	14	-
Cederberg	WC012	2	1	3		1	1	2	1	11	-
Bergervier	WC013	3	2	2	1	2	1	3	1	15	-
Saldanha Bay	WC014	1	1	1		3	1	2	1	10	-
Swartland	WC015	1	1	1		2	1	1	1	8	-
Witzenberg	WC022	3	1	3		2	1	3	3	16	YES
Breede Valley	WC025	2	1	2		3	1	2	3	14	-
Langeberg	WC026	3	1	2		2	1	1	2	12	-
Theewaterskloof	WC031	2	1	2		2	1	3	1	12	-
Overstrand	WC032	2	1	1		2	1	1	2	10	-
Cape Agulhas	WC033	2	1	2		2	1	1	1	10	-
Swellendam	WC034	3	2	2		3	1	3	1	15	-
Kannaland	WC041	3	2	3		1	1	3	1	14	-
Hessequa	WC042	1	1	1		3	1	1	1	9	-
Mossel Bay	WC043	3	3	1		1	1	1	1	11	-
Oudtshoorn	WC045	3	1	3		2	1	2	3	15	-
Bitou	WC047	3	1	2		3	1	2	2	14	-
Knysna	WC048	2	1	2		3	1	2	1	12	-
Laingsburg	WC051	3	1	3		3	1	2	3	16	YES
Prince Albert	WC052	3	2	3		1	1	3	3	16	YES
Beaufort West	WC053	3	3	3		3	1	3	3	19	YES

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital Grants	T4 - Over spending Operational	T5 - Under spending Capital	T6 - Debtors Growth	T7 - Debtors % Own Revenue	T8 - Creditors % Cash	Total	> 16
Cacadu	DC10	1	1	1		3	1	1	1	9	-
Amathole	DC12	1	1	3		3	1	3	1	13	-
Chris Hani	DC13	1	1	3		1	3	1	3	13	-
Joe Gqabi	DC14	3	3	3	3	2	3	3	3	23	YES
O .R. Tambo	DC15	1	1	3		3	1	3	1	13	-
Alfred Nzo	DC44	3	1	3		3	3	2	1	16	YES
Xhariep	DC16	3	1	3		2	1	3	3	16	YES
Lejweleputswa	DC18	2	1	1		1	1	3	1	10	-
Thabo Mofutsanyana	DC19	1	1	1		3	3	1	1	11	-
Fezile Dabi	DC20	3	1	1		3	3	1	1	13	-
Sedibeng	DC42	3	1	1		3	3	1	1	13	-
West Rand	DC48	2	1	2		2	3	3	2	15	-
Ugu	DC21	2	1	3		3	1	3	1	14	-
uMgungundlovu	DC22	3	1	3	1	2	1	3	1	15	-
Uthukela	DC23	1	1	3		3	1	3	3	15	-
Umkhanyathi	DC24	3	1	3		1	1	1	3	13	-
Amajuba	DC25	3	1	1		3	3	1	3	15	-
Zululand	DC26	1	1	3		1	1	1	1	9	-
Umkhanyakude	DC27	1	1	3		1	1	3	2	12	-
uThungulu	DC28	2	1	3		3	1	1	1	12	-
iLembe	DC29	1	1	3		1	1	3	1	11	-
Sisonke	DC43	3	1	3		3	1	2	1	14	-
Mopani	DC33	3	3	2	3	3	1	3	1	19	YES
Vhembe	DC34	3	3	3	2	3	1	3	1	19	YES
Capricorn	DC35	1	1	3		3	1	3	3	15	-
Waterberg	DC36	3	1	1		2	1	1	1	10	-
Greater Sekhukhune	DC47	1	1	3		3	3	1	1	13	-
Gert Sibande	DC30	2	1	1		2	1	3	3	13	-
Nkangala	DC31	1	1	1		3	1	3	1	11	-
Ehlanzeni	DC32	3	3	3		1	3	3	1	17	YES
Bojanala Platinum	DC37	2	1	1		1	3	1	1	10	-
Ngaka Modiri Molema	DC38	3	1	3	3	3	3	1	3	20	YES
Dr Ruth Segomotsi Mompoti	DC39	3	1	3		1	3	1	3	15	-
Dr Kenneth Kaunda	DC40	3	1	1		3	3	3	1	15	-
John Taolo Gaetsewe	DC45	1	1	1		3	3	3	1	13	-
Namakwa	DC6	2	1	1		2	1	1	1	9	-
Pixley Ka Seme	DC7	3	2	1	2	3	3	1	1	16	YES
Siyanda	DC8	3	3	3	3	1	2	1	1	17	YES
Frances Baard	DC9	1	1	1		3	1	2	1	10	-
West Coast	DC1	3	1	1		1	1	1	3	11	-
Cape Winelands DM	DC2	1	1	1		2	1	1	1	8	-
Overberg	DC3	3	1	1		3	1	1	1	11	-
Eden	DC4	2	1	2		3	1	2	1	12	-
Central Karoo	DC5	3	3	2		1	3	1	3	16	YES

Annexure B1: Municipalities reporting negative cash positions as at 30 June 2012

	Name of Municipality	Code	Cash position: R '000	No. of months operating expenditure in deficit	Prov
1	Ndlambe	EC105	-3 368	-0.2	EC
2	Inkwanca	EC133	-1 467	-0.3	EC
3	Maletswai	EC143	-5 130	-0.5	EC
4	Mhlontlo	EC156	-2 766	-0.4	EC
5	Umzimvubu	EC442	-34 226	-5.1	EC
6	Kopanong	FS162	-24 693	-1.3	FS
7	Mohokare	FS163	-986	-0.2	FS
8	Setsoto	FS191	-31 855	-1.9	FS
9	Maluti-a-Phofung	FS194	-2 126	0.0	FS
10	Phumelela	FS195	-8 634	-1.4	FS
11	Mantsopa	FS196	-33	0.0	FS
12	Fezile Dabi	DC20	-2 045	-0.2	FS
13	Sedibeng	DC42	-655	0.0	GT
14	Richmond	KZN227	-385	-0.1	KZN
15	uMgungundlovu	DC22	-20 272	-0.6	KZN
16	Emnambithi/Ladysmith	KZN232	-210 754	-6.9	KZN
17	Dannhauser	KZN254	-21 292	-3.2	KZN
18	eDumbe	KZN261	-30	0.0	KZN
19	Abaqulusi	KZN263	-9 033	-0.3	KZN
20	Ulundi	KZN266	-7 848	-0.3	KZN
21	Jozini	KZN272	-31 772	-7.5	KZN
22	Hlabisa	KZN274	-9 418	-2.2	KZN
23	Mtubatuba	KZN275	-2 882	-0.5	KZN
24	Sisonke	DC43	-1 281	-0.1	KZN
25	Greater Letaba	LIM332	-20 035	-2.2	LIM
26	Mopani	DC33	-103 846	-1.8	LIM
27	Vhembe	DC34	-423 771	-8.1	LIM
28	Thaba Chweu	MP321	-87 416	-3.9	MP
29	Gamagara	NC453	-3 118	-0.2	NC
30	Ubuntu	NC071	-2 297	-0.5	NC
31	Renosterberg	NC075	-2 036	-1.5	NC
32	Thembelihle	NC076	-105	0.0	NC
33	Siyathemba	NC077	-67 566	-11.1	NC
34	//Khara Hais	NC083	-4 144	-0.1	NC
35	Siyanda	DC8	-10 864	-1.5	NC
36	Ventersdorp	NW401	-108	0.0	NW
37	City of Matlosana	NW403	-85 952	-0.7	NW
38	Dr Kenneth Kaunda	DC40	-6 897	-0.7	NW
39	Bergrivier	WC013	-241	0.0	WC
40	Overberg	DC3	-2 109	-0.3	WC
41	Kannaland	WC041	-866	-0.2	WC
42	Mossel Bay	WC043	-4 464	-0.1	WC
43	Laingsburg	WC051	-1 179	-0.9	WC
44	Prince Albert	WC052	-3 545	-1.2	WC

Annexure B2: Municipalities that did not report cash position as at 30 June 2012 or whose reported numbers were clearly inaccurate

	Name of Municipality	Code	Prov
1	Camdeboo	EC101	EC
2	Makana	EC104	EC
3	Baviaans	EC107	EC
4	Amahlathi	EC124	EC
5	Ngqushwa	EC126	EC
6	Inxuba Yethemba	EC131	EC
7	Tsolwana	EC132	EC
8	Chris Hani	DC13	EC
9	Naledi (Fs)	FS171	FS
10	Xhariep	DC16	FS
11	Tokolologo	FS182	FS
12	Nala	FS185	FS
13	Nketoana	FS193	FS
14	Randfontein	GT482	GT
15	Umdoni	KZN212	KZN
16	uMshwathi	KZN221	KZN
17	Mkhambathini	KZN226	KZN
18	Uthukela	DC23	KZN
19	Msinga	KZN244	KZN
20	Umvoti	KZN245	KZN
21	Newcastle	KZN252	KZN
22	eMadlangeni	KZN253	KZN
23	Amajuba	DC25	KZN
24	Ntambanana	KZN283	KZN
25	Mthonjaneni	KZN285	KZN
26	Musina	LIM341	LIM
27	Makhado	LIM344	LIM
28	Thabazimbi	LIM361	LIM
29	Mogalakwena	LIM367	LIM
30	Elias Motsoaledi	LIM472	LIM
31	Makhuduthamaga	LIM473	LIM
32	Greater Tubatse	LIM475	LIM
33	Msukaligwa	MP302	MP
34	Mkhondo	MP303	MP
35	Pixley Ka Seme (Mp)	MP304	MP
36	Lekwa	MP305	MP
37	Dipaleseng	MP306	MP
38	Emalahleni (Mp)	MP312	MP